

WHITE BOOK OF REFORMS 2025

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CONTENTS

Introduction.....	3
Chapter 1. Governance.....	6
Chapter 2. Decentralization.....	16
Chapter 3. Judicial reform and law enforcement.....	25
Chapter 4. Monetary policy and banking sector.....	45
Chapter 5. Fiscal policy.....	57
Chapter 6. Business environment.....	79
Chapter 7. Energy sector.....	100
Chapter 8. Environmental protection.....	118
Chapter 9. European integration and international trade.....	125
Chapter 10. Land market.....	140
Chapter 11. Privatization and SOE reforms.....	150
Chapter 12. Labour market and social policy.....	157
Chapter 13. Reforms of education and science.....	177
Chapter 14. Healthcare reforms.....	196
Chapter 15. Reforms in culture and media.....	209
Chapter 16. Reforms of the Armed Forces of Ukraine.....	220

INTRODUCTION

After the victory of the Revolution of Dignity, the Ukrainian society and government mobilized to defend the country from Russian aggression. A key element of this response was to implement reforms that were needed to make the government more efficient and thus the country more resilient. These efforts were largely supported by international organizations and foreign partners of Ukraine.

Some reforms in Ukraine were inspired by examples of Georgia, Poland, Romania or other countries in the region. Some came from textbooks (it turned out that economic laws in Ukraine work in the same way as elsewhere), others were unique and set an example for other countries. Some were popular, others were met with resistance. Nevertheless, the majority of reforms moved Ukraine into the right direction. As a result, Ukraine is definitely stronger today than it was in 2014, when Russia attacked for the first time.

Since early 2015, VoxUkraine has been following legislative changes, which are necessary but not sufficient conditions for implementation of reforms. Our experts evaluate changes of the “rules of the game” from the perspective of whether they have the potential to make Ukraine more democratic, free, and resilient, whether they establish the level playing field or distort the markets. This book is based on ten years of Index data that include more than 1,700 legislative acts. Based on this data, we can draw several conclusions that can provide guidance for future reforms in Ukraine or other countries.

First, political will is the key [prerequisite](#) for genuine reforms. It is more important than any external or internal pressures. Nevertheless, with sufficient effort from the civil society and support of international partners, even the toughest reforms, which the government may consider very unpopular, can happen.

Second, reforms rarely are successful from the start. For one thing, the government often tries to implement only formal changes, without changing the substance. For another, practice may be very different from theoretical ideas underlying the reform design. Therefore, it is important to have feedback mechanisms in place and adjust legislation and institutions accordingly (of course, discussing possible pitfalls before adopting a legislation would be even better but so far it is not a usual practice in Ukraine).

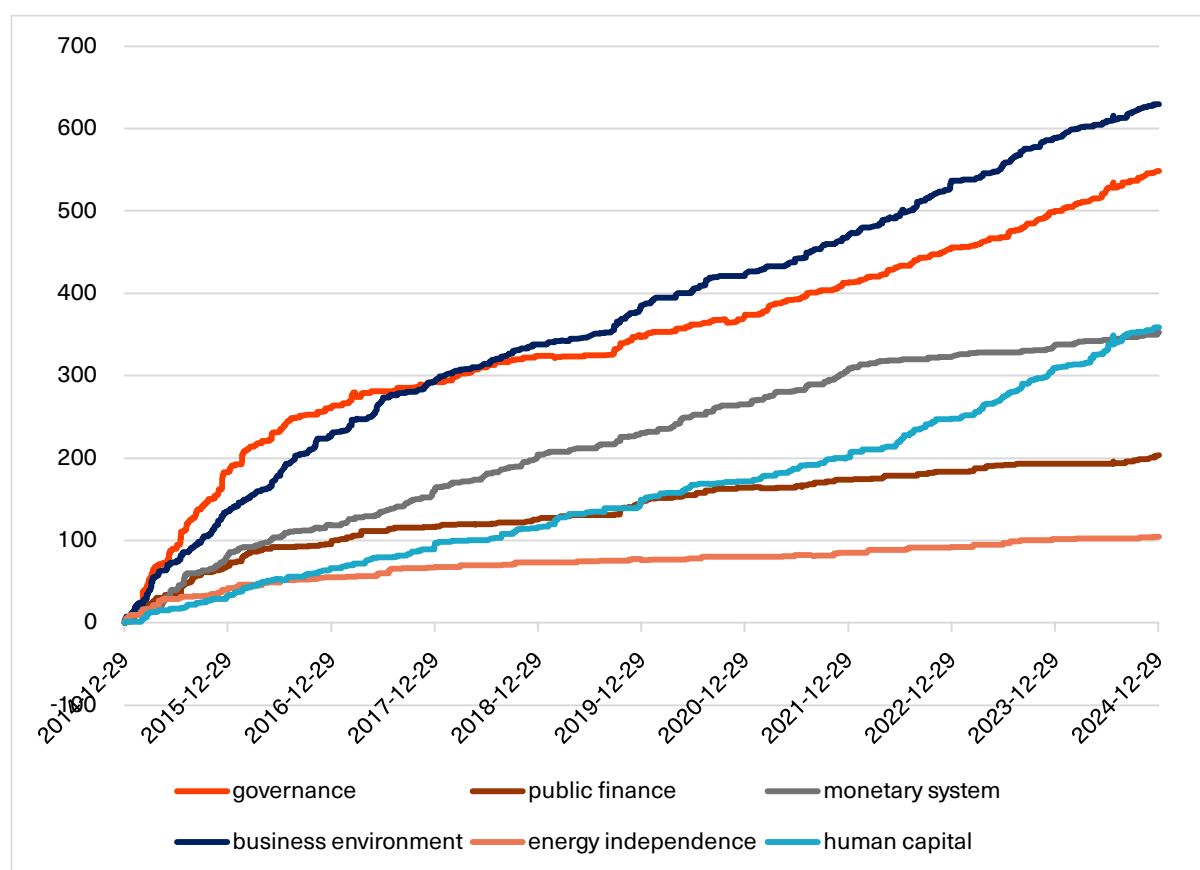
Third, as our [surveys](#) show, the unpopularity of reforms is often exaggerated. Or, rather, vested interests that would lose from reforms frame their position as “people’s voice.” Therefore, proper communication of reforms, especially those that affect everyday lives of people, is important. This book is a part of this communication: it shows how reforms

implemented since 2014 made Ukraine more resilient and allowed it to withstand the full-scale war.

Fourth, governments may occasionally try to sabotage reforms or to reverse the progress. Thus, it is important to not only promote further changes but also to keep an eye on already implemented reforms so that they are not rolled back.

Finally, despite Ukraine's considerable progress, the country still has much to do, especially in view of the EU accession process. To accelerate the reforms, Ukraine requires a competent and virtuous public service, as well as intellectual support of its partners. But first of all, it requires military support to defeat the Russian aggressor and establish enduring peace.

Figure I.1. Cumulative reform grades by sphere, 2015-2024

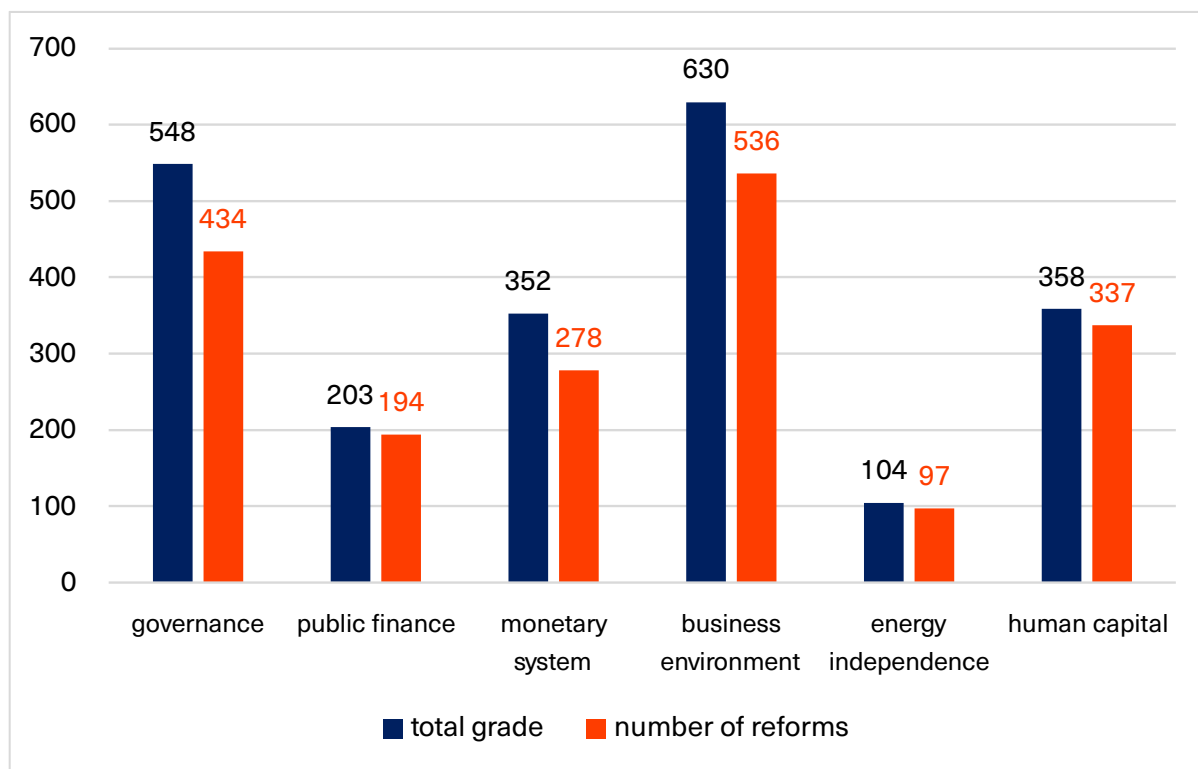


Source: Reform Index data

Each Chapter of this book is structured as follows. After a brief introduction, we provide a figure with individual events (i.e. reformist legislative acts) and cumulative reform progress for a certain sphere. Then we describe reforms in 2014-2019 (Poroshenko government) and 2019-2024 (Zelenskyy government), and provide a path forward. Our readers may notice that we have six main reform areas (Figures I.1 and I.2) and 16 Chapters in the book. This is because in the book we provide a more granular account of reforms. Some events are related to more than one area, for example, public procurement reform both saved public money and

reduced corruption. We discuss each reform in just one area, for which, in our view, it has higher relevance.

Figure I.2. Number of reform events and their total grade by sphere, 2015-2024



Source: Reform Index data

1/GOVERNANCE

Good governance and strong institutions are the foundation of a functioning state and effective policy-making. In Ukraine, institutional changes are very difficult, as existing institutions (the "legacy" bureaucracy, oligarchs, and Russian influence groups) have opposed and sabotaged reforms for years. Their first goal was to keep Ukraine within Russia's sphere of influence so that Russia eventually seizes it. The second goal was to maintain the corruption rent by preventing the development of new competitive businesses that could drive the "old" ones out of the market unless they invested in new technologies. This rent was used to influence politics both directly (by "buying" politicians and political parties) and indirectly (through influencing public opinion). All of this weakened the Ukrainian state, economy, and society.

Despite these challenges, institutional reforms are ongoing, albeit rather slowly. This Chapter considers changes in central government, while Chapters 2 and 3 discuss decentralization and judicial reform.

Developments in 2014-2019

As in many other areas, significant reforms in governance took place in 2015, then reforms slowed down, and since 2019, they have resumed at a slower pace (Figure 1.1). The main milestones of governance reforms include the deployment of anti-corruption infrastructure, increasing transparency, digitalization, and the public service reform.

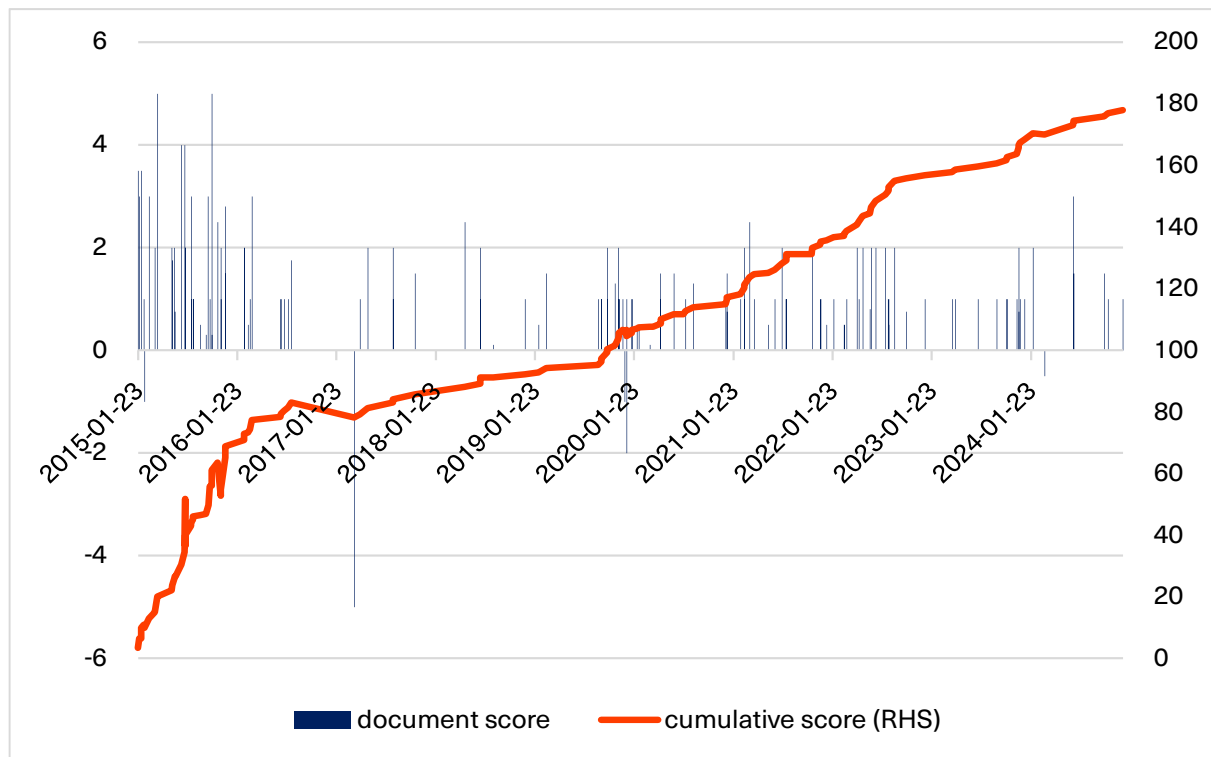
Anti-corruption infrastructure

One of the earliest anti-corruption reforms was the requirement for MPs to publish their asset declarations [issued](#) by the speaker of Parliament in January 2015. In August 2015, a [law](#) stating which assets should be declared by public servants was adopted. Next year, Parliament [introduced](#) the special confiscation (according to FATF recommendations) and electronic [declarations](#). The government tried to sabotage implementation of e-declarations at many levels, from delays of the deployment of electronic declaration software to the [inclusion](#) of civic activists on the list of persons who should file e-declarations. After protests by anti-corruption activists, the EU and G7, and the decision of the Constitutional Court in June 2019, the latter decision was reversed.

Since 2016, hundreds of thousands of civil servants have been submitting e-declarations (initially, the reform envisioned that only a few thousand high-ranking officials would do so). The number of declarations exceeds the capacity of the National Agency on Corruption

Prevention (NACP), which thoroughly reviews about a thousand declarations per year. The Agency didn't [introduce](#) an automatic review of declarations until late 2023 although this instrument is crucial for ensuring the integrity of people who hold or would like to hold a public office.

Figure 1.1. Governance reforms in 2015-2024, Reform Index data



Note: cumulative score is the sum of event scores. Event scores are derived from surveys of the [Reform Index](#) experts

Perhaps the most important development in governance was the introduction of special anti-corruption agencies. The first of them was the National Anti-Corruption Bureau (NABU), which was legally [established](#) in October 2014 and tasked with the investigation of top corruption cases. In March 2015, the procedure for the selection of a NABU director was [specified](#), and the first NABU director was appointed in June 2015. In August of the same year, NABU powers were [clarified](#), and its employees were prohibited from participation in political parties. The NABU has become perhaps the most successful anti-corruption institution. However, Ukrainians are quite [sceptical](#) about anti-corruption agencies, and many are [unaware](#) of their existence.

The National Agency on Corruption Prevention (NACP) was established by the law “[On corruption prevention](#)” adopted in October 2014. It was [formed](#) in April 2015, and by the end of the same year it completed staffing. At first, the Agency was organized as a committee, with the Agency head being “the first among equals.” It soon became apparent that this design didn't work. Furthermore, there were rumours that the NACP was not independent, so the

Agency was “reloaded” (the law was changed, the new head and staff were selected) in 2019, with the Agency head assuming more responsibilities and decision-making freedom. The NACP “reload” allowed it to restart its operations. The Agency maintains the registry of e-declarations and can punish officials who provide false information in their declarations. It also develops anti-corruption policies and their implementation mechanisms, such as the anti-corruption program for government agencies.

The Special Anti-Corruption Prosecutor Office (SAPO), whose task is to support the NABU and represent high-level corruption cases in courts, was legally established in March 2015, and was de facto organized in September 2015 as a special department within the Prosecutor General’s Office. From the very beginning of its operations, the president and government tried to control the SAPO by interfering with the selection of its head and then with its operations. In 2016, in implementation of the IMF program, Parliament adopted a law that made the SAPO more independent from the Prosecutor General’s Office and its work more transparent (SAPO became a separate legal entity only at the end of 2023). In 2018-2019, the NABU accused the SAPO of leaking details of NABU investigations to corrupt officials. This led to the resignation of the first SAPO head. Despite being selected in August 2020, the new SAPO head was not appointed until July 2022 and only upon insistence of the EU.

The law on the State Bureau of Investigation (SBI) was adopted at the end of 2015. The SBI is responsible for the investigation of crimes of top officials, judges, and law enforcement officers, including the heads of newly-created anti-corruption institutions. Today it also investigates collaboration of Ukrainian enterprises with Russian ones, as well as Russian war crimes (in 2024, the government created the State Sanctions Registry, which lists people and entities sanctioned because of Russian aggression). The idea to create the SBI emerged back in 2012, but the Bureau began to operate only in 2018. In 2019, the Bureau was “reloaded” because of suspicions that it was dependent on the President’s Office. The SBI still isn’t considered fully independent, and on a few occasions it was accused of pressuring businesses.

The Agency for Recovery and Management of Assets confiscated from corrupt officials (ARMA) was created at the end of 2015. In February 2016, it received the powers not only to trace “dirty” assets but also to manage them (e.g., to sell or rent them out). Publication of the registry of those assets was a part of the legislative package which Ukraine adopted to obtain a visa-free travel regime with the EU. In 2021, ARMA was “reloaded” because it was used to exert pressure on businesses rather than investigate corrupt officials. However, the current ARMA head appointed in 2023 is also far from perfect, so the Agency may have to be “reloaded” again.

The creation of the High Anti-Corruption Court (HACC) is discussed in Chapter 3. Here we only note that the anti-corruption infrastructure functions effectively only if all its elements — the NABU (investigation), SAPO (prosecution), and HACC (justice) — are operational. Thus,

the authorities constantly try to sabotage the work of at least one of these agencies. For example, they resisted the launch of the High Anti-Corruption Court for almost a year (it was launched in 2019), they did not appoint the SAPO head from 2020 to 2022, and in 2024, they almost compromised NABU.

Needless to say, the creation of this anti-corruption infrastructure was strongly promoted by Ukraine's international partners — most notably the IMF and the EU. The introduction of reforms was linked to obtaining loans from these organizations as well as other “carrots” such as visa-free travel to the EU. One may also notice that these newly created agencies had to be “reloaded” because Ukrainian governments tried either to capture anti-corruption institutions or to undermine them (for example, although the NABU received the right to conduct independent wiretapping [at the end of 2019](#), it still cannot use this right. It [plans](#) to obtain this right after martial law is lifted). Significant effort from both civil society and the international community is needed to ensure the proper implementation of the laws, and the newly created anti-corruption institutions need constant protection from attempts to undermine them.

Anti-corruption institutions and law enforcement in general are only one part of better governance. Many corruption-reducing initiatives were implemented as part of deregulation or changes to the processes of interaction between people, businesses, and the state. These initiatives are discussed in respective Chapters on the energy market, land market, and business environment. Here we examine transparency and digitalization, as well as reforms of (or, rather, attempts to reform) the public service itself.

Transparency and digitalization

The delegation of registration powers from the Ministry of Justice to local authorities in 2015 (see Chapter 2) was one of the first reforms in this sphere. At about the same time, the Cabinet of Ministers [equalized](#) the validity of paper and electronic registration documents for real estate. Soon after that, the Ministry of Justice [launched](#) an online service: it became possible to obtain information from the enterprise registry online. Since May 2015, agencies that developed legal acts were [obliged](#) to publish drafts of these regulations on their websites to collect comments from stakeholders. Prior to that, one could only see a draft law after it was registered with Parliament. Today this is the case only for laws submitted by MPs.

In July 2015, Parliament opened state [registries](#). Some of them were closed in 2022 for security reasons but later [reopened](#) partially or in full (it was necessary to strike a balance between national security and transparency that prevents corruption).

At the end of 2015, the government [opened](#) over 300 datasets and created an open data portal [data.gov.ua](#). Thus Ukraine swiftly climbed up in different open data [ratings](#). In 2021, over **1000** datasets were published by the government. These datasets have many problems: for example, some of them are in a non-machine-readable format, often they lack clear descriptions of their contents, and many are not updated in a timely manner, especially since

February 2022. Despite that, people who have data analysis skills usually can make sense of this data.

Opening of registers enabled creation of services that provide comprehensive information on legal entities and entrepreneurs (e.g., Opendatabot, YouControl, and others). In 2014 Ukraine started opening information on final beneficiaries of firms and banks (this was crucial for the banking sector reform), and in 2017 Ukraine [joined](#) the international registry of final beneficiaries. In 2018, the government approved a [procedure](#) for interlinking public electronic resources, so that people who need an administrative service had to collect less documents.

A crucial [reform](#) in the political sphere was the introduction of state financing for parties that made it into Parliament. The sum of donations to political parties by individuals and enterprises was capped to prevent oligarchs from “purchasing” them (however, there is [evidence](#) that some political parties circumvented this law by disguising support from large sponsors as many small contributions from pensioners). The same reform obliged parties to provide quarterly reports on their revenues, expenditures, and assets to the NACP. However, using the COVID pandemic as an excuse, the government suspended this financial reporting until lockdowns were lifted (lockdowns were officially lifted in spring 2023, although they de facto ended at the start of the full-scale invasion). At the end of 2023, mandatory reporting was restored. As of April 2024, the majority of parties [filed](#) their reports to the NACP.

Public service reforms

The quality of human capital has long been a significant issue in the public sector. This problem has two major elements: salaries and selection procedure. The salary system has two drawbacks: first, a significant share of a public servant’s salary is a “bonus” that largely depends on the opinion of their supervisor; second, those who have worked in public service for a long time have a much higher salary than newcomers (even if the latter are more skilled) because of tenure add-ons. Therefore the public service is a very closed and rigid system. Moreover, the idea that public servants should have decent salaries is rather unpopular in Ukrainian society. So whenever the country is facing difficulties, such as in [early 2015](#) or during COVID, the government limits the salaries of public servants, which encourages people who can earn more in the private sector to exit public service.

Attempts to reform the public service have had limited success so far. At the end of 2015, Parliament substantially [amended](#) the law on public service. The law divided public servants into three categories (A, B, and C), introduced open competitions for public service positions, specified which positions were political and which were not, and clarified some processes. The law also introduced the position of state secretaries (chiefs of staff) within ministries. This idea is not new — even president Kuchma tried to introduce state secretaries in 2001 in order to create some institutional memory. Unlike ministers, state secretaries would not be obliged to leave their offices if a Cabinet is replaced and thus could continue to implement reforms

launched by the previous government. This idea did not work because each minister wants to bring their own people into ministries and implement policies in line with their vision. Currently, state secretaries are responsible for support functions within ministries, such as staffing, legal matters, procurement, etc.

In 2016, in line with the new law, the Cabinet of Ministers [created](#) a commission on hiring for the highest level of public service. In 2016-2018, the commission [organized](#) over 200 competitions for Level A positions and appointed 150 officials selected via competitions. The introduction of transparent competition for public service positions and the launch of an online portal for government vacancies were notable accomplishments of the reform. In 2018, [KPIs for public servants](#) and the European credit-transfer system for their [training](#) were introduced.

A major attempt to overcome deficiencies in Ukraine's public sector was the [creation](#) of directorates within ministries. Directorates should have become the “seeds” of proper policy-making within ministries. Initially financed by the EU and created from scratch, they attracted highly skilled and motivated people who also received higher salaries. Eventually, the directorates should have been integrated into ministries. However, this idea worked only when ministers were interested in the reform. For example, the Ministry of Health effectively used its directorates to implement healthcare reform.

By 2018, [58 directorates](#) were created with more than 500 experts joining the government. At the end of 2019, the government mandated that all ministries should create directorates. Despite that, today, out of 19 ministries, only 11 have a total of 48 directorates (thus, different ministries implemented this idea to a different extent). However, we don't know how much the policy-making approaches of directorates differ from those used by “traditional” departments.

Reforms in 2019-2024

After his election with a stunning majority of 73% in April 2019, president Zelenskyy dismissed the previous Parliament and announced new elections. His popularity allowed him to obtain a Parliamentary majority for the first time since Ukraine restored its independence in 1991. Thus, in the autumn of 2019, the pace of reforms intensified as Parliament quickly adopted laws, including many reforms that were stuck in the previous Parliament.

One of the first laws adopted by the new Parliament was the law on the “[reload](#)” of government (i.e. the new law on **public service**). This law substantially [simplified](#) the procedures for hiring and firing public servants and introduced an opportunity for ministries to hire contractual employees for certain projects (in 2020, contracts specifying measurable tasks and deadlines were [introduced](#)). At the same time, the new law transferred the power

to set salaries of public servants to the Cabinet of Ministers, whereas they were previously defined by law. This allowed for more flexibility but increased anxiety among public servants.

The canceling of competitions for public service positions first because of COVID, and then because of the full-scale war, was a step back in reforming the public service. On the other hand, some advances were made with the salary system in 2024: the Cabinet of Ministers [approved](#) a catalog of government positions and a new [system](#) of salaries based on grades and positions. The recently adopted laws on administrative [procedure](#) and the [hierarchy](#) of legislative acts should also improve the functioning of Ukrainian bureaucracy. During 2025-2026, the government and Parliament [should](#) legislatively define that a bonus cannot exceed 30% of an employee's total salary and re-launch competitions for public service positions, the government HR portal, and the cadre management system.

In 2024, Parliament passed two laws “for the future” — they will come into effect after the martial law is lifted. One of them regulates the [procedure](#) for public consultations — it requires all government agencies to organize public consultations about regulations which they plan to adopt in order to take into account the opinion of stakeholders on these regulations. Unfortunately, the law does not apply to Members of Parliament. The second law [introduces](#) English as the language of international communication in Ukraine. Heads of government agencies, as well as border guards, dispatchers, and call center employees will be required to speak English. To facilitate this, English lessons will be introduced in kindergartens (today, children start learning English in the first grade).

In the **anti-corruption** sphere there were both positive and negative developments. The [new](#) law that increased punishment for illegal enrichment adopted in 2019 received positive feedback from Reform Index experts. However, the Constitutional Court de facto [canceled](#) both this norm and e-declarations in 2020. After protests by citizens and the international community, Parliament [restored](#) these norms. It also [strengthened](#) criminal responsibility for lying in declarations and [increased](#) the number of public servants who should file them. At the start of the full-scale invasion, the registry of e-declarations was closed, and in 2023 it was [opened](#) again upon the [insistence](#) of Ukrainian civil society and international partners. However, a more balanced approach should have been applied here to protect civil servants whose relatives remain in the occupied territories.

In 2023, the NACP introduced a [procedure](#) for monitoring the lifestyle of officials in order to determine whether their expenditures match the revenues indicated in their declarations. Assets acquired before entering the public service will also be [monitored](#). Transparency International [highlights](#) a few drawbacks in the procedure for lifestyle monitoring. The most important is that the non-random assignment of NACP employees to monitor officials entails a corruption risk. Also, the automatic declaration checks [may not be](#) a suitable instrument for revealing dubious revenues of officials.

Although the new government enabled the functioning of the High Anti-Corruption Court (HACC) in September 2019, it sabotaged other anti-corruption institutions. For example, the elected head of the SAPO was not appointed for two years, and the EU had to include his appointment into the list of conditions for opening membership negotiations with Ukraine in 2022. In May 2024, a whistleblower [reported](#) that some of the NABU staff were warning top officials about corruption investigations related to them. In September 2024 NABU deputy head who allegedly was involved in leaks was fired but the investigation is ongoing. Hopefully, NABU will be able to fire compromised staff and restore its reputation as the most effective anti-corruption agency.

A major attempt to ease pressure on businesses was made in 2021, when the corrupt tax police were replaced by the Economic Security Bureau of Ukraine (ESBU). The idea (which had circulated within the government since 2013) was to create an analytical agency that would investigate the finances of enterprises to uncover tax evasion instead of employing more aggressive tax police methods. However, since a former tax police officer was appointed the Bureau head, nothing really changed for businesses. After a number of scandals, and upon the insistence of Ukraine's international partners and civil society, Parliament adopted a [law](#) on the ESBU "reload" that envisages its audit, replacement of its head (people appointed by international organizations will have a decisive say in selection of a new head), and attestation of ESBU employees, including an integrity check. If the law is implemented properly, this "reload" should make the ESBU operate as initially envisaged.

As we mentioned earlier, a few anti-corruption agencies have been "reloaded" since 2019. The "[reload](#)" of the Special Anti-Corruption Prosecution was perhaps the most successful. The SAPO became independent from the still unreformed Prosecutor General's Office; it is now a separate legal entity and thus has more freedom in determining its staff numbers, allocating its budget, etc. The SAPO head received access to top state secrets. As a TI expert [notes](#), these changes are mostly positive, but Parliament still needs to remove the opportunity to close cases against top officials because of the deadline for investigation expired (benchmark 44 in the IMF program) as well as to provide the SAPO head with the powers to open cases against MPs and request extradition without the consent of the Prosecutor General.

In 2024, within implementation of the Ukraine Facility plan, Parliament [allowed](#) to soften punishment for corrupt activities if convicts expose their accomplices and reimburse the damages. Theoretically, this will reduce incentives to engage in corrupt schemes. Additionally, Parliament [introduced](#) the OECD (Organisation for Economic Co-operation and Development) recommendations for combating bribery of foreign public officials. NABU will enforce this legislation.

Another condition on Ukraine's path to the EU was the introduction of transparent lobbying rules (note that discussions on passing a lobbying law have been ongoing in Ukraine for about

20 years). Finally, Parliament [passed](#) such a law, but Reform Index experts rated it negatively because it does not address the issue of shadow lobbying and at the same time complicates advocacy for civil society organizations that do it openly.

In line with Zelenskyy's electoral campaign promises, the immunity of MPs was reduced (although few people actually understand what Parliamentary immunity means and how it works, this topic has been quite popular with the public and thus was used by many politicians to gain electoral votes). The [new law](#) on MP immunity and the [change](#) in the procedure for holding MPs accountable actually made them more dependent on the decisions of the Prosecutor General, who is controlled by the president. This shifted the balance of power towards the president and thus received a negative grade (-2) from Reform Index experts. The responsibility of MPs for non-personal voting was [increased](#) (although [without much impact](#) on the behaviour of MPs). Another law aims to [prevent](#) MPs from "spamming" draft laws with amendments (when MPs did not want to adopt some important draft law, they would submit thousands of amendments to it. In this case, the law allows a third of MPs to introduce a special procedure for draft law adoption limiting the number of amendments that can be submitted by a faction or an individual MP).

In 2022, pro-Russian political parties were finally [banned](#). The one that was in Parliament (Opposition Platform for Life) dissolved its faction and formed two new factions that during 2022 — the first half of 2024 mostly voted together with the president's "Servant of People" faction. This considerably [increased](#) their effectiveness [rank](#). Later, their support for reforms [declined](#).

Since 2019, the government has considerably intensified **digitalization**. In 2020, it launched the Diia service — a mobile app and web portal that allows citizens to obtain a number of government services online. Although there are [concerns](#) about data security in Diia, [over 20 million](#) people use the platform today. In April 2021, e-passports were [equalized](#) with paper passports.

At the end of 2021, Parliament adopted a [law](#) on public electronic registries. This law enabled the unification of the basic information needed for the identification of a person. Thus, different government agencies will be able to obtain this information from the same source, which will simplify the provision of administrative services and lower the risk of errors. In 2023, the government [introduced](#) the platform of registries. The platform will allow government agencies to create different registries and to exchange data between them. This should further increase the efficiency of administrative service provision.

In 2022, a few regulations were adopted to increase the security of online government resources (the [law](#) on cloud services, the [law](#) and Cabinet of Ministers [decree](#) on the protection of public electronic resources, and the [law](#) on counteracting cyber threats).

In October 2022, Parliament adopted a new law on [official](#) statistics. It makes the statistical agency more independent, introduces a merit-based selection of its head, and adopts the UN standards for data collection and distribution. Most likely, this law will be implemented only after martial law is lifted.

What next?

The IMF program and Ukraine Facility plan mostly include the development of already deployed reforms or implementation of reforms that had to be introduced some time ago. For example, the NABU should finally start independent wiretapping, and the government should abstain from trying to capture anti-corruption institutions or influence them. The government also plans to continue digitalization. As Ukraine plans to join the EU, a key next step will be the adoption of EU regulations on data protection.

The main milestones of civil service reform in the IMF program and the Ukraine Facility Plan are changes to the compensation system, the restoration of competitive recruitment for civil service positions and of an electronic personnel management system. However, absence of competitions and non-transparent salaries are not the only problems of the civil service. For example, the regulatory impact analysis of legislation, introduced back in 2004, is often implemented only formally or not implemented at all (especially for [draft laws](#) submitted by MPs).

The trust in the government remains [low](#), while the perceived corruption is [high](#) (this perception is of course influenced by corruption scandals), making civil service appear unattractive, particularly to young people. In other words, the advantages of working in the civil service (e.g. involvement in reforms and job stability) currently do not outweigh the associated inconveniences, such as public declaration of all the family assets, the status of a politically exposed person etc. Renewal of competitions and changing the pay system will improve the situation, but a fundamental shift in the civil service culture and understanding of its societal role is needed.

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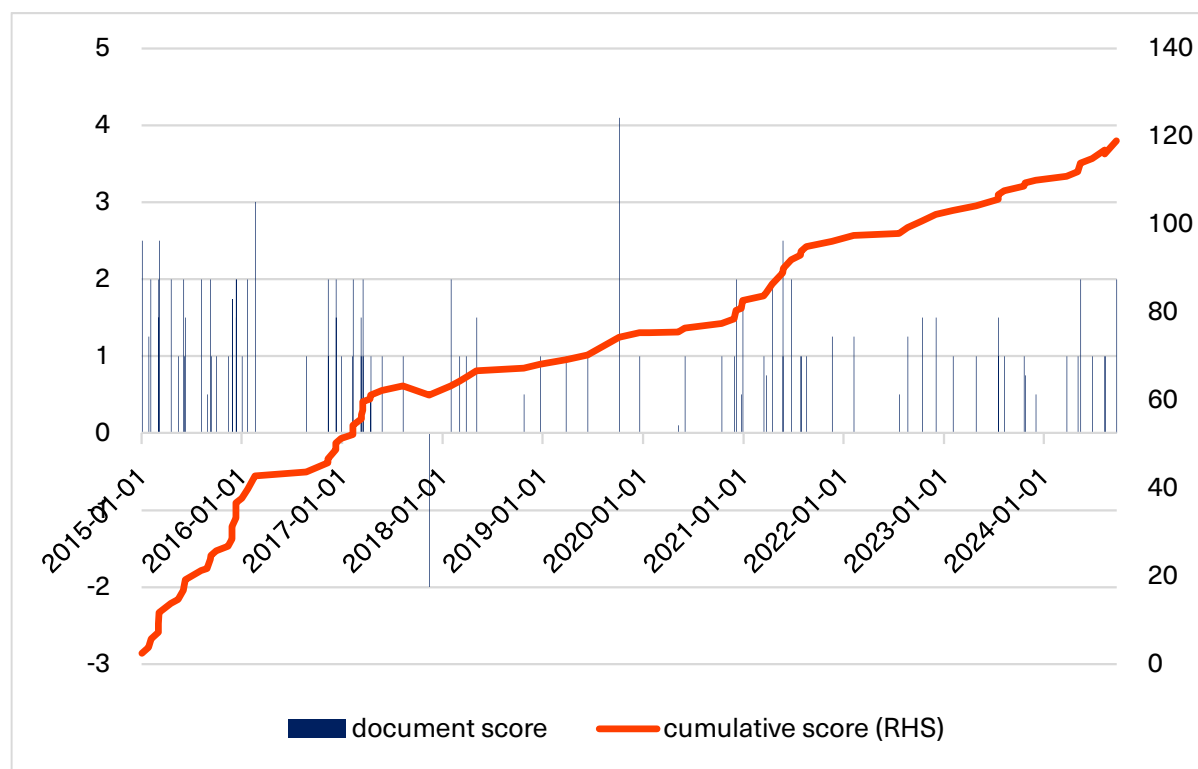
DECENTRALIZATION

VoxUkraine has extensively [discussed](#) this reform, its rationale, and expected results. To briefly summarize this discussion, decentralization:

- redistributes resources to the local level, provides local self-government with more fiscal and political autonomy and provides it with opportunities to make policy decisions based on the local context;
- improves the quality of public services since people and especially businesses can “vote with their feet” (i.e. register and pay taxes in a community that provides better public services). In general, if a community head has to win popular votes rather than favours from the central government, citizens can expect more attention to their needs;
- is crucial for democracy in two aspects: First, citizens gain leverage over local authorities, as local politicians must win their support. Second, decentralization eventually develops a pool of “[grassroots](#)” politicians — those who were successful at the local level and could be elected to a higher office. This decreases the likelihood of inexperienced politicians “parachuting” to important positions;
- lowers the chance of establishing an authoritarian rule: decreasing the powers of a central office makes it less attractive, especially for those who would like to abuse power. Moreover, local governments can counterbalance the central government if it acts in an authoritarian manner. At the same time, the central government should ensure that local governments adhere to the law. It can do this more effectively when it is not directly responsible for the appointment and actions of local authorities.

These are theoretical considerations and practice may differ: for example, in some communities local governments may collude with the largest employers in order to force people to reelect them. Next, we examine how decentralization was implemented in Ukraine and how it was perceived by citizens.

Figure 2.1. Decentralization reforms in 2015-2024, Reform Index data



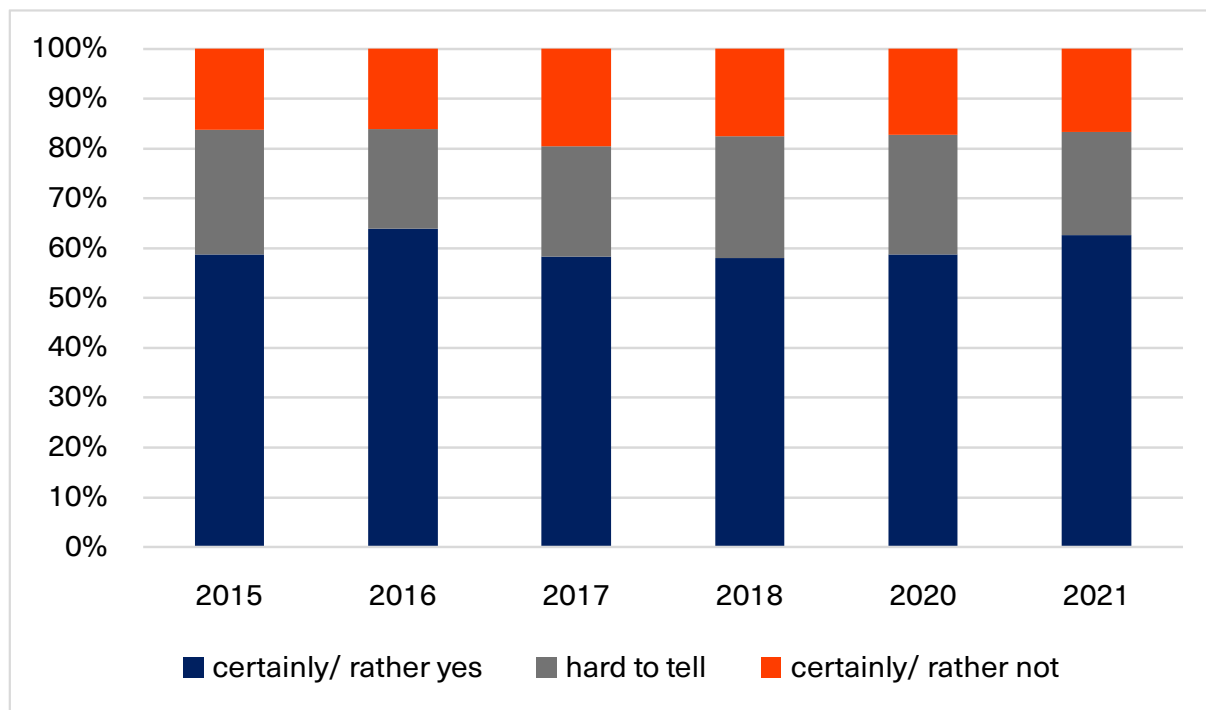
Note: cumulative score is the sum of event scores. Event scores are derived from surveys of the [Reform Index](#) experts

A summary of developments in 2014-2019

Decentralization began in March 2014; it was the first major reform launched after the Revolution of Dignity. Decentralization is a domestic development introduced after about 10 years of policy planning. Decentralization has been highly popular (Figure 2.2), even though many citizens did not experience its effects immediately (Figure 2.3). Moreover, popular support for decentralization reform is persistent: for example, in November 2022, 76% of respondents [believed](#) that decentralization reform should continue, while the majority thought that decentralization increased Ukraine's resilience.

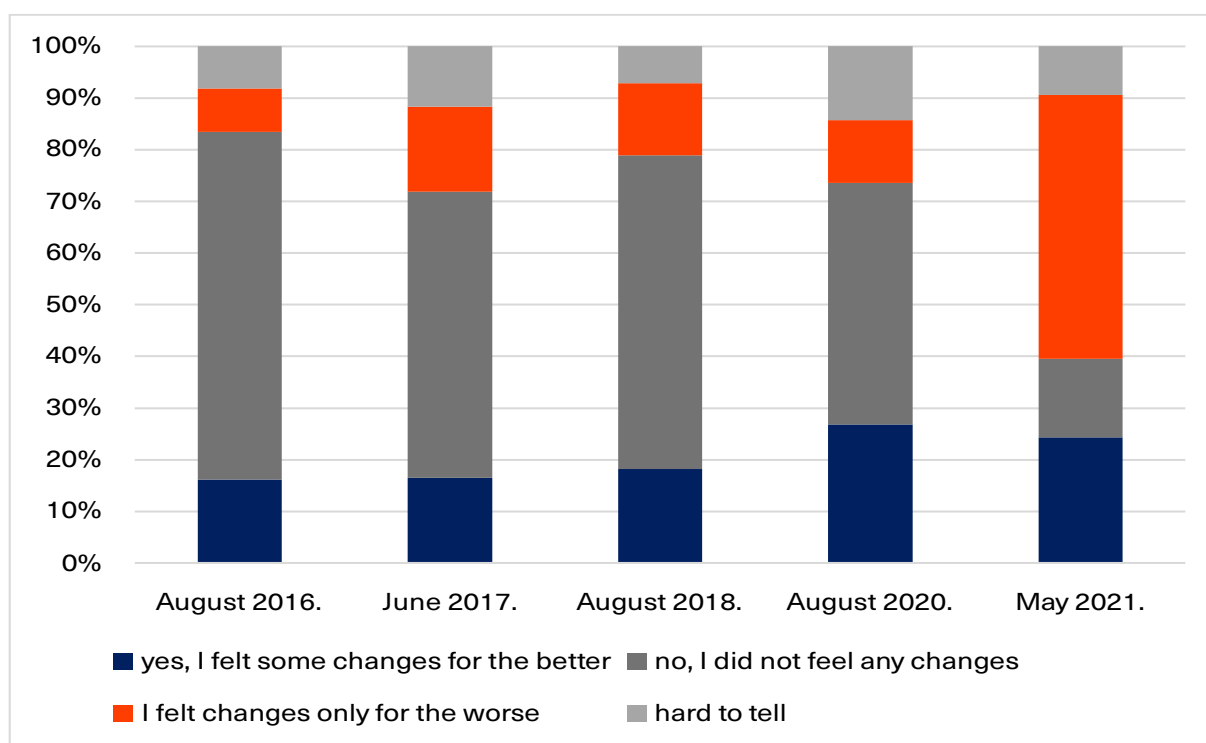
Ukrainians were somewhat skeptical about the ability of local authorities to cope with the additional powers and responsibilities provided to them by the decentralization reform (Figure 2.4). Nevertheless, since 2022 we have observed how local authorities (with a few exceptions) were on the frontlines of resistance to the Russian invasion, providing services to citizens and monetary and material support to those who joined the army. One [expected](#) result of decentralization reform was increased resilience, largely due to [greater](#) cooperation between local government and civil society, activists, and volunteers. Unfortunately, this positive [trend](#) has partially [reversed](#) since 2023.

Figure 2.2. Do you think decentralization reform that provides more powers and resources to local governments is necessary or not?



Source: *KIIS survey*

Figure 2.3. Since decentralization began, local budget revenues have considerably increased. Have you observed any results of using these funds (better quality of services, amenities, social support) compared to previous years?



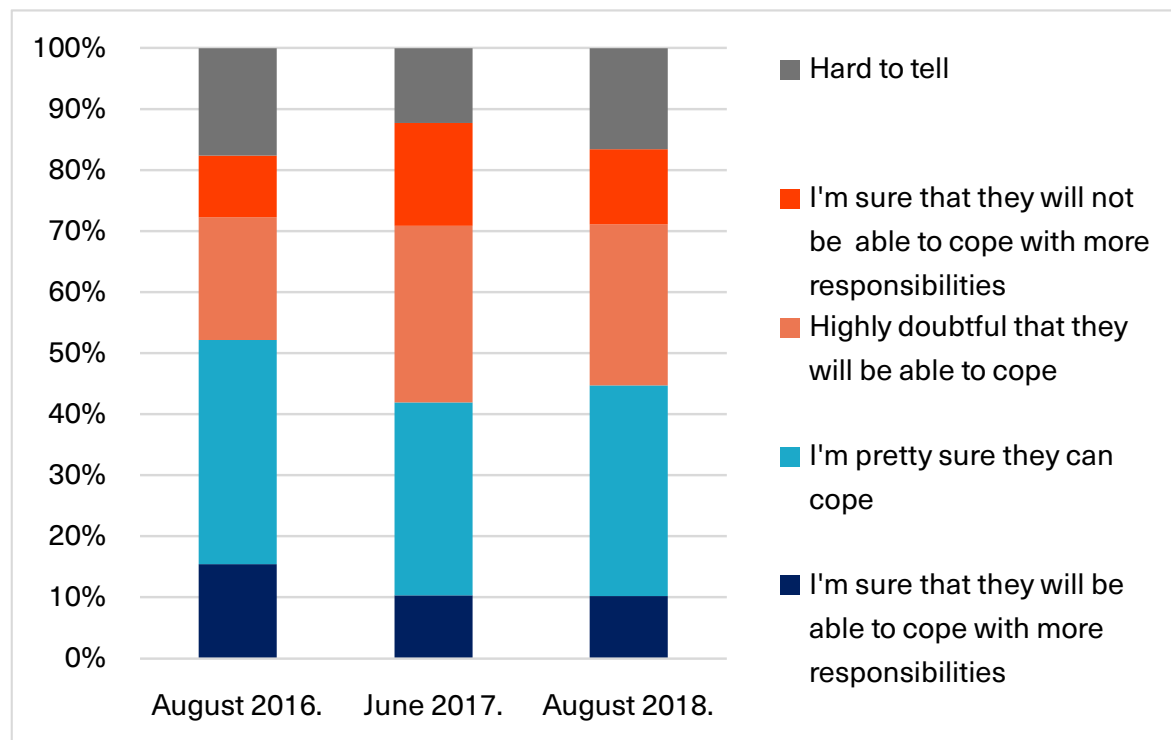
Source: *Razumkov Center survey*

Decentralization provided communities (especially cities) with the resources to tangibly improve people's lives. The share of public revenues allocated to local governments did not change much (Figure 2.5), but local authorities received a lot more freedom in the allocation of these resources. Moreover, they received their own major revenue sources (60% of personal income tax and 10% of profit tax), which the central government cannot easily withhold. This allowed local governments to prioritize the needs of their communities. Many communities renovated or provided new equipment to their schools, which they had been unable to do for years. Quite a few communities renovated parks or other public spaces, improved their infrastructure, etc. These public improvements highlight the shift in incentives for local governments.

The main milestones of the decentralization reform in 2014-2019 were the following:

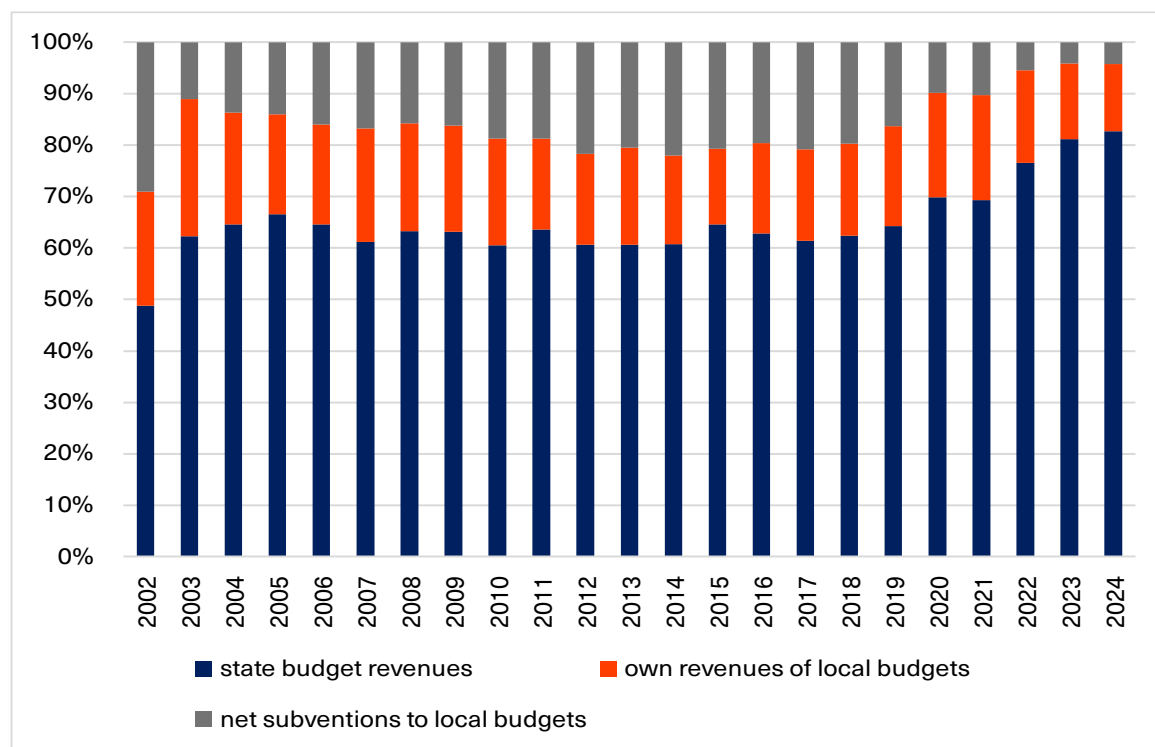
- the law on decentralization (March 2014) stated general principles of the decentralization reform: the formation of amalgamated communities (hromadas or municipalities), their relation to the central budget, their revenue sources and powers, etc.;
- [Budget Code](#) amendments related to decentralization (January 2015): the [introduction](#) of healthcare and educational subventions (the methodology for calculation of these subventions was adjusted several times to address inefficiencies revealed during its practical application);
- the law on the [formation](#) of hromadas and respective [methodology](#) of hromadas formation was adopted in 2015 (the methodology was adjusted several times, and in 2017 was adopted into [law](#));
- the law on [local elections](#) (2019) established that local village councils are elected via single-mandate districts, while the councils of cities, rayons (districts), and oblasts (regions) are elected using party lists;
- delegation of powers from the Ministry of Justice to local authorities to register enterprises and entrepreneurs and to provide administrative services (see Reform Index releases [25](#) and [26](#)). Later, the network of Centers for Administrative Services Provision was established throughout Ukraine so that people could obtain administrative services faster and more conveniently;
- the adoption of several legislative acts providing more powers to local governments in the construction sphere (to approve medium-sized construction projects, register real estate, etc.);
- local governments were allowed to co-finance the construction of [roads](#), salaries for local government [employees](#) such as teachers and doctors, stipends for foster families, etc.;

Figure 2.4. In your opinion, would your local government be able to handle additional powers and responsibilities obtained in the course of decentralization?



Source: Razumkov Center survey

Figure 2.5. Distribution of revenues between central and local budgets



Source: State Treasury reports, openbudget.gov.ua

- the [transfer](#) of agricultural land from central to local governments, which began in 2018. This change allowed local governments to obtain more revenues from property taxes. However, local governments remain reluctant (or have limited administrative capacity) to introduce and properly administer these taxes (e.g. in 2021, real estate and land taxes constituted only 2% and 4% of local government tax revenues respectively);
- there was also one anti-reform: in 2017, the heads of local administrations were [excluded](#) from the list of public servants. This exclusion granted the central government more control over the officials of local administrations and allowed it to appoint them without competitions, at the discretion of the president or the Cabinet of Ministers. In 2019, the new law on public service (see Chapter 1) made local administration officials public servants again.

Reform of healthcare and education financing was a key component of decentralization. Instead of allocating budget funds directly to each of the thousands of hospitals and schools, since 2015 the government has provided medical and educational subventions to hromadas (communities or municipalities) based on the number of patients or students they serve. Communities then decide how to allocate these funds. For example, several communities may jointly finance a district-level hospital that provides service to their citizens. Since 2017 healthcare facilities are paid according to services which they provide (see Chapter 14).

Local governments were not always happy with increased responsibilities because sometimes they had to make difficult decisions. For example, the decision to close a village school is unpopular with locals, even though transferring children to a larger school is beneficial for their education. Nevertheless, local governments made these decisions in consultation with their communities (e.g. a community could decide to continue financing a school from the local budget, even if it was small and inefficient. To “sweeten the pill” of school closures, local governments were [allowed](#) to rent out the premises of empty schools since 2021). Local policy discussions allow people to see the connection between the taxes they pay and services they receive, and learn to understand the consequences of their decisions.

As with many other reforms, the implementation of decentralization in Ukraine followed a “deploy — test — adjust” cycle, as legislative gaps and flaws were revealed through practical experience. Consequently, rules and laws related to amalgamation of communities, distribution of subsidies, and other issues were revised several times as information on local practices became available. One might assume that the “pioneer” hromadas (communities) faced disadvantages as the “guinea pigs,” but this was mitigated by financial incentives: they received support from both the central budget and international organizations. By early 2020, there were 1,070 amalgamated communities in Ukraine, covering over 90% of the country's territory. The remaining communities were mandatorily [merged](#) by the end of 2020. Today Ukraine has 1,469 communities, including 31 in the temporarily occupied areas.

Completion of decentralization reform: 2019-2024

In addition to merging communities, in 2020 the government reduced the number of rayons from 490 to 136, and the powers of rayon-level authorities were significantly cut. The distribution of funds between budgets was [modified](#) accordingly: money of liquidated rayons were allocated to communities.

At the end of 2019, a new Electoral Code was adopted, and in 2020, local elections were held according to the new rules. These rules [specify](#) quasi-open party list elections (quasi-open because voters cannot easily change the place of a candidate on a party list) for the councils of oblasts, rayons, and communities with more than 10 thousand people, a single-mandate system for councils of smaller communities, the election of mayors of cities with less than 75 thousand people by a simple majority, and of larger cities by an absolute majority (i.e., in larger cities there should be a runoff election if no candidate obtained over 50% of the vote in the first round).

This system is not perfect: it does not allow independent candidates to participate in elections (except for the smallest communities), and conditions for the movement of a candidate up the party list are rather restrictive. However, gender quotas introduced by the Electoral Code led to an increase in the share of women in local councils. Either because of the COVID pandemic or because decentralization allowed incumbent mayors to gain popularity by performing improvements in their cities, in 2020 local elections voter turnout was record low at 37%. Therefore, the [incumbents](#) easily won elections in the [majority](#) of cities (200 out of 363).

Another key decision made in 2021 was to [allow](#) communities to manage previously state-owned lands beyond their boundaries. This decision was made within the framework of land reform (opening of the land market — see Chapter 10) and should greatly increase the resource base of communities. Another [law](#) mandates that state and communal land only be sold via online auctions. This will make land sales more transparent and competitive.

Since the start of the full-scale war, hromadas where military units are located [received](#) disproportionately high personal income tax (PIT) revenues. Thus, in 2023, the government decided to transfer this “military PIT” to the state budget and use it for defense. While defense needs may justify some restrictions on local autonomy, unfortunately these funds [were not used](#) as intended. Therefore, at the end of 2024, Parliament [allowed](#) local councils to procure for military units.

In 2023, Parliament [introduced](#) competitive hiring for positions in local self-government and key performance indicators for public servants. It also [reiterated](#) transparency requirements for local council operations, which had already been common practice before 2022: publishing voting results, videos of discussions, protocols of commission meetings, etc. (these requirements will come into force after the martial law is lifted). In the mid-2024

Parliament [provided](#) more powers to local authorities in transborder cooperation (cooperation with municipalities and regions abroad). In 2024, communities were [allowed](#) to take out loans and at the same time medium-term budget planning for local budgets was restored.

Overall, decentralization reform [increased](#) public trust in local authorities, enhanced the conditions for [social cohesion](#), and gave an impetus for [transparency](#) and [open government](#). Moreover, the first local elections after the reforms [allowed](#) new people (among them more women) to enter local councils. Local politics became more meaningful as citizens gained more [opportunities](#) to participate in community decision-making. Local authorities also introduced innovative participatory tools such as [citizens' budgets](#).

An important element of local development and post-war reconstruction is the launch of the state urban planning [cadastre](#). The cadastre will be used by local authorities, architects, and constructors. It will contain information from the register of damaged and destroyed property, the land cadastre, the geo-information system for regional development, the [DREAM](#) public investment project management system etc., as well as master plans, spatial development plans of communities, and other information necessary for construction.

What next?

Amidst the current war-related problems, local governments are busy with reconstruction (in communities that suffered from Russian attacks) and the accommodation of internally displaced people (in communities further from the frontlines). After the war, they will likely spend even more time on reconstruction, as well as assisting refugees who return to their communities. They can prepare for these challenges by adopting plans for community development, finding partners for reconstruction, etc.

The “Build Back Better” approach will require much more than simply rebuilding damaged houses and infrastructure. Cities and villages will need to become more inclusive, green, and energy efficient.

In 2025, the Ukrainian government should adopt the EU rules for the supervision of local self-government and transform local administrations (which are the regional representatives of the central government) into prefecture-type authorities. Ideally, these changes had to be introduced into the Constitution and thus complete the decentralization reform. However, under martial law, amendments to the Constitution are impossible, so Ukraine must adopt similar rules using “ordinary” laws. Some time ago, both Poroshenko and Zelenskyy introduced into Parliament draft laws on changes to the constitution to finalize the decentralization reform. However, these laws [increased](#) the powers of the president, undermining the powers of local authorities, and did not address a substantial problem of the current constitution — the overlapping powers of the president and the Cabinet of Ministers.

Thus, when this draft law is introduced to Parliament, it should be carefully examined to ensure that decentralization reform is not undermined.

According to the Ukraine Facility, the distribution of powers between central and local governments should be clarified in 2026. The government will also study whether it would make sense to provide communities with legal entity status in line with the EU practice.

Besides legislative changes, proper implementation of decentralization reform will require significant effort from both the government and citizens. Although the war requires some [centralization](#) of power to ensure quick decision-making, this centralization should not turn into authoritarianism. All levels of the Ukrainian government must learn to share powers and responsibilities with each other and with citizens. This mechanism is even more vital under martial law, when elections are impossible. Thus, every citizen can find a way to participate in decision-making in their communities, for example, via civil society organizations or the “citizens’ budget” instrument that can be adapted to address the priorities of citizens during wartime (e.g., projects that support the local military, veterans, and their families).

3/JUDICIAL REFORM AND LAW ENFORCEMENT

A “classic” approach to the separation of powers implies that the judiciary should be independent of the other two government branches. In the Russian Empire and the Soviet Union, this was never the case: judges and the legal system as a whole always protected the regime rather than rule of law or the rights of citizens. Unfortunately, Ukraine’s judicial system still struggles with this imperial legacy.

The creation of democratic institutions in Ukraine after 1991 has been very slow and is still unfinished in some cases due to Russian interference and pushback from elites. A captured judicial system is an effective instrument for fighting political opponents or business competitors and reaping corruption rents. Thus, although some significant steps were taken, leading to an increase in the Rule of Law Index (Figure 3.2), no government has been eager to undertake comprehensive reforms of the legal system.

Weak law enforcement deterred foreign investment in Ukraine and was a major obstacle to business before the full-scale invasion. Additionally, Ukrainians perceive the legal system to be extremely unfair. For example, a survey by the National Agency for Corruption Prevention (NACP) shows that [85-90%](#) of Ukrainians believe that unfairness within the judicial system is a serious problem, and according to a VoxUkraine [survey](#), Ukrainians perceive courts as one of the most corrupt institutions (although much fewer people report interacting with the courts or facing corruption during these interactions). This perception is not groundless. For example, during the Revolution of Dignity in 2014, dozens of protestors were imprisoned on false accusations. In 2019, the National Anti-Corruption Bureau [uncovered](#) a number of corrupt judges. Since the full-scale invasion, Andriy Portnov — the former deputy head of the Yanukovich administration, who is under US sanctions for [corruption](#) — [has won](#) several defamation cases against Ukrainian NGOs and media outlets that labeled him as pro-Russian and corrupt.

The Constitutional Court, a separate authority responsible for interpreting the Constitution and ensuring that legislation aligns with it, faces challenges of its own (mainly because its

judges are political appointees). For example, in 2020, it effectively [ended](#) the requirement for e-declaration of assets, and in 2019, it removed criminal liability for illegal enrichment. These decisions severely undermined anti-corruption reforms in Ukraine (Parliament has since restored these clauses).

Judicial and law enforcement reforms have been driven mostly by Ukraine's civic activists and international partners. For example, [conditions](#) for opening EU membership negotiations included integrity checks by the Ethics Commission of candidates for the Higher Council of Judges (HCJ) and the High Qualification Commission of Judges (HQCJ), as well as new rules for the election of Constitutional Court members.

Since this Chapter is based on the Reform Index, that is, legislative changes to the “rules of the game”, we pay the most attention to reforms of the judiciary, police, and prosecutors. We briefly touch upon reforms of the Security Service of Ukraine and the issue of enforcement of court decisions. Legal education and Bar reform, although important, are beyond the scope of this Chapter. Anti-corruption infrastructure is mostly discussed in Chapter 1, other than the High Anti-Corruption Court, which is covered in this Chapter.

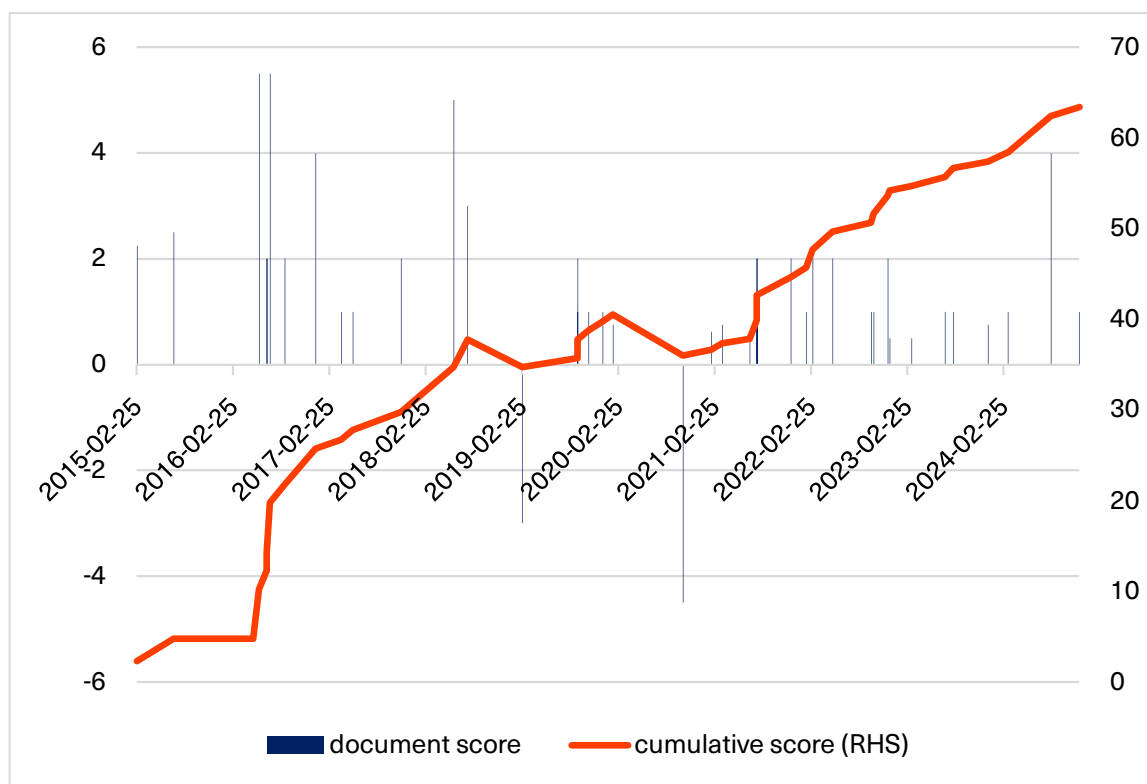
Reforms in 2014-2019

One of the first moves of the new government that came into power after the Revolution of Dignity in 2014 was the dismissal of heads of courts. However, since heads of courts were elected by judges of these courts, [85%](#) of the former heads were reelected. Thus, it was clear that much deeper and comprehensive reforms of the court system were needed. At the same time, courts are only one part of the legal system, while other components, such as the police, prosecution, and State Security Service, are no less important. We cover them in turn.

Police

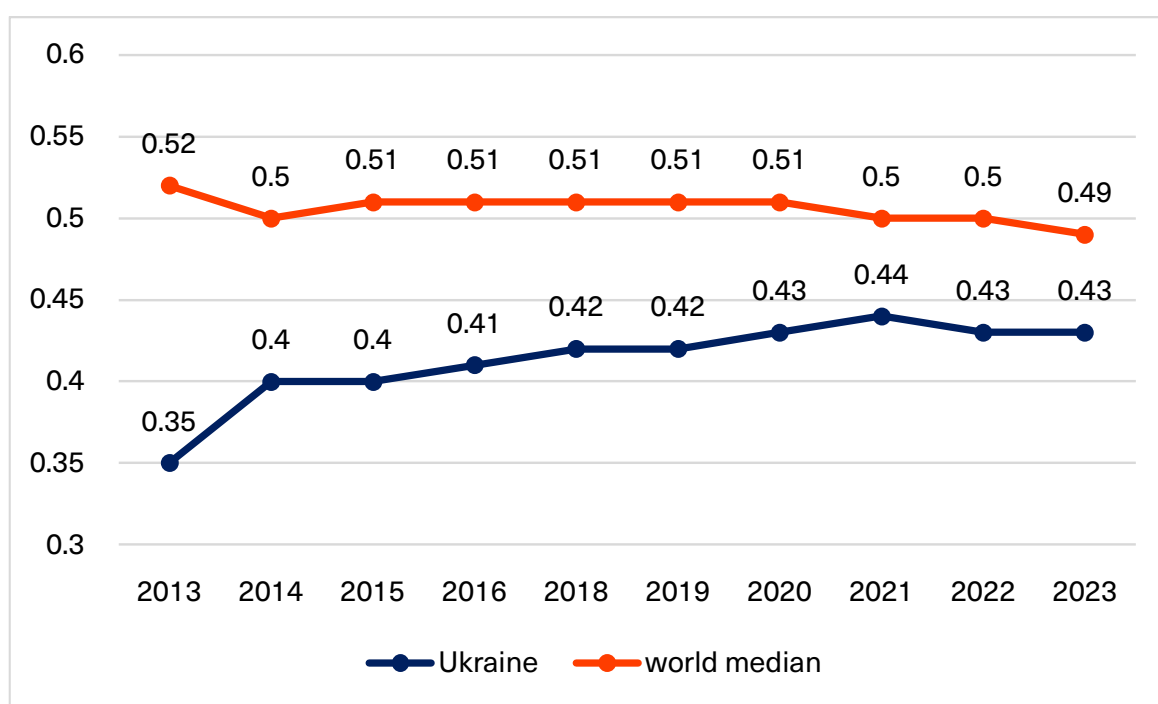
Police reform began in 2015 with the new law “[On National Police](#)”. The new patrol police replaced the traffic police and took on additional functions, ensuring order not only on the roads but in all public places. Unfortunately, the reform did not proceed past this initial phase due to a lack of political willpower (see the [White Book of Reforms-2018](#) for details). Successful reformers from Georgia had been invited to implement similar police reforms in Ukraine, but they were soon fired by the Minister of Internal Affairs, who did not want any real reform. The newly hired patrol police officers were soon discouraged by rather low salaries and lack of prospects: career advancement was not possible for those who did not want to become part of the unreformed, corrupt system. Thus, public trust in police remained low, although trust in patrol police was higher than the National Police (Figures 3.3A and 3.3B).

Figure 3.1. Law enforcement reforms in 2015-2024, Reform Index data



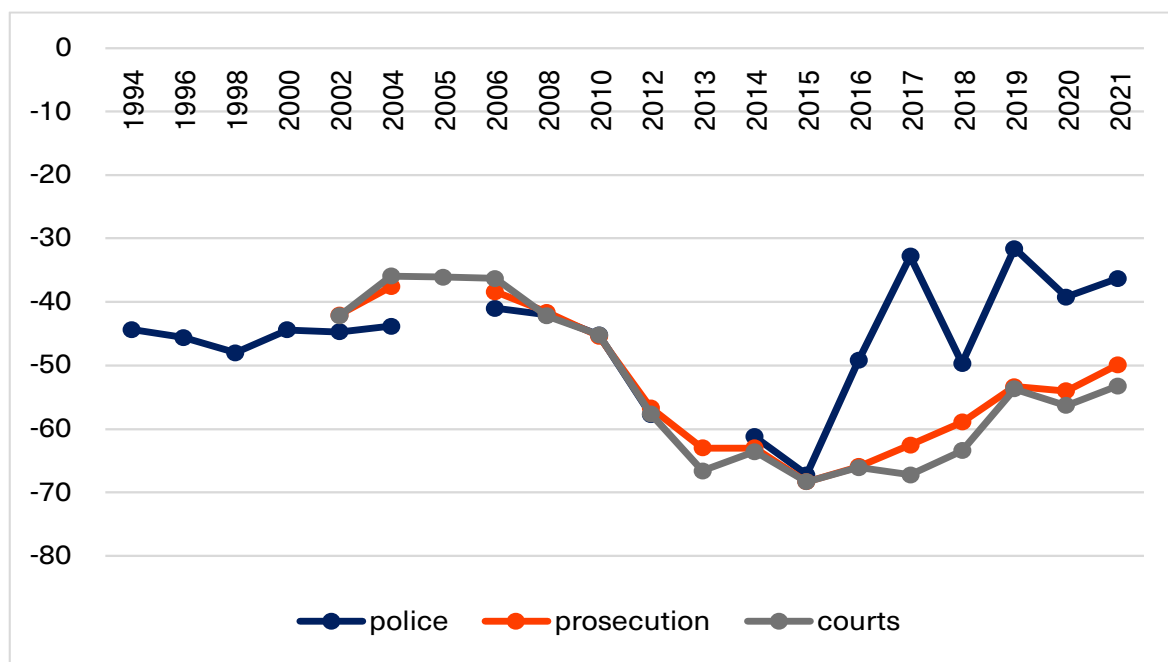
Note: cumulative grade is the sum of event grades. Event grades are derived from surveys of [Reform Index](#) experts

Figure 3.2. Rule of law index



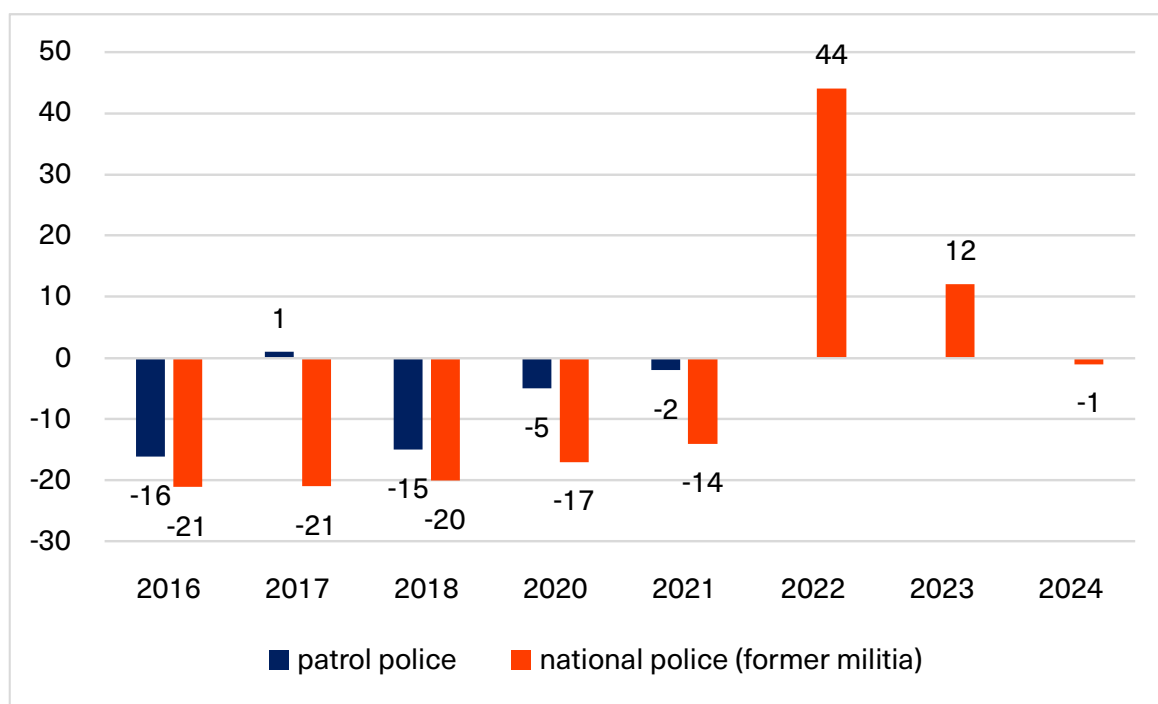
Source: [World Bank](#)

Figure 3.3A. Balance of trust in the police, prosecution, and courts (the difference between the shares of those who completely/rather trust and completely/rather don't trust)



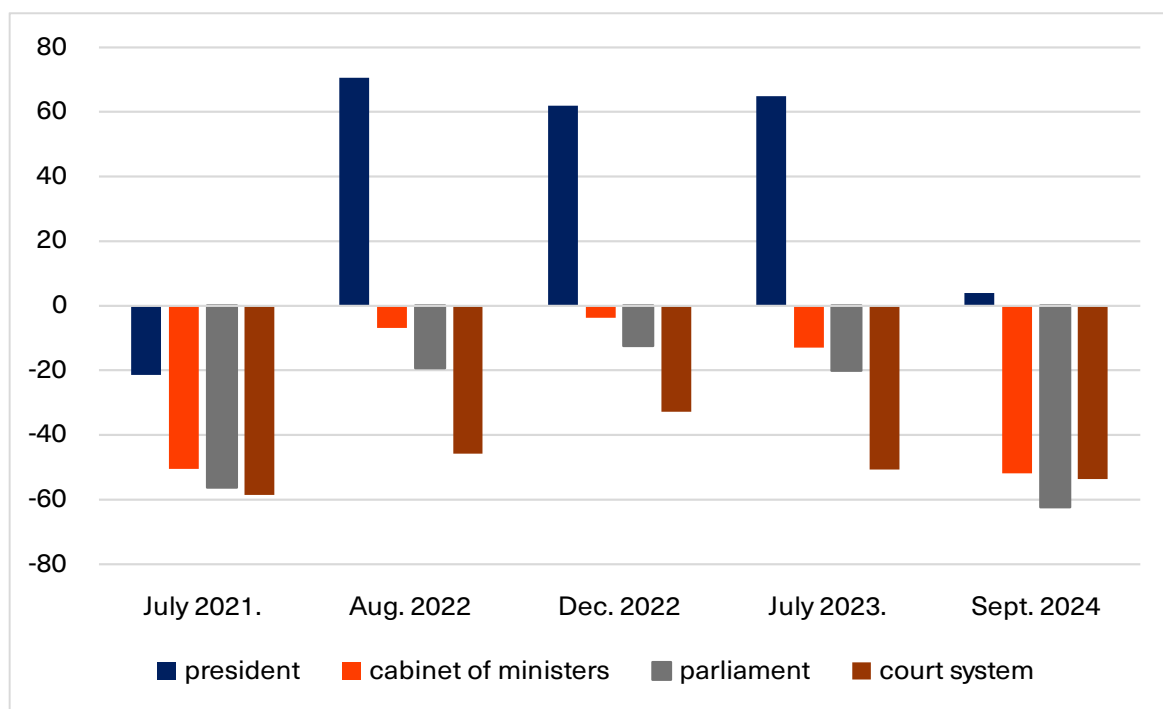
Source: "Social Monitoring" Survey, Institute of Sociology of NASU. Note that although the general level of trust is quite low, the majority of people who participated in court processes believe that the court decision was legal and just

Figure 3.3B. Balance of trust in the police (the difference between the shares of those who trust and don't trust)



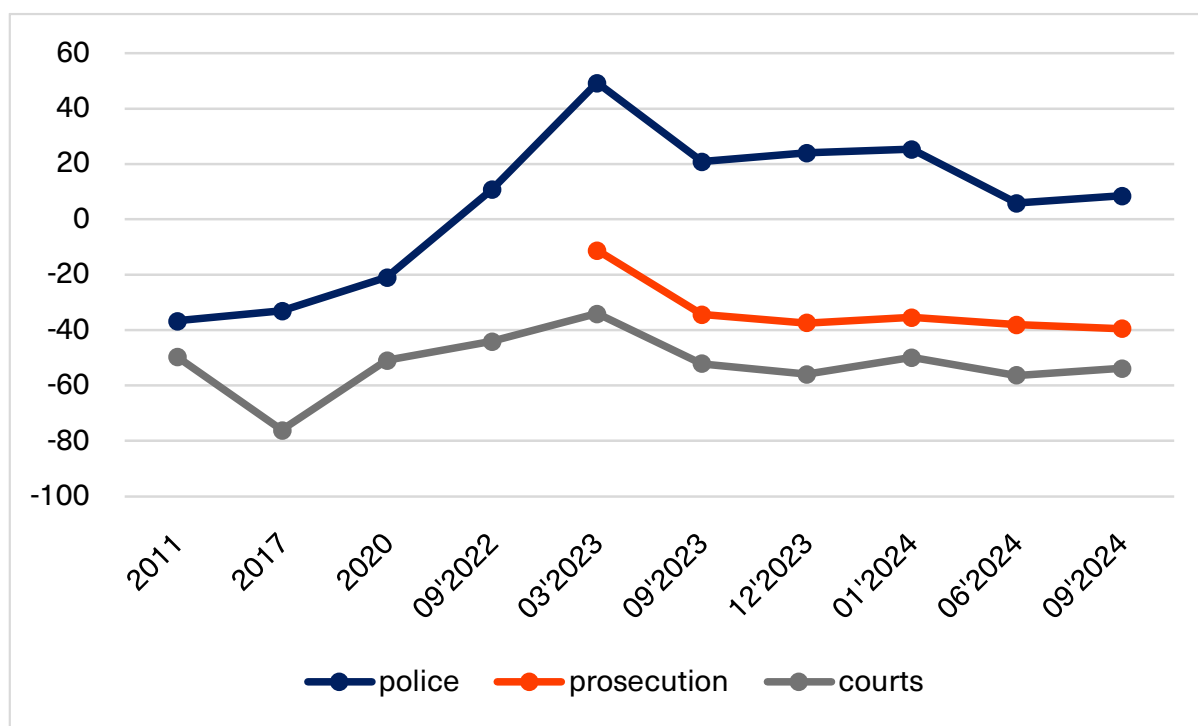
Source: KIIS surveys (since 2022, only the question on the national police is asked)

Figure 3.3C. Balance of trust in certain institutions in 2021-2023 (the difference between the shares of those who trust and don't trust)



Source: Razumkov Center [surveys](#). Note: This figure shows a “rally around the flag” effect in 2022, but trust in courts remained lower than in other government entities

Figure 3.3D. Balance of trust in law enforcement institutions after 2022 compared to earlier years (difference between the shares of those who trust and don't trust)



Source: Razumkov Center [surveys](#)

During 2016, the former militia cadres were evaluated by a special commission that reviewed their integrity and professionalism. However, only 7.7% of them were fired, and about half of those later were restored to their jobs by court decisions. Often courts based their decisions on the Labour Code, which makes it practically impossible to fire those officially employed. However, there was strong resistance to reform from the entire system, including the Minister of Internal Affairs. Moreover, attestation commissions lacked both clear procedures and the capacity to perform evaluations properly.

Prosecution

Until 2014, the prosecution was essentially the “fourth power” of the government system: it could check legal compliance of any enterprise or government agency. This unconstrained power created ample opportunities for corruption that were often used by prosecutors. Another major issue was the lack of political independence of the prosecution: the Prosecutor General is appointed and dismissed by the president and Parliament, and individual prosecutors are dependent on support from senior colleagues (in 2017, only 11% of prosecutors felt they had independence from their superiors). Thus, prosecutorial reform included three major elements: legislative limitations on the powers of prosecutors, the introduction of self-governance (by creating an all-Ukrainian conference and council of prosecutors and a qualification-disciplinary commission of prosecutors, which started operating in 2017), and the replacement of corrupt prosecutors through open competitions.

To implement the first element, the Law on Prosecution was amended in 2014 and 2015. These amendments separated the functions of prosecutors and the administrative staff of the prosecution, increased the independence of prosecutors (by making it more difficult for higher-level prosecutors to fire their subordinates), and introduced a competition-based selection of prosecutors. They also prescribed a reduction in the number of prosecutors from 22,000 in 2014 to 10,000 by 2018 (by 2018, the number of local prosecutorial offices was reduced from 650 to 175, and about 3,000 prosecutors were dismissed), and relaxed the eligibility requirements for those willing to become prosecutors. The purpose of the last two changes was to attract new people to the prosecution and pay them decent salaries.

The most important changes concerning prosecutors were the amendments to the Constitution adopted in 2016, along with the changes regarding the judicial system. These legislative changes made the prosecution a part of the overall judicial system rather than a stand-alone authority, deprived it of general supervision and investigative functions, and introduced the Special Anti-Corruption Prosecution (see Chapter 1).

To remove corrupt employees from the prosecution, in early 2015, President Poroshenko appointed David Sakvarelidze, who had previously implemented effective prosecutorial reforms in Georgia, as Deputy Prosecutor General. However, the prosecutorial reform stalled right away because the Prosecutor General (Viktor Shokin) was part of the “old guard.”

Additionally, there were design flaws in the reforms: the procedure for the appointment of the Prosecutor General was unchanged, and reforms started with “ordinary” prosecutors rather than the Prosecutor General’s Office (thus, not many people wanted to take lower-level positions while the top level remained unreformed). In mid-2015, Sakvarelidze and his team arrested two corrupt high-level prosecutors who allegedly were linked to Shokin (so-called “diamond prosecutors”). In response, Shokin fired Sakvarelidze and a few investigators. In March 2016, upon the insistence of the US, who financed both prosecutorial and police reforms, Victor Shokin was fired. According to the [media](#), as of summer 2023, these “diamond prosecutors” were still on trial.

Thus, despite the introduction of significant legislative changes, the prosecution remained largely unreformed.

Judiciary

In February 2015, [the Law](#) on the Right to a Fair Trial was adopted. This law increased the openness of court hearings and clarified procedures for court hearings and appeals. But more major changes to the judicial system were introduced in 2016-2017: [amendments](#) to the Constitution, the [new Law](#) on the Judicial System and the Status of Judges, [the Law](#) on the High Council of Justice, and [the Law](#) on Reforming the Judicial Process. These laws:

- increased the independence of judges from the political system. Previously, judges were appointed by the president for an initial 5-year term and then reappointed by Parliament until retirement; now, judges are selected by competition run by the High Council of Justice, the highest self-governing body of judges, and formally appointed by the president until retirement at age 65. They can be dismissed only by the High Council of Justice;
- raised the salaries of judges from 10-13 to 30-75 times the subsistence level (today, judges [earn](#) from UAH 70,000 to UAH 430,000 per month, while the average salary in Ukraine is UAH 21,000 per month). Pensions for retired judges were significantly increased and are now, on average, 17 times higher than average pension, although some judges [do not deserve](#) such benefits;
- made the prosecution a part of the judicial system rather than a standalone power, while also depriving it of universal oversight powers. A separate Chapter on the prosecution was removed from the Constitution, and an article on the prosecution was added to the “Justice” Chapter;
- eliminated one level of courts (including the High Court on Civil and Criminal Affairs, the High Commercial Court, and the High Administrative Court) that stood between the appellate courts and the Supreme Court, thus making the court system three-level again. These changes also foresaw the establishment of the High Anti-Corruption Court (HACC), which has been operating since 2019, and the High Intellectual Property Court, which is not yet operating;

- clarified the powers of the Supreme Court, and the rights and duties of trial participants;
- stated that only attorneys at law can represent a person in court (with a few exceptions for cases regarding social protection, elections, or those involving children). This resulted in a monopoly of the National Lawyers Association over the legal sector. In 2019, Parliament [allowed](#) legal entities to self-represent in courts. The opportunity for citizens to act as their own lawyers should also be restored.

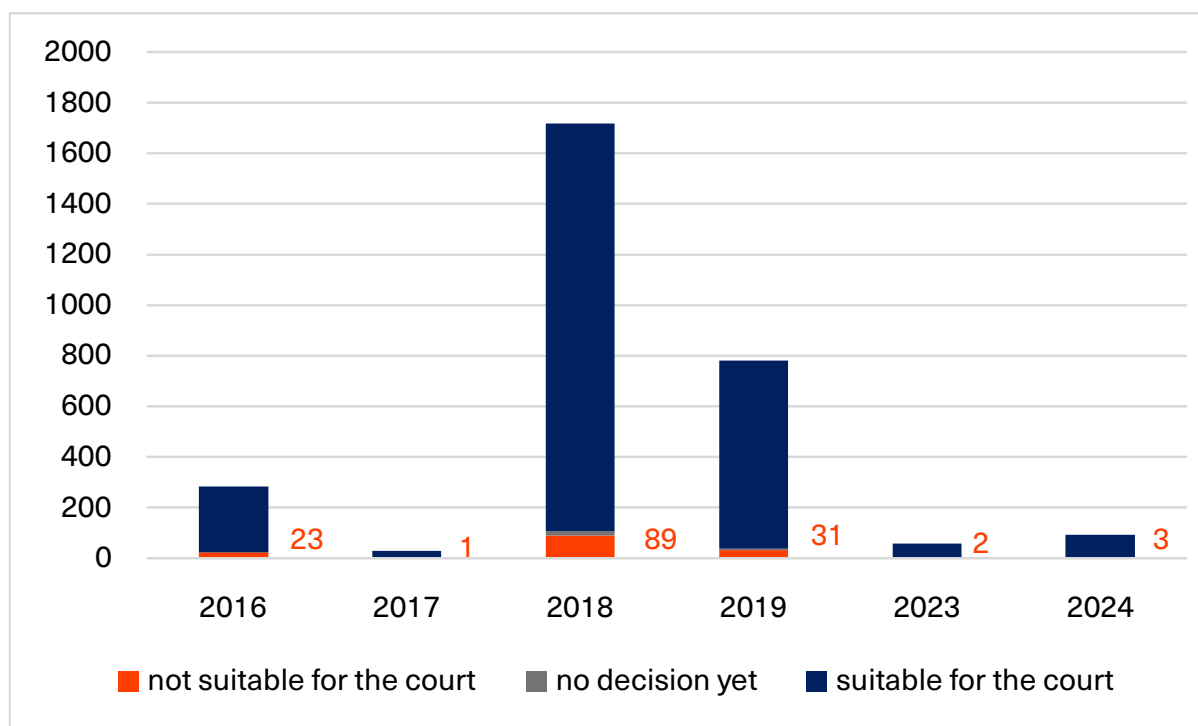
In addition, these laws outlined the procedure for the qualification assessment of sitting judges by the High Qualification Commission of Judges (HQCJ). This commission is responsible for the selection of judges and performs some functions to ensure their integrity. It is assisted by the Public Integrity Council (PIC), which evaluates the integrity of judges who undergo the qualification assessment.

During 2016-2019, the Supreme Court was re-elected using the new transparent procedure with the participation of the Public Integrity Council. However, since negative assessments by the PIC could be overruled by a qualified majority of the HCJ, [44 of the 193](#) newly elected Supreme Court judges had integrity issues.

In the fall of 2017, the HCJ started the evaluation process for sitting judges. It planned to review the competence and integrity of about 7,000 judges in less than two years. It came as no surprise that the process lacked proper scrutiny (although at one point it was even broadcast online), and civil society organizations that monitor it had a number of serious [concerns](#) about the methodology of the evaluation and its practical implementation. In short, as with the police and prosecution, the overwhelming majority of judges passed the evaluation very easily. Civic activists noted that the HCJ did not verify the information that judges provided about their revenues and assets, even though this information sometimes appeared dubious. According to the HCJ, as of the end of 2024, only 5% of the 2960 judges who went through the evaluation process did not pass it (Figure 3.4).

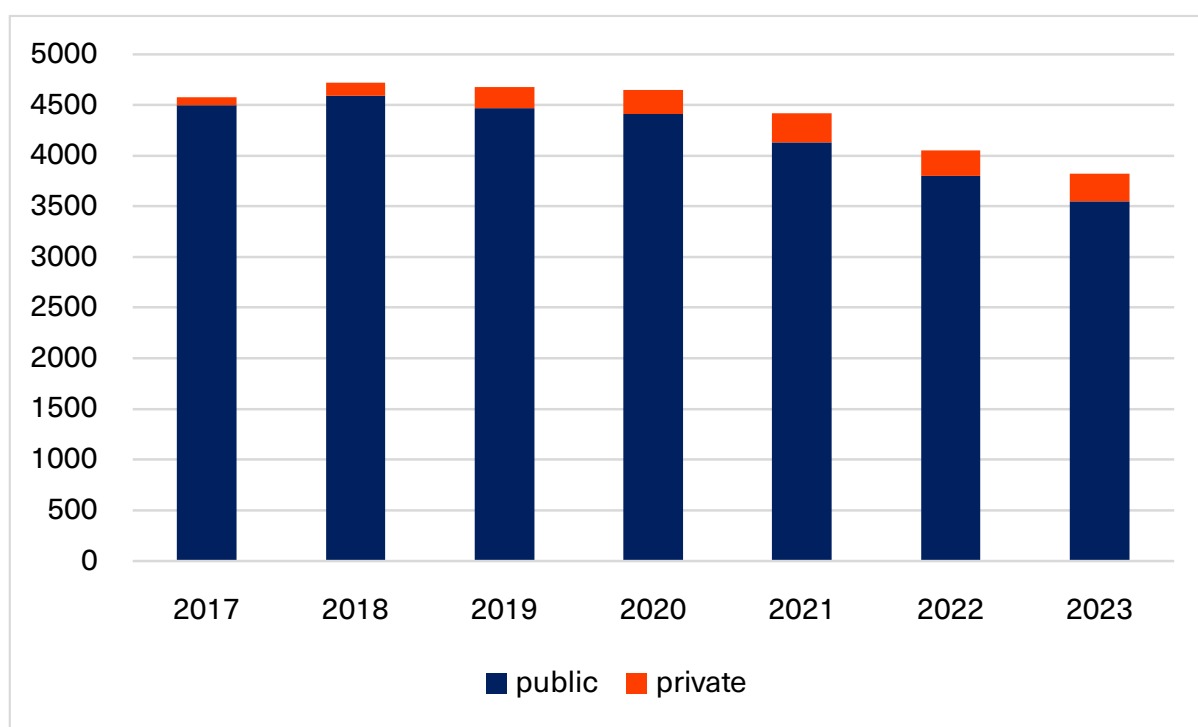
Another aspect of the law enforcement system requiring attention was the enforcement of court decisions: in 2015, only about [20%](#) were implemented. Thus, in 2016, Parliament [allowed](#) private bailiffs in addition to public ones, and the Cabinet of Ministers [introduced](#) remuneration for both private and public bailiffs that depends on the results of their work (public bailiffs receive 2% of the worth of recovered assets and private bailiffs — 10%). Since 2017, the number of private bailiffs has increased (Figure 3.5A), but they still play a limited role in enforcing court orders (Figures 3.5B and 3.5C). This is because private bailiffs still [don't have](#) the same rights as public bailiffs (e.g., they cannot access information on the vehicles of debtors from the police system). If the government aims to develop private bailiffs, it should grant them the same rights and responsibilities as public bailiffs have.

Figure 3.4. Results of the evaluation of judges by year, as of January 1st, 2025



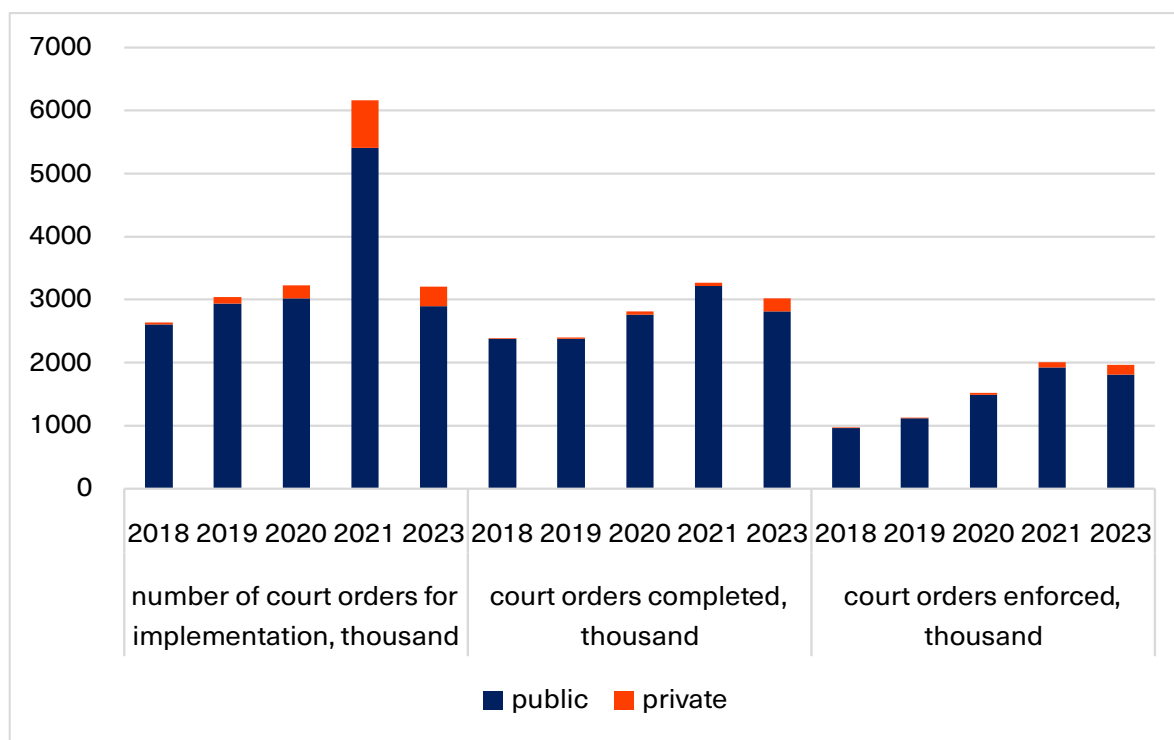
Source: Higher [Qualification](#) Commission of Judges. Note: red numbers show the number of judges that were found unsuitable for the job

Figure 3.5A. Number of public and private bailiffs, end of year



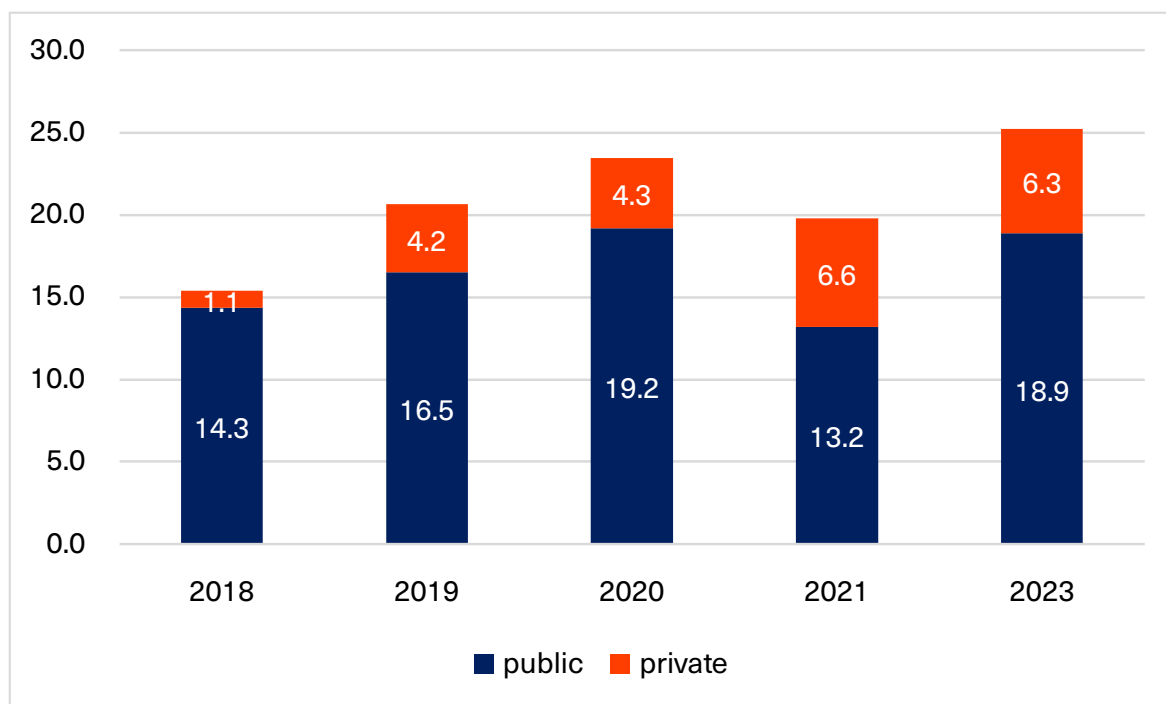
Source: [Association](#) of Private Bailiffs of Ukraine. Note: for private bailiffs, numbers come only from those who submitted annual reports

Figure 3.5B. Court orders completed and enforced, by type of bailiff



Source: [Association of Private Bailiffs of Ukraine](#). Note: “orders enforced” are those where bailiffs implemented court orders. “Orders completed” also include those orders where the parties reached a resolution outside the court, the plaintiff recalled the case, the deadline for a case passed, etc.

Figure 3.5C. Money recovered, UAH billion, by type of bailiffs



Source: [Bailiffs Association](#), [Justtictors](#)

In 2021, the National Bank of Ukraine [obliged](#) banks to provide information on a debtor's accounts to public bailiffs. Still, in 2021, public bailiffs recovered only 2.4% of the amount claimed (for private bailiffs, this share was 3.2%). In 2023, the respective shares were 7.3% and 4.6%.

More details about judicial reforms until mid-2019 can be found in the previous White Books of Reform ([2018](#), [2019](#)) and VoxUkraine [publications](#).

Reforms in 2019-2024

High Anti-Corruption Court

In mid-2018, Parliament [adopted](#) the Law on the High Anti-Corruption Court. Although this court was technically established in 2016, the government and Parliament delayed the law's adoption (eventually, it even had to be included as one of the conditions of the IMF program) because, as we discuss in Chapter 1, the newly created anti-corruption system would function only if all three elements (NABU, SAPO and HACC) were operational.

Another law [established](#) that appeals to HACC cases would be considered by the HACC appellate chamber rather than by general appellate courts, which could be corrupt. In April 2019, HACC judges were selected and [appointed](#). The HACC began operating in September 2019, and the legislative [changes](#) adopted by the new Parliament allowed it to avoid an excessive caseload by considering only new corruption cases being investigated by the NABU and SAPO rather than both new and "legacy" cases.

In 2024, Parliament raised the number of judges and staff members of the HACC so that it could handle an increased workload. As of mid-September 2024, there were [42 open positions](#) for judges of the High Anti-Corruption Court and 21 in its appellate chamber. 27 and 11 positions have since been filled, respectively, and the competition for the 15 and 10 remaining vacancies should have been completed by March 2025. Since only [7 out of 140](#) candidates made it to the interview stage, the process will likely last longer. However, the quality of HACC judges cannot be compromised for the sake of speed.

Prosecution

The new Parliament elected in summer 2019 [re-launched](#) the evaluation of prosecutors: special commissions at the Prosecutor General's Office and oblast (regional) prosecutor offices were tasked with assessing the professional competence and integrity of prosecutors. The same law eliminated the special military prosecution, which was created in 2014 to investigate war crimes in the occupied territories of Ukraine. However, Yuriy Lutsenko, the Prosecutor General in 2016-2019, misused it to investigate other crimes as well. Now, war crimes are [investigated](#) by the State Security Service, the State Bureau of Investigation, and the National Police, and are presented in court by the prosecution system. The government

is considering restoring the special military prosecution and special military courts to handle cases related to war crimes.

As a result of [evaluation](#) of prosecutors in [2019-2021](#), about 35% of prosecutors were fired (including about 50% from the Prosecutor General's Office and $\frac{1}{3}$ from oblast-level and local prosecutor offices). However, many of them were [reinstated](#) by the courts because of flaws in the legislation that launched the evaluation process. For example, the law stated that before the evaluation, prosecutors should be considered "warned" about potential dismissal, but Parliament lacked the authority to issue such warnings. Today, the evaluation procedure [continues](#).

As of [mid-September](#) 2024, the number of prosecutor vacancies exceeded 1,200 or about 12% of the maximum number (the prosecution system can employ at most 15,000 personnel: 10,000 prosecutors and 5,000 administrative staff). In 2022, the requirement to have two years of legal experience to become a prosecutor was [canceled](#) in order to widen the pool of candidates. Additionally, an internship at prosecutors' offices was introduced.

In August 2023, the government, with support from the EU, launched a pilot [project](#) called "Community Prosecutor" aimed at improving citizens' trust in law enforcement agencies. In the four pilot communities, prosecutors actively communicate with citizens and local authorities about their needs. They also speak to students about the responsibilities of prosecutors. Overall, the EU has been deeply [involved](#) in law enforcement reform in Ukraine: it provides training to police officers and prosecutors, and now helps to investigate war crimes.

A detailed [overview](#) of prosecution reform during 2014-2023 suggests that prosecutors still lack independence and a proper system of assessment of their work. For society, perhaps the most painful matter is that [no judges](#) or prosecutors who unlawfully imprisoned participants of the Revolution of Dignity were punished. Since 2014, the government and law enforcement agencies have sabotaged investigations and court hearings, allowing some suspects to go free because the deadline for investigation passed. Only four people from the special police forces who participated in atrocities were sentenced.

Reform of the Security Service of Ukraine (SBU)

SBU reform has been on the agenda for a long time, having started during Viktor Yushchenko's presidency (2005-2010). In 2008-2009, Ukraine's National Security Council adopted the [Concept](#) for SBU Reform and the [Comprehensive](#) Program on SBU Reform. The relevant draft law was developed as well, but was later scrapped. In 2015, the reform was relaunched, supported by Ukrainian civil society and international partners. The main idea of the reform is the liquidation of SBU departments responsible for investigating economic crimes. In this way, the SBU would be deprived of opportunities to pressure businesses and would only be responsible for anti-terrorist activities and uncovering hostile foreign agents.

The SBU was not particularly effective at investigating economic crimes anyway. For example, in 2020, it investigated [505 economic](#) cases, of which only 90 proceeded to court. Additionally, the reform would stop the SBU from conducting pre-trial investigations, reduce the number of employees from 27,000 to 15,000 people, and demilitarize its structures.

In early 2021, the relevant [draft law](#) was adopted in the first reading (it proposes a reduction of SBU staff to 20,000 employees). [G7 ambassadors](#), as well as representatives of the [EU and NATO](#), welcomed this development. However, civil society organizations state that this draft law [requires](#) considerable adjustments. For example, according to the draft, the SBU would receive the power to suspend the licences of media outlets involved in activities deemed a threat to national security. Civil activists are concerned that this could be used to limit freedom of speech.

Judiciary

Apart from the launch of the High Anti-Corruption Court, one of the first steps of the new Parliament was to give a “[fresh start](#)” to judicial reform in November 2019. The fundamental reason for “reloading” the highest judicial bodies was that the prior judicial reform of 2016 had increased judicial independence before cleaning up the system, and thus judges elected to the HCJ and HQCJ were not interested in genuinely implementing the reform (however, cleaning up the system before increasing judicial independence would also have been a risky option, since it could’ve resulted in the de facto political dependence of judges).

A law on judicial [self-governance](#), adopted in 2019, established that an Ethics Commission composed of three international experts would evaluate the integrity of the members and candidates for the High Council of Justice. It also stipulated that the High Qualification Commission of Judges would be re-elected by a commission consisting of three delegates from the Conference of Judges and three international experts.

However, this law allowed the “old” High Council of Justice to block the formation of the Ethics Commission to preserve the status quo and to protect the interests of the “judicial mafia.” There is [evidence](#) suggesting that HCJ was influenced by judges from one of the most corrupt courts in Ukraine — the Kyiv City District Administrative Court (the so-called “[Vovk recordings](#)” case, which is currently being considered by the High Anti-Corruption Court). This case became the catalyst for the “[reloading](#)” of the HCJ.

At the end of 2022, the Kyiv City District Administrative Court was [dismissed](#). Now Ukraine must create a [new administrative](#) court that would consider cases involving central government agencies (this is one of the conditions of the current IMF program). Until it is created, cases of the Kyiv City District Administrative Court will be considered by regional administrative courts.

In 2021, Parliament [established](#) procedures for integrity checks of HCJ members and the selection of HQCJ members. These procedures increased the influence of Ukraine's international partners and civil society over these processes, enhancing transparency and predictability and provided stronger guarantees of the impartiality of elected HCJ members. The law also enabled the formation of the Ethics Commission which had been blocked in 2019. When the Ethics Commission started the evaluation of HCJ members in early 2022, 12 out of 15 members [resigned](#) rendering the HCJ inoperational. During 2022-2023, 17 of the 21 HCJ members were [elected](#) with the participation of the Ethics Commission.

At the end of 2024, the Service of Disciplinary Inspectors at HCJ started working. This service will handle disciplinary cases (complaints) against judges. In 2021, Parliament [introduced](#) fines (though modest — ranging from UAH 850 to UAH 2550) for non-compliance with the demands of disciplinary inspectors.

The process of filling vacancies at the HQCJ began in September 2021 and was completed in June 2023. The commission, consisting of three international and three Ukrainian experts, selected 32 candidates from a pool of 301 applicants. The Higher Council of Justice then appointed 16 of these candidates as members of the HQCJ. A few months later, the HQCJ started evaluating judges to address the ongoing shortage of judges in Ukraine's judicial system, which is staffed at slightly more than 50%. As of December 31, 2023, Ukraine had [4,150](#) judges, while 6,329 were needed (as shown in figure 3.6, the deficit of judges remains a persistent issue).

By April 2024, the HQCJ had [completed](#) the evaluation of over 400 judges who began the process back in 2017. With the HCJ and HQCJ now operational, Ukraine will gradually fill the judicial vacancies. While this process may take time, the focus is on ensuring that newly appointed judges are qualified and possess a strong reputation. The Public Integrity Council (PIC), which consists of 20 representatives from civil society, academia, the legal community, journalists, and other sectors, assists the HQCJ in evaluating the integrity of candidates.

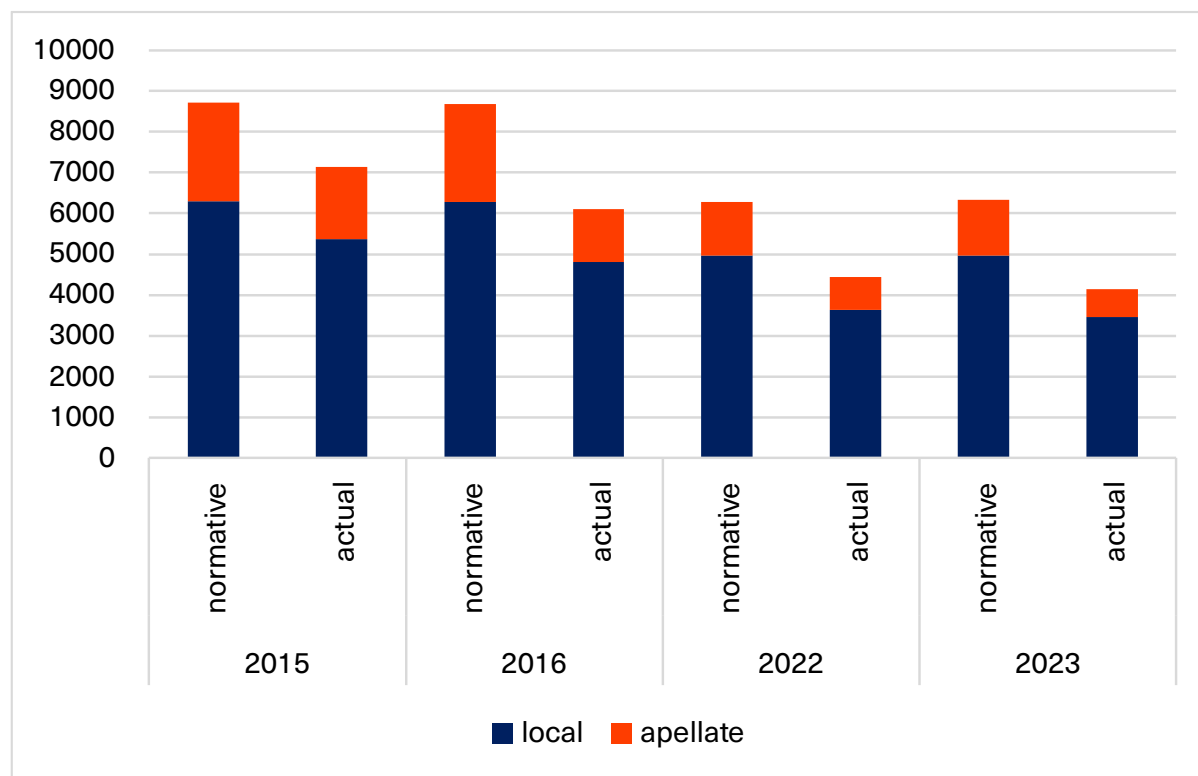
The law “On [Improving](#) Procedures for a Judicial Career,” adopted at the end of 2023, simplifies the evaluation procedures for judges and stipulates that the HCJ, in consultation with the PIC, HQCJ, and the Council of Judges, will establish a clear list of criteria for assessing the integrity and professional ethics of judges. These changes should make the evaluation process more impartial.

In 2024, the HCJ submitted [474](#) candidates to the president for judicial appointments and dismissed 237 judges, including the former head of the Supreme Court, who was arrested by the NABU for bribery in May 2023.

At the end of 2024, Parliament [modified](#) the qualification examination procedure for judicial candidates. These changes allow the HCJ to set the threshold for the IQ test while also

requiring that candidates score no less than 75% on exams covering history, general law, and specialized law.

Figure 3.6. Normative, as defined by HCJ, and actual number of judges, by type of courts



Source: State Court Administration [reports](#). Note: In 2020, the Higher Council of Justice, with the support of USAID, implemented research on the amount of time required to consider a case. Thus, “normative” numbers of judges are based on estimates of how many judges would be needed to handle the given caseload

Despite constant reduction in the number of judges, the number of cases remains large. Thus, in 2023 the courts received about [4.5 million](#) cases and related materials to review, which is more than in 2021. As figure 3.7 shows, Ukrainian courts are understaffed, and in about a quarter of them judges are overloaded with cases.

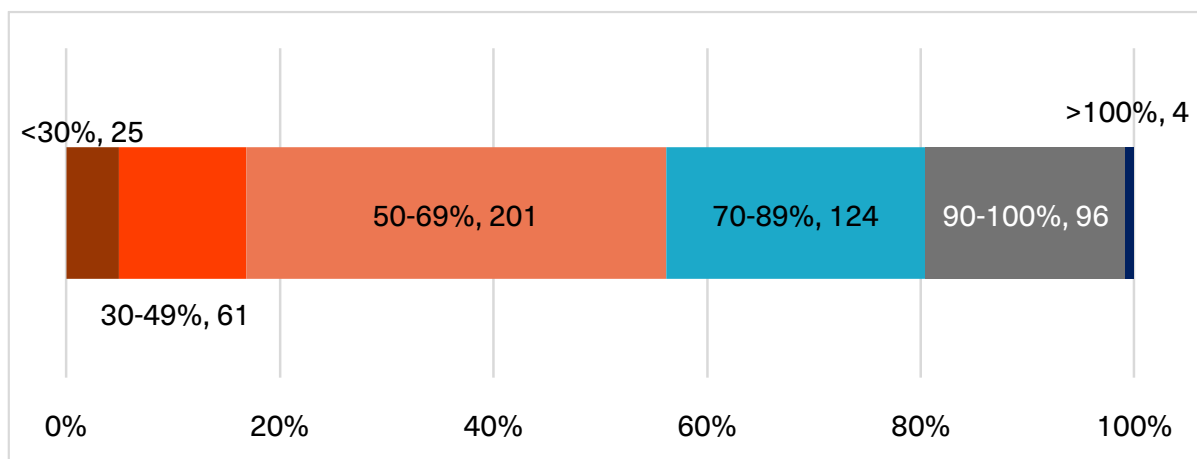
The law “[On Mediation](#)” adopted in January 2022, should help reduce court clog. While mediation had been practiced informally for some time, this law provides an official framework for it. Hopefully, many cases will be resolved by mediation, without the need to resort to a lengthy and costly trial.

Supreme Court

Although the Supreme Court was completely “reloaded” in 2017-2018, it turned out that the newly elected judges were not immune to corruption. In May 2023, the head of the Supreme Court, Vsevolod Kniaziev, was caught red-handed by NABU agents while accepting a bribe of \$2.7 million from a Ukrainian oligarch. Currently, this case is being considered by the High

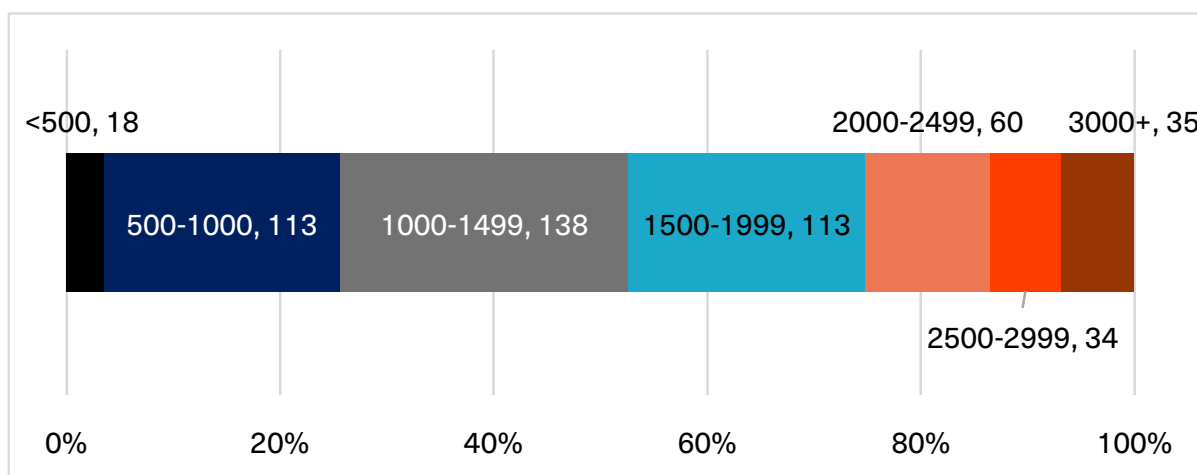
Anti-Corruption Court. Another Supreme Court judge was dismissed for holding dual Russian citizenship (which is illegal in Ukraine).

Figure 3.7A. Distribution of courts by their staff relative to norms defined by HCJ



Note: 25 courts have less than 30% of the normative quantity of judges, 201 courts have 50-69% of the normative quantity, etc.

Figure 3.7B. Distribution of courts by the number of hours per year that one judge must spend considering cases, according to normative estimates (the actual time may differ)



Source: Council of Judges. Note: In 129 courts (about a quarter of the total number), a judge has to spend a greater than average working time (~2000 hours per year) on considering cases

Today, the Supreme Court has 156 of the 196 judges needed. During 2023, the Supreme Court resolved about 500 cases, which is more than in 2022 but about twice as few as in 2021. In 2020, Parliament adopted a [law](#) that should reduce the workload of the Supreme Court. This law narrows the range of cases that can be considered by the Supreme Court (those that have already passed local and appellate courts). These cases should either set precedents or correct the decisions of lower-level courts if they did not take into account existing precedents. By narrowing the scope of cases it considers, the Supreme Court will be able to focus on its main function: setting precedents for courts in Ukraine.

Constitutional Court

The Constitutional Court is very **important** because it not only interprets and explains the Constitution but also has the power of judicial review (that is, it can decide that laws are not aligned with the Constitution). Thus, it could theoretically cancel any reform implemented so far by deciding that its underlying laws don't align with the Constitution. In this way, it **reversed** criminal liability for illicit enrichment in early 2019 (this automatically closed 65 corruption cases and undermined other work of NABU and SAPO). Similarly, in 2020, it **undermined** the system of electronic declarations by public officials and thus the entire anti-corruption system. Both decisions were later reversed by adopting new laws, but questions about the integrity of the Constitutional Court remain. For example, the former head of the Constitutional Court, Oleksandr Tupytskyi, was sanctioned by the US for corruption. Now, he is wanted by Ukrainian law enforcement.

In the future, the Constitutional Court will consider Ukraine's integration into the EU and NATO, post-war elections, reintegration of occupied territories, etc. That's why the integrity and professionalism of the judges of this court (who serve for 9 years and are very hard to dismiss) are extremely important. However, the appointment of these judges is political: 6 are appointed by the President, 6 by Parliament, and 6 by the Conference of Judges. Thus, one of the **seven** conditions for the EU opening accession negotiations with Ukraine was changing the appointment procedure for judges of the Constitutional Court. They will still be appointed by political entities, but from a pool of candidates whose professionalism and integrity have been properly evaluated and confirmed.

In December 2022, Parliament **changed** the procedure for selecting Constitutional Court judges by introducing an Advisory Group of Experts (AGE) that would screen the candidates. The Venice Commission issued a negative **opinion** on this reform, which the European Commission upheld. Specifically, the Venice Commission recommends that Ukraine include procedures that would make it impossible to sabotage the AGE's work (e.g., introduce substitute AGE members, simplify selection of AGE members by Parliament, increase the number of AGE members from 6 to 7 to avoid tie votes). Additionally, it recommends making the selection process for Constitutional Court judges public so that it can be scrutinized by civil society and ensure that candidates not approved by the AGE do not make it onto the Constitutional Court.

In 2023 Parliament **adjusted** the competition procedure so that members of the Advisory **Group** of Experts appointed by the Venice Commission or international organizations have a decisive voice in the selection of candidates. In March 2024, the competition for 5 vacancies in the Constitutional Court began. Since then, two judges have been appointed, and one judge retired because his term ended, so four vacancies remain.

Digitalization

The judicial system, as well as other branches of the Ukrainian government, is currently being [digitized](#). Thus, all stakeholders involved in trials (lawyers, notaries, bailiffs, court experts, etc.) were recently obliged to register their personal accounts in the Unified Judicial Information-Telecommunication System. Other agents (e.g., enterprises) can register in this system voluntarily. Once the system is fully operational, functions such as document exchanges, data collection, personnel and asset management, etc. will also be digitized. The system should have been deployed in early 2019. However, it ended up [requiring](#) much more human and material resources than initially planned. Thus, in 2021, Parliament [allowed](#) the deployment of the system in stages. The Ukraine Facility plan foresees the full digitalization of the Ukrainian court system by the end of 2027. The deputy head of the State Court Administration responsible for digitization [plans](#) to intensify development of the system by reviewing its functions, employing more IT specialists at the state-owned enterprise that develops the system, and integrating it with the Diia app.

International cooperation

In May 2022, Parliament adopted a [law](#) on Ukraine's cooperation with the International Criminal Court (ICC). The law defines the procedures for transferring cases to the ICC, Ukraine's support of ICC activities, ICC operations in Ukraine, etc. In August 2024, Ukraine [ratified](#) the Rome Statute, which it signed in 2000. However, the ratification law [stipulates](#) the condition that the ICC cannot investigate cases against Ukrainian soldiers during the next seven years. This was done to minimize the risk that Russia would weaponize the ICC against the Ukrainian Army. At the same time, ratification is [beneficial](#) for Ukraine because it will allow for the investigation and prosecution of Russian war crimes in Ukraine. Besides, ratification of the Rome Statute is one of the conditions for Ukraine's integration into the EU.

In October 2022, Ukraine [joined](#) the European Public Law Organization, which should help align EU and Ukrainian legislation. At the same time, Ukraine ratified the Choice of Court Convention and made relevant [changes](#) to national legislation. This will simplify the jurisdiction of foreign courts over Ukrainian businesses and the international recognition of Ukrainian court decisions.

What next?

The next steps for legal reform are included in the [Ukraine Facility](#), [G7 priorities](#), [OECD ACN recommendations](#), [GRECO](#) recommendations, and the Ukrainian [Strategy](#) for Reforming Law Enforcement Agencies (the latter already has an [action plan](#) for its implementation). These documents overlap on many aspects. Generally, they discuss the need to ensure the integrity and independence of judges and prosecutors, while increasing the transparency, accountability, and digitalization of the system.

Thus, the European Commission [recommends](#) that in 2025 Ukraine should “*introduce transparent and merit-based recruitment and selection procedures for managerial positions in central and regional offices of the National Police and the State Bureau of Investigation (SBI), with meaningful involvement of independent experts, along with strong disciplinary and anti-corruption rules tailored to the local context and addressing actual corruption risks.*”

Based on an [overview](#) of the reform, the following changes are recommended for the prosecution. First, the independence of the Prosecutor General should be increased by specifying a limited set of grounds for dismissal. At the same time, there should be a competitive procedure for the selection of the Prosecutor General. Second, the promotion of prosecutors should be strictly merit-based, i.e., based on an independent evaluation. This will also increase the independence of prosecutors. Third, to reduce corruption risks, cases should be randomly allocated among prosecutors while also taking into account their qualifications (this was suggested by the prosecutorial development [strategy](#) for 2021-2022 but never implemented). Fourth, the procedure for disciplinary proceedings against prosecutors should be improved, taking into account the recommendations of the Council of Europe [paper](#) on the subject. The Ukraine Facility envisions the adoption of a law increasing the capacity and power of the Disciplinary Commission for prosecutors.

The [Ukraine Facility](#) plan and the EU-Ukraine Report pay close attention to the judicial and law enforcement systems. The EU-Ukraine report takes a broader view, discussing human rights, legal education, Bar reform, and other issues. The Ukraine Facility focuses on a few specific measures:

- establishing periodic performance evaluations of judges and prosecutors; amending the law on financial declarations of judges to improve transparency about their assets and revenues;
- reviewing 2300 outstanding disciplinary cases against judges by the end of 2025;
- adopting a [law](#) on the enforcement of court decisions; implementing a [strategy](#) and [action plan](#) for improving the implementation of court decisions; launching a data collection system on the enforcement of court decisions and an upgraded IT system facilitating law enforcement processes;
- establishing the High Administrative Court;
- completing the evaluation of at least 1000 judges and filling at least 440 judge vacancies (in 2025, the HQCJ [plans](#) to continue holding competitions for 1800 vacancies in local courts, 550 vacancies in appellate courts, and 25 vacancies in the HACC);
- adopting a law formally introducing [remote](#) court hearings and regulating their procedural aspects;
- introducing the new e-Case Management System for the criminal justice system (replacing the Unified Register of Pre-Trial Investigations);

- implementing an audit of court IT systems, adopting a roadmap, and starting the modernization of this system, including a new case management system;
- adopting a law on Bar reform introducing more transparency, self-governance, and integrity to the work of lawyers.

These developments require not only the adoption of new legislation but also substantial resources. It is not easy to evaluate thousands of candidates for judge positions, and there is a considerable backlog of disciplinary cases because the HCJ did not function for about two years.

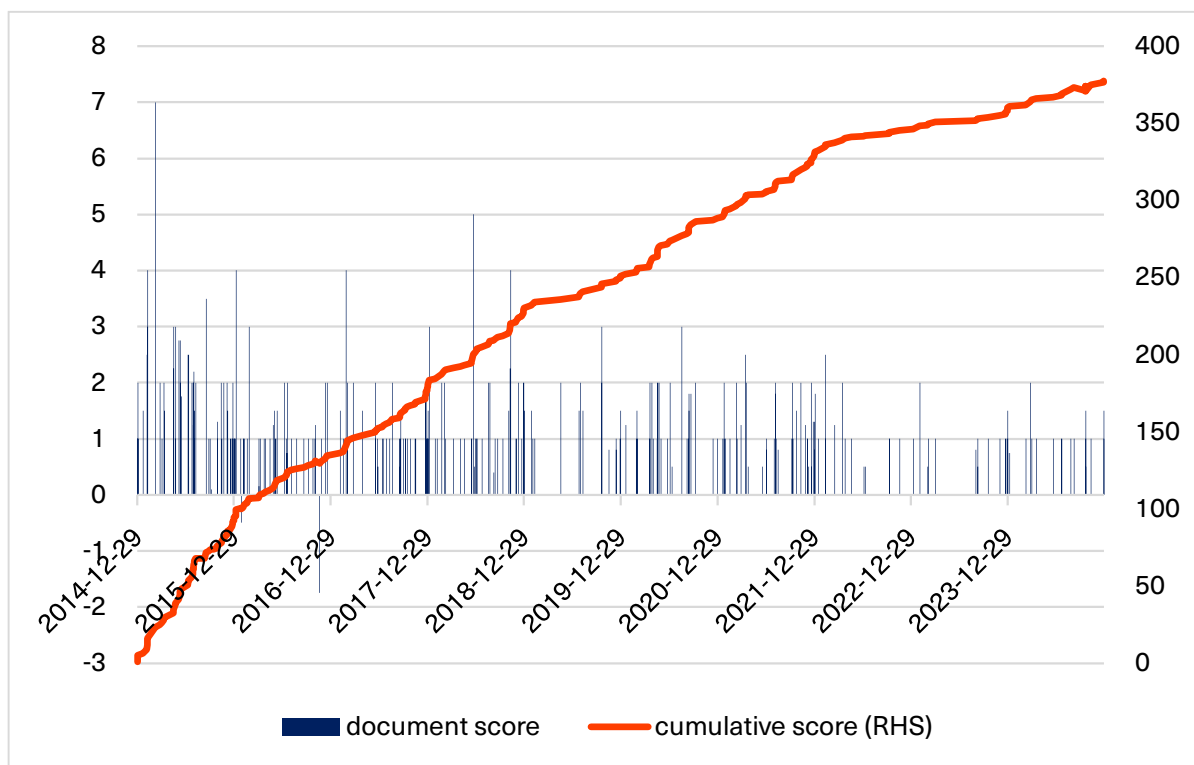
A large number of vacancies in the judicial system implies a high workload both for judges and court staff. However, speeding up the evaluation of judges at the expense of quality is not recommended. Ideally, the end goal of judicial and law enforcement reform should be for the anti-corruption infrastructure to become redundant because corrupt actions would be punished by the “regular” police, prosecutors, and courts. This is certainly a very distant goal at the moment, but it is important to take steps in the right direction.

A more detailed discussion of the progress of legal reforms in Ukraine can be found in the “[shadow report](#)” produced by the EU-financed “Pravo-Justice” [project](#)

4/MONETARY POLICY AND BANKING SECTOR

The banking system of Ukraine withstood the onset of the full-scale Russian invasion in February 2022 and continues to demonstrate resilience after three years of the full-scale war, gaining international [recognition](#). This resilience would not have been possible without reforms of the previous years, which laid a solid foundation for a resilient banking sector.

Figure 4.1. Reforms in monetary policy and banking in 2015-2024, Reform Index data



Note: cumulative score is the sum of event scores. Event scores are derived from surveys of the [Reform Index](#) experts

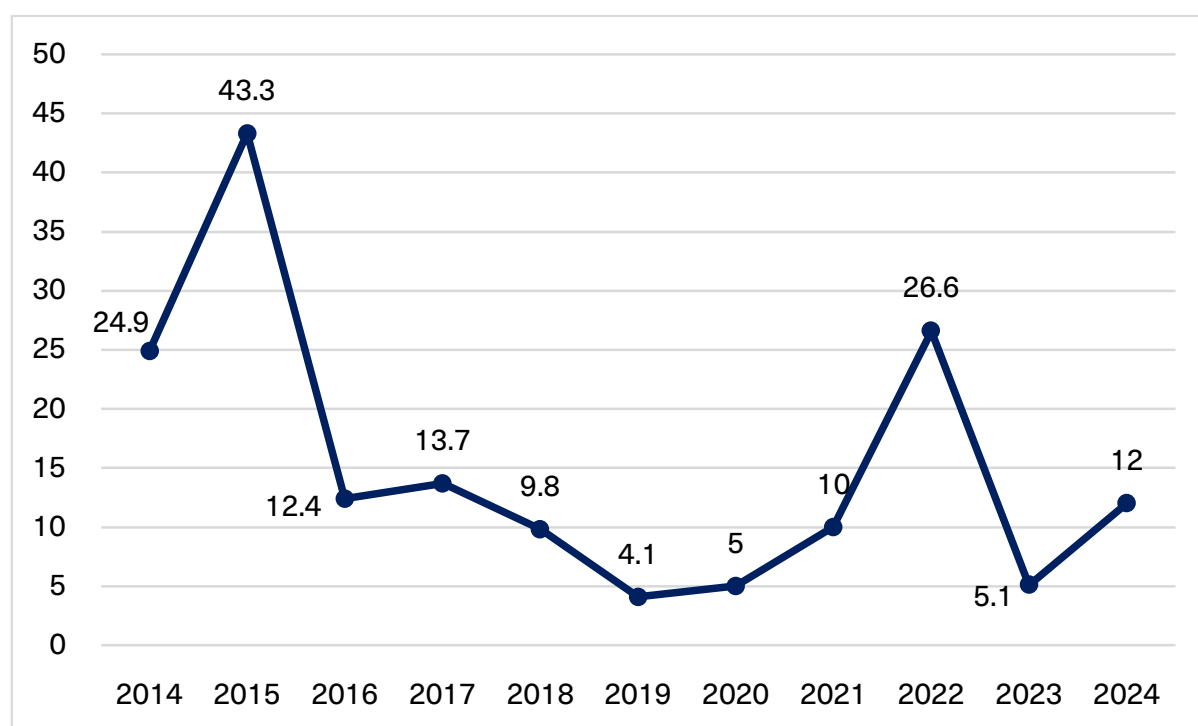
Before 2019

After the Revolution of Dignity, Ukraine's banking system got rid of the "legacy" of the 1990s and significantly modernized.

First, the National Bank of Ukraine (NBU) underwent the process of institutional strengthening and internal transformations. In the 1990s, NBU operated under the control of the government (Ministry of Finance) and Parliament, which led to multiple crises and soaring inflation. [Amendments](#) to the law "On the National Bank of Ukraine" introduced in 2015 reinforced the independence of the institution by clearly defining its mandate and insulating it from political and other undue influences.

Second, in 2016, the NBU adopted [inflation targeting](#) with a flexible exchange rate instead of an unsustainable fixed exchange rate policy. This enhanced stability and shock absorption. As a result, Ukraine has met the target inflation level of $5\% \pm 1\%$ in 2019-2020.

Figure 4.2. Inflation in Ukraine, December to December, %



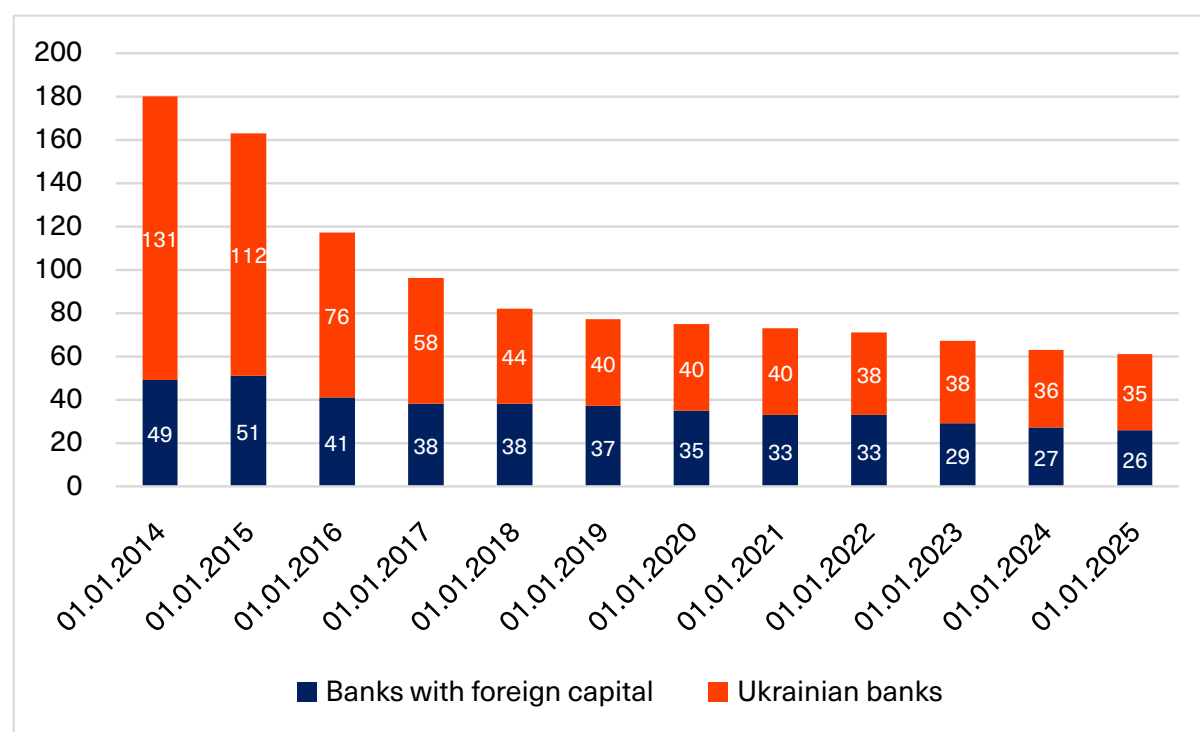
Source: National Bank of Ukraine

Third, new risk management systems and macroprudential tools were introduced to reduce bankruptcy risks. The central bank reformed the banking sector, improving banks' transparency and capitalization, removing non-viable institutions (Figure 4.3), and nationalizing the largest private bank in Ukraine — PrivatBank, despite high costs. The banking sector is one of the few areas in Ukraine where rules had been not only adopted but also properly implemented. This paid off very well: both during the COVID-19 crisis and the

full-scale Russian invasion there was no banking crisis while during previous crises the banking sector suffered a lot.

Structural reforms ensured sound policymaking, and today monetary policy decisions are made in a transparent and accountable way.

Figure 4.3. Number of banks in Ukraine by ownership type



Source: NBU

Fourth, within the framework of e-governance development, the NBU implemented the electronic system BankID to ensure secure remote identification of individuals and legal entities when accessing public administrative services online, as well as enabled banks to use electronic signatures.

2019 and after

After 2019, the central bank focused its reform efforts on institutional development, maintaining macroeconomic stability, developing the financial services market, and digital transformation.

Reform of the Nonbank Financial Services Market

Similar to the reform of the banking system, Ukraine has transformed other sectors of its financial system to increase transparency, efficiency, and alignment with international standards, particularly in light of European integration.

In July 2020, the National Bank of Ukraine received regulatory authority over the nonbank financial services market as a part of the "split" reform. The National Commission for the Regulation of Financial Services Markets was dissolved and regulatory powers divided between the central bank and the National Securities and Stock Market Commission. Consequently, Ukraine transitioned from a sectoral to an institutional regulatory model. The central bank's regulatory and supervisory scope expanded beyond banks to include insurance companies, leasing and factoring companies, credit unions, pawnshops, and other financial institutions.

Simultaneously with the regulatory changes, the central bank transformed itself to effectively interact with its new "wards". Specialized departments such as the Department of Methodology for Nonbank Financial Institutions and the Nonbank Financial Services Supervision Department were created. Other departments (e.g., Licensing, Financial Monitoring, and others) received additional functions related to the non-bank financial sector.

The reform of the nonbank financial services market also implied a fundamental change in the regulation and supervision of market participants. Similar to the banking sector, the NBU practices a preventive approach, using early intervention and corrective measures instead of punitive actions. The central bank conducts risk-based supervision of market participants, considering their societal importance, company size, business model, and individual risk level.

Between 2021 and 2023, Parliament established new "rules of the game" for financial market participants by passing legislation that radically updated the approach to market management, such as the laws "On Financial Services and Financial Companies," "On Insurance," and "On Credit Unions." A range of special sub-legal acts were adopted to implement the norms of these laws, most of which took effect in 2024.

These regulations strengthened requirements for transparency of the ownership structure, corporate governance, and fairplay for market participants. Some requirements applied by the central bank to nonbank financial institutions are the same as were previously introduced for banks. This includes market entry procedures — registration and licensing, requirements for the business reputation of significant ownership and management, corporate governance standards, market behavior, and consumer protection.

Regulation of insurance companies and credit unions was significantly updated, since the laws governing these areas were adopted in the 1990s and by now had become outdated. Regulatory changes introduce a consumer-centric approach, ensuring transparency and integrity of financial service providers, and aligning with international, particularly European, practices (e.g. recently Parliament aligned car and driver insurance to the EU norms).

Specifically, instead of more than 50 types of insurance, 23 insurance classes have been introduced (5 classes of life insurance and 18 classes for non-life insurance). Accordingly,

instead of obtaining a licence for individual types of insurance, an insurer can obtain a licence for an insurance class that covers several types of insurance. An insurance company can modify the scope of its licence by adding new classes or removing classes from the licence. At the same time, companies are not allowed to combine life and non-life insurance services. For registration, an insurance company must provide a three-year business plan, and the NBU approves the executives of insurance companies and persons responsible for key functions to ensure they meet the qualification requirements for professionalism and business reputation.

In the same spirit of aligning regulation with European standards, the [credit union](#) segment has been reformed. Credit unions were allowed to earn profits (previously they had to be non-profit only) and can offer new types of services. Depending on the type of licence — simplified or standard — a credit union either only provides loans in cash or bank metals, or can also attract funds and bank metals on deposit. Upon a specific application, provision of guarantees or payment services (except for interactions with electronic money) can be included in the licence, and a separate licence is required if a credit union wants to conduct currency exchange and/or currency transfers without opening an account.

One of the main innovations is the expanded accessibility of credit unions. Previously, only individuals were allowed to become credit union members. Now members can be individual entrepreneurs and certain legal entities (farmers, cooperatives, primary or local trade unions, religious organizations, homeowners' associations, and micro-enterprises).

The new law improves the management system of credit unions: it outlines general requirements (which were previously absent), introduces changes to the procedure for holding general meetings (for example, allowing remote meetings via video conferences), and requires the establishment of an internal control system (risk management, compliance, internal audit).

Consumer protection has become one of the key financial market reform areas during this period. In this area, the NBU works in three main directions: handling citizen appeals, establishing requirements for financial institutions, and monitoring compliance with legislation, particularly in financial services advertising. All financial institutions must provide accurate, complete, and precise information on their websites without manipulation or complicating consumer understanding. Imposing additional services is prohibited. Violations of financial service provision practices can result in fines.

Initially, the reform envisioned establishing a financial ombudsman office — a mediator to provide out-of-court dispute resolution. However, this draft law was scrapped, and today this role is effectively implemented by the Consumer Protection Department of the National Bank of Ukraine.

Wartime Reforms

The full-scale war forced the central bank to take immediate [measures](#) to maintain the stable operation of the financial system, overcome panic, and preserve public trust.

On February 24, the NBU immediately adopted a resolution on the operation of the banking system during martial law, establishing a series of restrictions. The central bank paused the foreign exchange market, imposed a moratorium on cross-border foreign exchange payments, and limited bank cash withdrawals to UAH 100,000, while leaving cashless transactions unrestricted. Bank branches were to continue operating where it was safe, and ATMs were to be supplied with cash without restrictions. Additionally, certain rules for banks were relaxed, e.g. penalties for violations of reserve requirements and non-submission of reports if they occurred after the start of the full-scale invasion were lifted. Similar measures applied to the operation of the nonbank financial market.

Monetary Policy

In April 2022, the NBU Council adopted the monetary policy [guidelines](#) under martial law. High economic and political uncertainty due to active hostilities made it impossible to stick to inflation targeting and a floating exchange rate. In this document, the NBU stated that during the war, it had abandoned inflation targeting, the use of the key interest rate as the main tool of monetary policy to reduce inflation, and the publication of its macroeconomic forecasts.

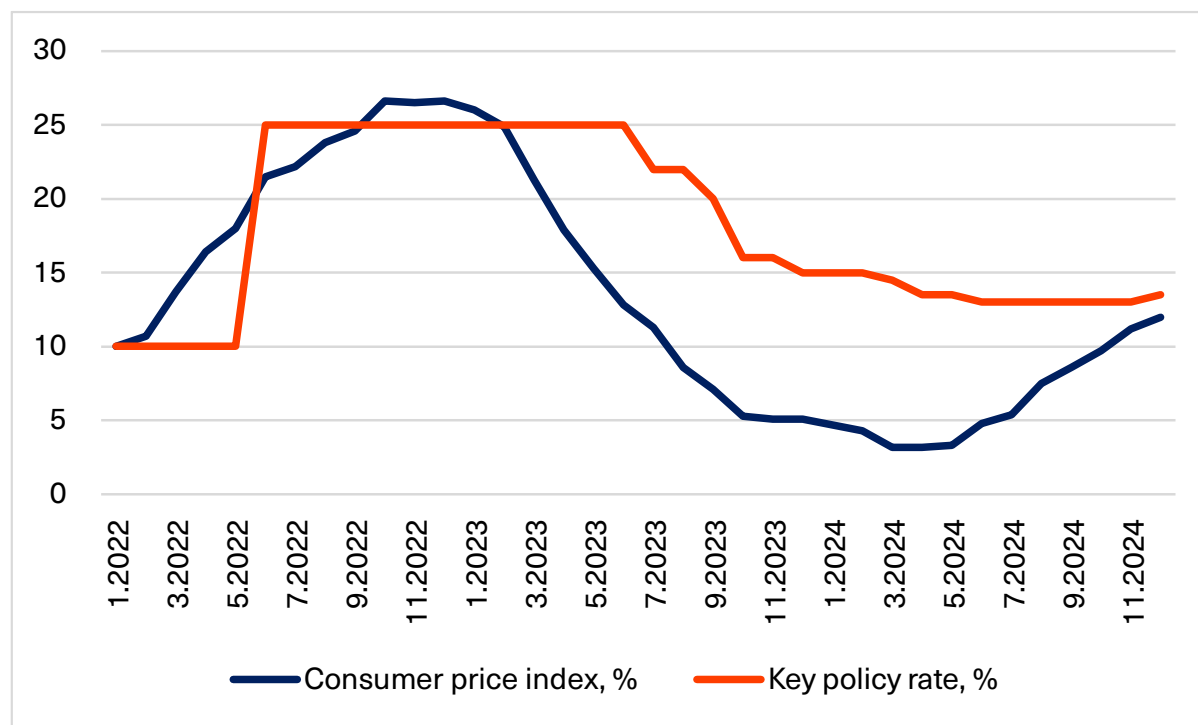
Initially, the National Bank of Ukraine (NBU) held the key interest rate at 10%, but in June 2022, it raised it to 25% to contain inflation because in 2022, as an extraordinary measure, the central bank financed government expenditures. The central bank maintained the key rate at 25% for over a year and started to gradually lower it in July 2023 due to reduced inflation and stable currency market. The NBU plans to return to inflation targeting and lift capital controls when it becomes possible (this is one of the benchmarks of the IMF program).

As the economy adjusts to the wartime conditions, the central bank gradually returns to monetary policy that resembles peacetime policy, while accounting for wartime risks and the need to support economic recovery.

Since the start of the full-scale invasion, Ukraine has received much funding from international partners in the form of grants and loans (Figure 4.5), because its tax revenues sharply declined. At the same time, given the significant needs for financing the war effort, which cannot be covered by external funds and the lack of internal fiscal capabilities, Parliament adjusted the legislation to allow the central bank to finance the state budget by purchasing government bonds from the Ministry of Finance during martial law. The NBU issued UAH 400 billion of funding in 2022 and became one of the largest domestic creditors. In September, 2024, the NBU held about 40% of the domestic debt (Figure 4.6), although at

other times, this share had been higher. The Ministry of Finance will be repaying these debts until the 2050s.

Figure 4.4. NBU Key Policy Rate and Consumer Price Index in 2022-2024, %



Source: NBU

In 2014-2015, at the start of the Russian invasion, the NBU had to finance the budget too. The country paid the price for it in the form of increased inflation — 49% in 2015 and 20% in 2022. In 2023 and 2024 the NBU did not resort to direct budget financing. Hopefully, Ukraine receives enough foreign support to preserve this situation since printing money would exacerbate the economic challenges.

To prevent this, first, the government is working on ensuring the inflow of external financing by fulfilling reform commitments. Second, it develops [policies](#) to increase fiscal revenues, as outlined in the National Revenue Strategy until 2030.

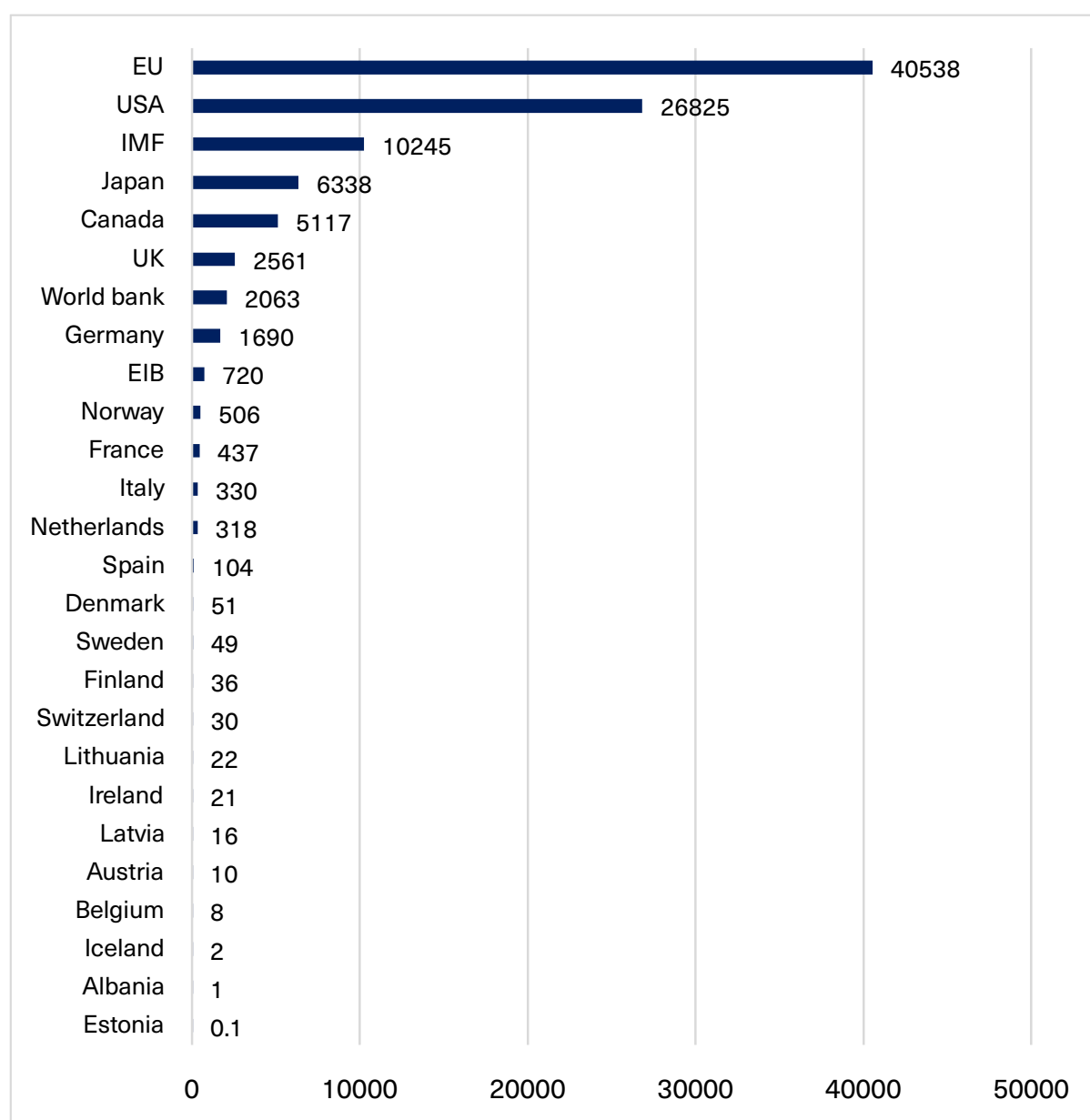
Foreign Exchange Market Regulation

To stabilize the situation, the NBU resorted to administrative restrictions on the foreign exchange market and capital controls. On the day of the full-scale invasion, the central bank fixed the official exchange rate at 29.25 UAH/USD and supported it with strict capital controls to prevent rapid devaluation of the national currency. The central bank initially banned, then limited, cash foreign exchange withdrawals, restricted the purchase of virtual assets, and imposed limits on foreign transactions for purchasing securities.

In addition, the Cabinet of Ministers approved the list of critical import goods — those for the purchase of which importers could buy foreign currency. This list was constantly updated and expanded until it was eventually canceled and replaced with a list of services that could be imported.

Gradually, the NBU eased the restrictions reacting to the war situation and state of the economy. For instance, on July 21, 2022, the NBU devalued Hryvnia by 25% and fixed the exchange rate at 36.57 UAH/USD. Additionally, non-cash foreign currency purchases were allowed for individuals who have term deposits, and in late August 2022, the ban on online currency purchases in banks was lifted.

Figure 4.5. Financing of general fund of the state budget by source, million USD



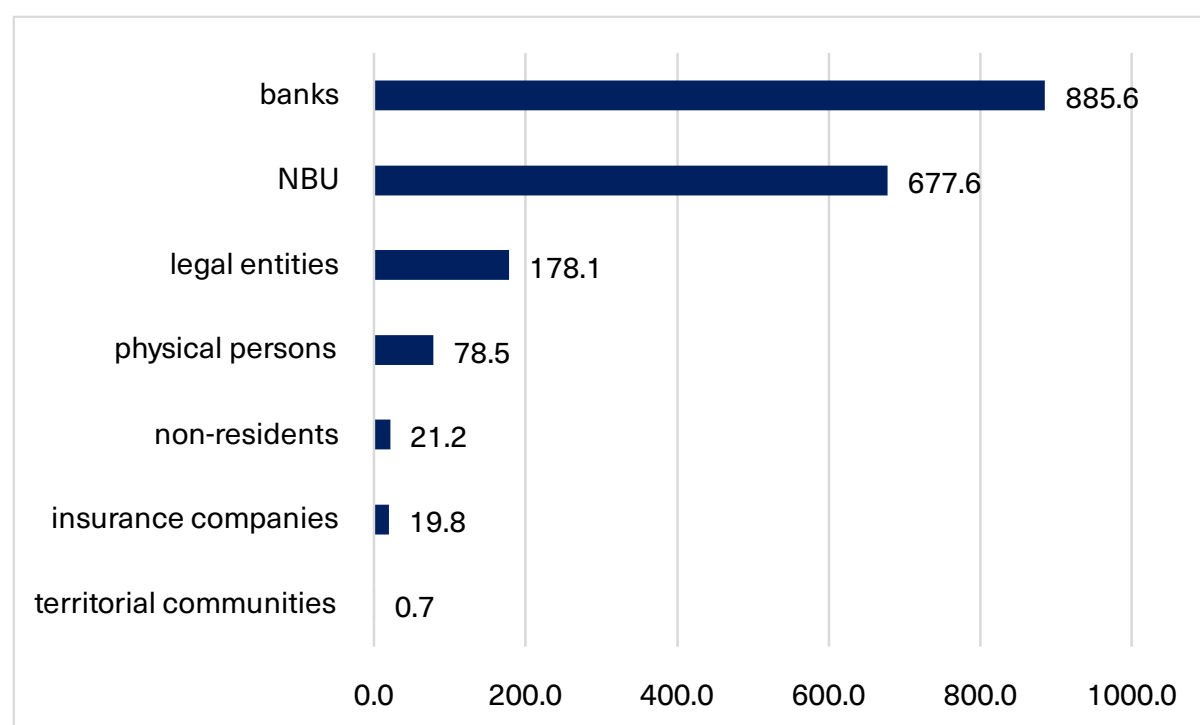
Source: [Ministry of Finance of Ukraine](#)

A significant step towards returning to market instruments was the [introduction](#) of a managed exchange rate float in October 2023, which set the rate based on the situation on the interbank foreign exchange market. The NBU allows the exchange rate to move but smoothes its fluctuations. From December 1, 2023, all restrictions on the sale of cash foreign currency to the public were lifted to reduce the gap between cash and non-cash exchange rates and stabilize exchange rate expectations.

The return to a somewhat flexible exchange rate would not have been possible without the accumulation of sufficient international reserves. In 2023, Ukraine's international reserves increased by 42%, to over USD 40.5 billion. This accumulation of assets is due to financial aid from foreign partners (the European Union, the World Bank multi-donor trust fund, the IMF).

In early April 2024, the reserves reached a record high of USD 43.8 billion. Today FX reserves are substantial but they gradually decline as the NBU uses them to support the exchange rate.

Figure 4.6. Domestic government bonds in circulation by outstanding nominal value as of January 1st, 2025, UAH billion



Source: [NBU](#)

Minimizing Russian influence on Ukraine's financial system

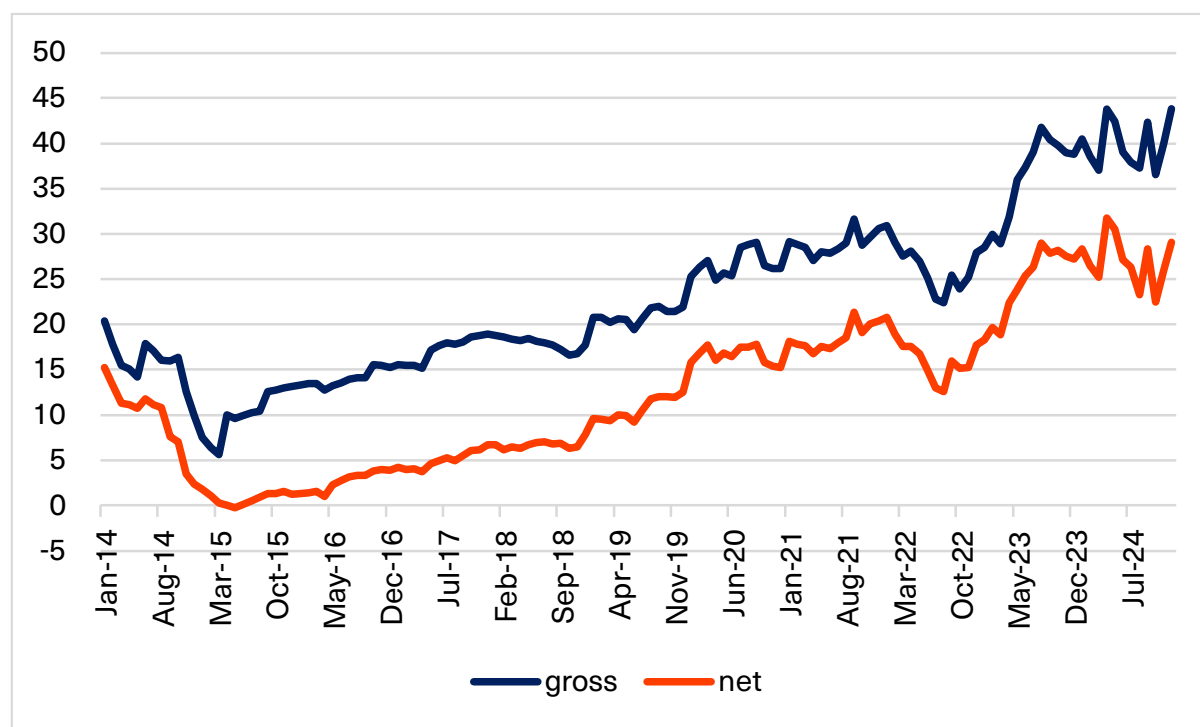
A separate set of restrictions on interactions with the aggressor country was applied. The NBU banned transactions with Russian individuals and legal entities and tightened restrictions on transactions with Russia-related counterparties that were in place before February 24. For them, only transactions supporting Ukraine's Armed Forces remain possible.

Additionally, the NBU allowed to cancel the licences for Russian bank representative offices during martial law, prohibited Russian residents from participating in the management of banks in Ukraine, and refused to provide unsecured refinancing to banks with Russian shareholders.

On February 25, 2022, the regulator issued a resolution allowing the liquidation of Russian-controlled banks. The next day, the National Bank revoked the licences and liquidated banks controlled by Russia — the International Reserve Bank (100% owned by the state-owned "Sberbank of Russia") and Prominvestbank (99.77% owned by the state corporation "VEB.RF").

In May 2022, the National Security and Defense Council decided to confiscate the assets of these banks because they were owned by Russian state structures. Although the process of transferring these assets to the state was quite long, eventually, the funds were used to repay creditors of these banks and to finance the Ukrainian Army. By May 2024, the Deposit Guarantee Fund had sold assets of these banks worth UAH 43 billion.

Figure 4.7. Ukraine's international reserves, billion USD equivalent



Source: NBU

The issue with the systemically important Russian "Sense Bank" (until December 2022 known as "Alfa-Bank") was solved differently. In February 2022, the EU imposed sanctions on its owners Mikhail Fridman and Petr Aven. Meanwhile, the NBU deprived them of voting rights and appointed an external manager to the bank. Later, Parliament approved the laws on resolving systemically important banks during martial law and on the peculiarities of resolving

banks owned by sanctioned individuals, which allowed its nationalization in July 2023. After the war, the regulator plans to privatize this bank along with a few others.

Digital transformation of the financial system

Since 2019, Ukraine has made significant progress in the digital transformation of its financial system. Banks are developing mobile applications and enhancing the functionality of online banking, introducing new digital services available anywhere in the world.

Market participants are developing the fintech ecosystem in Ukraine. To frame this development, the Ukrainian Parliament has passed the laws [on virtual assets](#) and [transfer of funds](#). The latter defines the clear procedure for transfer of funds, the procedure for implementing payment orders, the principles of payment systems operations, and the oversight of payment infrastructure in Ukraine. It also regulates the issuance and use of digital currencies in Ukraine and establishes the rights, obligations, and responsibilities of payment market participants.

Issuers of digital currencies and operators of e-wallets can be not only banks but also other payment service providers who have an appropriate licence (e.g. postal service providers). These wallets enable instant payments, money transfers within Ukraine and abroad, and even utility bill payments.

Ukraine has [implemented](#) the open banking concept — provision (with clients' consent) of continuous access to their accounts and financial information to other payment service providers, which will facilitate the development of new services (applications). This will allow for the rapid, secure, and efficient exchange of information within the network of banks and other payment service providers.

The war has not hindered cashless economy development. [According to the NBU](#), the share of cashless transactions using payment cards reached 65% in 2023, 4 percentage points higher than in the pre-war 2021.

Moreover, since April 2023, the NBU has [launched](#) a new generation of the System of Electronic Payments (SEP NBU), which operates 24/7 based on the international standard ISO 20022. This means that interbank transactions are conducted 24 hours seven days a week without interruption between calendar days. The meaning of this event is comparable to the introduction of the SEP itself in 1993.

Further financial sector developments

Some of the upcoming changes are outlined in the commitment plans that Ukraine sets for itself to continue receiving financial assistance from international partners.

Although capital controls remain in place and the NBU is cautious about relaxing them to maintain the confidence of the financial system, the National Bank needs to develop and publish updated strategies and roadmaps with steps and potential timelines for returning to market-based regulatory instruments. Moreover, taking into account the European integration vector of Ukraine's development, it would be reasonable to peg Hryvnia to Euro instead of US dollar.

Upon market stabilization, it is crucial to reduce the state's share in the banking sector. Currently, state-owned banks hold over 50% of the sector's net assets and over 60% of household deposits. State-owned banks, such as "PrivatBank," "UkrGasbank," and "Sense Bank," must be privatized.

Equally important is recovery of the financial system from the war. The necessary steps include a plan to reduce non-performing loans (NPLs). [Ukrainian banks' NPL ratio](#) gradually declined from 56% in 2018 to 26.7% before the full-scale invasion in 2022. After the full-scale war started, borrowers' ability to pay debts rapidly deteriorated while the NPL ratio reached 39.3% in August 2023 with state-owned banks accounting for the major part of such loans (however, by the end of 2024 NPL ratio declined to 30%). [Combining](#) a decentralized approach (which was used by Ukrainian banks after the 2008 crisis and worked quite well) with some elements of centralization, e.g. a "bad bank," would be advisable. The final decision will depend upon the scale of destruction when the war ends.

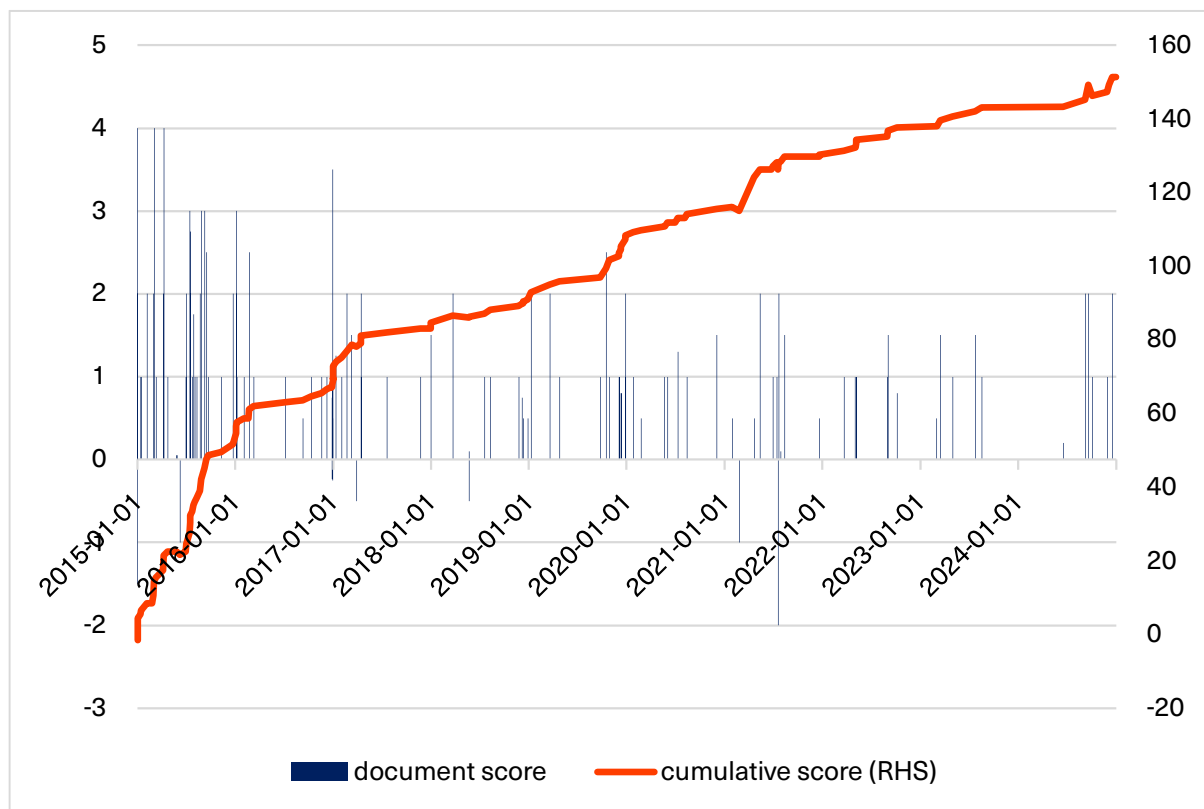
Reforms in the nonbank financial services market should continue, primarily in the insurance segment, especially with regard to war-risk insurance. Taking into account Ukraine's exceptionally high financing requirements, the resilience of the banking system and financial sector in general is critical for survival and recovery of the country.

5/*PUBLIC FINANCE*

In 2014, problems in public finance management were very [severe](#): there was an absence of fiscal rules, de facto [pro-cyclical](#) fiscal policy (during times of economic recession, the government had to reduce expenditures, and during periods of economic expansion, it increased them, i.e., government policy deepened crises instead of mitigating them), regressive taxation (because oligarchs could get tax privileges), and inefficient use of public funds, including due to corruption.

Fiscal policy reforms implemented since 2014 can be divided into several broad interconnected areas. The first area is the extension of the economic policy horizon (introduction of medium-term budget planning) and the *de-facto* introduction of program budgeting with clearly defined policy goals and monitoring of their achievements (although legally it was introduced more than 20 years ago).

Figure 5.1. Reforms in public finance in 2015-2024, Reform Index data



Note: The cumulative score is the sum of event scores. Event scores are derived from surveys conducted with [Reform Index](#) experts

The second area of reform centers on increasing tax and customs revenues through better administration, less tax exemptions, and fewer opportunities for tax evasion. For this, Ukraine joined global initiatives to combat tax base erosion and profit shifting (BEPS). At the same time, the rates of some taxes were lowered (the largest reduction being in the Unified Social Contribution) and the number of taxes was reduced.

The third area relates to improving efficiency in government expenditures, via public procurement reform (discussed below), decentralization (Chapter 2), healthcare reform (Chapter 14), energy market reform (Chapter 7), social support system reform (Chapter 12), and reform of state-owned enterprises (Chapter 11). Efforts to ensure the efficiency of public spending are facilitated by a significant increase in the transparency of public expenditures, such as by publishing detailed information on the budget and expenditures of public fund managers, introducing spending reviews, and increasing the powers and independence of the Accounting Chamber of Ukraine (ACU). Moreover, since 2014, Ukraine has been improving public debt management: it designated a special official (deputy Finance Minister) responsible for public debt management, and, before the full-scale invasion, gradually replaced foreign currency debt by domestic bonds.

All of these reforms were implemented with significant support from Ukraine's civil society and international partners (e.g., the long-term project by the [European Commission](#) to improve public finance management, a similar [project](#) by the World Bank, and support for the development of Prozorro and Prozorro.Sales from a number of donors).

Despite significant progress, Ukraine still has a lot of ground to cover in the next few years to improve the quality of public financial management, particularly within the framework of the Ukraine Facility plan and IMF program.

Public finances are closely linked to every area of government policy. Therefore, in this Chapter, we focus on the tax system, the budget process, and public procurement. Fiscal decentralization is discussed in detail in Chapter 2, customs reform in Chapter 9. More generally, reforms discussed in all Chapters of this book affect the budget in one or another way.

In 2014, Russia began its military aggression against Ukraine and occupied part of its territory. As a result, Ukraine lost 16% of its GDP in 2014-2015, primarily due to a decline in exports. However, the war and the resulting decrease in production capacity were not the only causes of the economic and budgetary crisis in 2014. Another factor was the economic policy of previous governments, particularly imbalances in the energy sector (due to which the government had to [subsidize](#) NJSC Naftogaz, the state-owned gas extraction and distribution company), fixed exchange rate (causing central bank reserves to fall to their lowest point in early 2015), and orientation of the state apparatus towards serving the interests of former president Yanukovich and his inner circle. The critical situation in the economy and public

finances forced the government not only to sign a fairly ambitious program with the IMF but to actually implement it. Hence a “spike” of reforms in early 2015 was observed in almost all areas.

In February 2015, Ukraine signed a four-year program with the IMF for a USD 17.5 billion loan (the previous program, signed in April 2014, was only for [USD 1.4 billion](#) and did not cover Ukraine's needs) and began to promptly implement reforms which we discuss below. An urgent measure within the IMF program was fiscal consolidation, which involved cutting unnecessary budget expenditures, including subsidies and privileges, notably energy subsidies for *all households* in the form of low tariffs (see Chapters 7 and 12). For 2015, the government introduced an additional import duty — 10% on food products, alcoholic and non-alcoholic beverages, and tobacco, and 5% on other goods, excluding energy resources and certain medications (at the same time, Parliament [exempted](#) imports of goods necessary to implement state defense orders from taxes and duties).

Reforms in public finance from 2014 to 2019

Reforms of the Tax System and Tax Administration

At the end of 2014, Parliament passed a “last-minute” [tax reform](#) and a law on [transfer](#) pricing to reduce tax evasion (this law was later [softened](#) to make it applicable in practice). The main features of the tax reform were as follows:

- the number of taxes and fees was cut from 22 to 9, which reduced administrative burden on businesses;
- tax rates for the simplified taxation system were lowered from 3-5% to 2% for VAT payers and from 5-7% to 4% for everyone else, and a two-year moratorium on tax inspections for these businesses was introduced. Later, the rates were increased to their original levels. Today, taxpayers on the simplified system pay either a fixed amount tied to the subsistence minimum, or 3% or 5% of their income plus the Unified Social Contribution (USC) — 22% of at least the minimum wage. For farmers (group 4 of the simplified system), taxes depend on the type of land and crops that they cultivate. At the same time, the vast majority of taxpayers on the simplified system (except for very small vendors operating in local markets or public spaces), had to install equipment for the issuance of receipts in 2016; due to resistance from businesses, this became mandatory later on;
- an experiment [reducing](#) the Unified Social Contribution (USC) rate from 41% to 16.4% for businesses that increased wages by 30% and de-shadowed salaries, i.e. stopped paying salaries “in envelopes” (in 2016, the USC rate was set at 22% for everyone). Meanwhile, the social insurance funds for sickness and disability were merged into one, and in 2023, it was merged with the Pension Fund;

- an increase in tax rates on interest, dividends, and royalties for enterprises from 15% to 20% (tax rate for dividends paid by corporate taxpayers remained at 5%);
- the introduction of a local property tax tied to the minimum wage. Owners of apartments over 60 m² and houses over 120 m² are required to pay this tax. However, local authorities largely failed to establish effective systems for collecting this tax;
- the allocation of a share of excise taxes on tobacco, alcohol, and fuel to local budgets;
- the introduction of a luxury car tax — UAH 25,000 per year for passenger cars less than 5 years old with engines larger than 3 liters. Later, this tax was replaced by an excise tax, the rate of which depends on the engine size. Additionally, when a car is first registered in Ukraine, one has to pay a fee to the Pension Fund. The rate of the fee is 3% or 5% depending on the price of the car;
- increased taxation of lotteries from 10% of the total prize to 10% of total revenues.

At the end of 2014, the government [implemented](#) a mini-tax amnesty: During the first quarter of 2015, taxpayers were allowed to "adjust" their corporate profit tax and VAT obligations accrued before April 1st, 2014, and pay to the state 5% of the "adjusted" sum.

In the next few years, the government made several more "Christmas" changes to the tax system, i.e., simultaneously approving the budget for the upcoming year and the law on tax changes that would increase budget revenues. Although the Budget Code states that tax changes must be approved at least six months before they enter into force, bundling the budget law with tax law allowed for the adoption of necessary changes without lengthy political discussions.

In 2015, the government [started](#) the transition from manual VAT refunds (which was one of the main sources of corruption) to automatic refunds through an electronic system called SMKOR; generally, the government streamlined the [administration](#) of this [tax](#). In early 2016, the government created two registries for collecting VAT refund applications — one for companies whose exports exceed 40% of their annual turnover, and another for other companies. In early 2017, these registries were [merged](#) into one, and automatic VAT refunds finally began to function.

Tax administration can block the electronic VAT invoices based on risk criteria (if tax inspectors suspect that a certain operation is fictitious or used for tax evasion). However, at the end of 2022, there was a [massive](#) blocking of invoices in the system, which adversely affected businesses. Some businesses [reported](#) that tax officials proposed to "solve" their problem in exchange for a bribe, while the taxation service pointed to an increase in the share of suspicious operations as the reason for this issue. The problem was [mitigated](#) by adjusting the rules for blocking VAT invoices.

In 2015, other anti-corruption changes to the tax system were implemented. The Ministry of Finance **canceled** a scheme involving overpayment of profit tax introduced by Yanukovych's government. It consolidated the accounts on which enterprises transferred advance and "post-factum" tax payments, thus allowing these amounts to be offset. That same year, the government **simplified** the registration process for foreign companies, **introduced** a flat income tax rate (18% instead of 15% and 20%), increased excise taxes on tobacco, alcohol, and fuel, and began phasing out VAT exemptions for agricultural enterprises (see next section).

At the same time, the government reduced taxation for charitable and religious organizations. In 2015, the government **canceled** the profit tax for non-profit organizations (budgetary institutions, NGOs, political parties, creative unions, charitable organizations, etc.). In 2016, humanitarian aid provided by these organizations was **exempted** from taxation as well. In 2017, religious organizations were **exempted** from property tax (except for land), which was a negative change since such organizations are fully capable of paying the taxes in question.

In May 2016, the government effectively abandoned the long-standing system of supporting domestic car manufacturers through high taxes on imported used cars (despite receiving billions of hryvnias in direct and indirect support since the early 2000s, the Ukrainian automotive industry never developed). The government **reduced** the excise tax on used cars by 10-20 times if a person is importing a car for personal use (i.e., no more than one per year). However, other taxes on imported cars (VAT, customs duty, Pension Fund contribution, transport tax) remained, which eventually led to the import of many cars with European licence **plates**. Since it was possible to use a "European" car in Ukraine for a year, owners of used cars purchased in the EU would periodically exit and re-enter the country, registering their cars as transit. At the end of 2018, Parliament significantly **reduced** the excise tax on cars once again, eased environmental restrictions, and simultaneously increased penalties for those who did not register their cars in Ukraine within the prescribed time.

At the end of 2016, Parliament **introduced** an electronic taxpayer cabinet thus enabling online tax payments. At the same time, the government tried to partially recover USC payments which in 2016 **fell by 30%** due to the lower USC rate. For this, it increased the minimum wage from UAH 1600 to UAH **3200** (since the USC payment per worker could not be lower than 22% of the minimum wage) and obliged even "idle" individual entrepreneurs (i.e., those without any business activity) to pay the USC.

In 2017, to prevent evasion of the excise tax on fuel, the government **introduced** an electronic reporting system: fuel producers and distributors were obliged to use special software to provide information about their fuel stocks to the Unified State Register of Meters and Counters administered by the State Fiscal Service.

That same year, Ukraine joined the BEPS (Base Erosion and Profit Shifting) Action Plan developed by the OECD, and in 2019, it [ratified](#) the BEPS convention. However, the necessary [changes](#) to the Tax Code were only made by the next Parliament in 2020.

At the end of 2017, Parliament started [increasing](#) excise tax rates on tobacco products in line with Ukraine's commitments to the EU and allowed imports of electric vehicles without VAT payment for five years (i.e., until the end of 2022. Later, this exemption was extended until the end of 2025).

At the end of 2018, the government [raised](#) the environmental tax rates but also introduced negative changes, including the reinforcement of the "Yatsenko marketplaces" scheme (individuals could not buy or sell real estate without first obtaining price estimates from these marketplaces; this scheme was [scrapped](#) by the next Parliament in December 2019) and the expansion of the state support program for farmers to purchase railway cars for grain transportation.

Tax privileges and subsidies

Traditionally, the agricultural sector received the most tax exemptions and subsidies: in 2014, tax exemptions for agricultural producers amounted to about [UAH 20 billion](#) (nearly 1.3% of GDP). The largest share of those were VAT exemptions — the sums that agricultural enterprises should have paid to the budget as VAT were accumulated in special accounts and could be used by agricultural enterprises for their development. Such support was both opaque and ineffective. A more beneficial approach to supporting the agricultural sector was opening the land market (which simplified access to credit for farmers — see Chapter 10), support for innovation, R&D, and education in this field, and protection of property rights for land and intellectual property (such as local trademarks).

The cancellation of VAT privileges proceeded in stages. In 2016, grain and technical crop producers [started](#) transferring 85% of their VAT obligations to the budget; milk and meat producers transferred 20%, and others transferred 50%. By 2017, VAT exemptions were replaced with direct subsidies. This sparked a heated [public debate](#), as it became evident that the largest producers (the so-called agro-oligarchs) received the largest subsidies. Large producers had also been the primary beneficiaries of previous tax privileges, albeit the sums of those privileges were hidden from the public.

Afterwards, the government made several adjustments to farmer support programs. For instance, in 2017, it started to [partially](#) compensate farmers for the cost of agricultural machinery produced in Ukraine. In 2018, small farms were allowed to register as 4th group of individual entrepreneurs and receive compensation for their USC from the state (group 4 of the simplified taxation system refers to farming enterprises that own between 2 to 20 hectares of land or water objects and farm agricultural products or fish. They pay taxes as a certain

percentage of the normative land value). During the pandemic, farmers became the **primary** beneficiaries of the subsidized loan program “5-7-9%.”

The agricultural sector is not the only industry benefiting from tax exemptions and privileges. For instance, in 2016, the government decided to support aircraft production by **exempting** imported goods used for aircraft construction from VAT and **canceling** the VAT exemption for imports of aircraft such as those brought to Ukraine under lease agreements. The most promising development was the launch of serial production of the Antonov An-178 transport aircraft. Although contracts were signed for **about 100** units, production of this aircraft never started.

Overall budget losses from various tax benefits were almost **halved** during 2015-2016, from UAH 55.35 billion to UAH 30.26 billion. However, starting in 2018, these losses began to increase again.

The government attempted to streamline public support for enterprises and public investment management. In 2015, it **introduced** Public Investment Projects to the Budget Code and specified their competitive selection. In 2017, it **provided** more details on selection, financing, and state support for investment projects, and obliged the Ministry of Economy to compile a registry of these projects and estimate their economic effect. In 2018, the government **specified** the list of services of general economic interest, allowing producers of these services to qualify for state support. However, the system of public support for businesses remains quite **complicated**. For example, it is difficult to understand why a given firm received public funds as state support rather than via government procurement of its goods or services.

Additionally, the government changed conditions and privileges for firms that operate in industrial parks a few times (see details in Chapter 6).

Reforming the Tax Service

The tax and customs services were **merged** into a single entity in 2012 (in 2013-2014, this entity even had the status of a ministry). After 2019, they were divided again.

In 2014-2015, the Cabinet of Ministers **reduced** the number of tax inspection offices from 311 to 161 and dismissed many tax officials under the law on lustration. Since 2021, the Tax Service has **operated** as a single legal entity, rather than as a union of several legal entities in order to improve its management and reduce corruption. However, problems with the administration of taxes and customs duties remain on the agenda. According to the business ombudsman, the **majority** of complaints are about the actions of tax authorities. One of the reasons for that is that compared to other countries, tax administration in Ukraine is quite **complex** and time-consuming.

Customs reform is described in Chapter 9 on international trade.

Budget planning

Before 2014, budget planning faced significant [challenges](#). The budget was often approved well outside the deadlines set by the Budget Code. Throughout the year, Parliament used to introduce numerous amendments to the budget, and the government had to find additional funds to implement them. Moreover, although program-based budgeting was formally introduced in the early 2000s, [in practice](#), the goals of many budget programs were neither measurable nor clearly defined. Thus, many programs were financed “by inertia” without consideration of their social effect.

Gradually, Parliament and the government began addressing these issues. Since 2015, Parliament has been allowed to [suggest](#) changes to the budget that alter its key parameters (revenues, expenditures, and deficit) only with the approval of the Ministry of Finance and the Budget Committee of the Verkhovna Rada.

In 2017, medium-term budget planning was [introduced](#), but Parliament did not approve the three-year budget declarations that the government developed in [2017](#) and [2018](#). In December 2018, the parameters of the budget declaration (a three-year document containing the main budget parameters and fiscal policy objectives) were [clarified](#), and fiscal rules were introduced — limits on the budget deficit at 3% of GDP, and limits on state guarantees at 3% of general fund revenues (previously, governments had abused this practice: they issued public guarantees, and when enterprises did not repay loans, the state would cover the debt). The limit on the amount of state debt at 60% of GDP was introduced earlier.

In 2019, due to successful debt management policies (see section on public debt management below), Ukraine's state debt decreased to 50% of GDP. However, during the pandemic and the full-scale invasion, both the budget deficit and debt limits were exceeded, and the Parliament had to pass separate laws to allow this (see Figure 5.2). The first budget declaration was approved in 2021 (for [2022-2024](#)), and the next one was adopted [in 2024](#). Thus, despite significant uncertainty, Ukraine returned to medium-term budget planning.

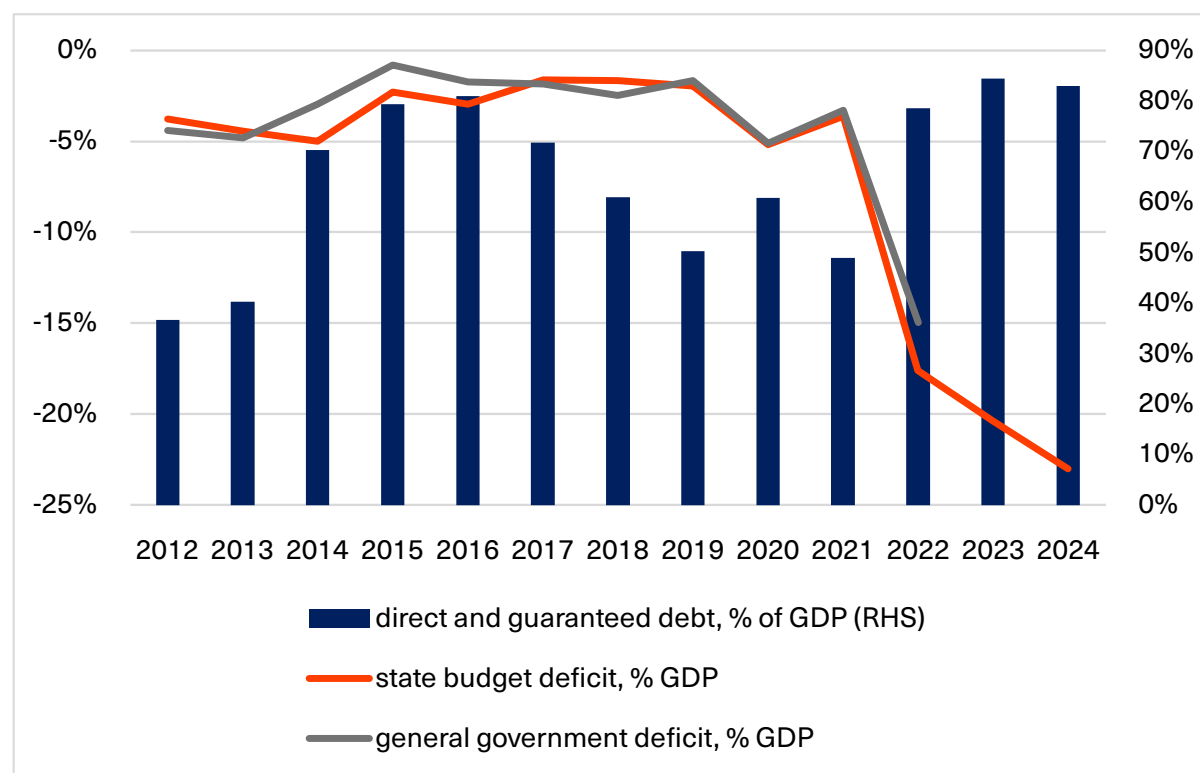
In 2018-2019, the Ministry of Finance [launched](#) the first comprehensive [assessment](#) of fiscal risks. Identifying fiscal risks helps to anticipate potential shortfalls in planned revenues or exceeding expenditures due to unpredictable or weakly predictable factors, such as poor harvests, global economic crises, changes in the policies of Ukraine's trade partners, etc., and to plan measures to mitigate the impact of these risks if they materialize.

Oversight of public funds

Since 2015, the government has significantly increased the transparency of public funds use: they [created](#) the [eData portal](#), which provides information on transactions of public entities

with just a one-day delay, obliged entities that spend public funds to [publish](#) information in open data formats, and later launched a citizen budget [portal](#), where data about revenues and expenditures of various budgets can be viewed in a user-friendly format. As a result, Ukraine scored [54 points](#) in the Budget Transparency Index in 2017, compared to 46 in 2015.

Figure 5.2. Public debt and budget deficit, end of period

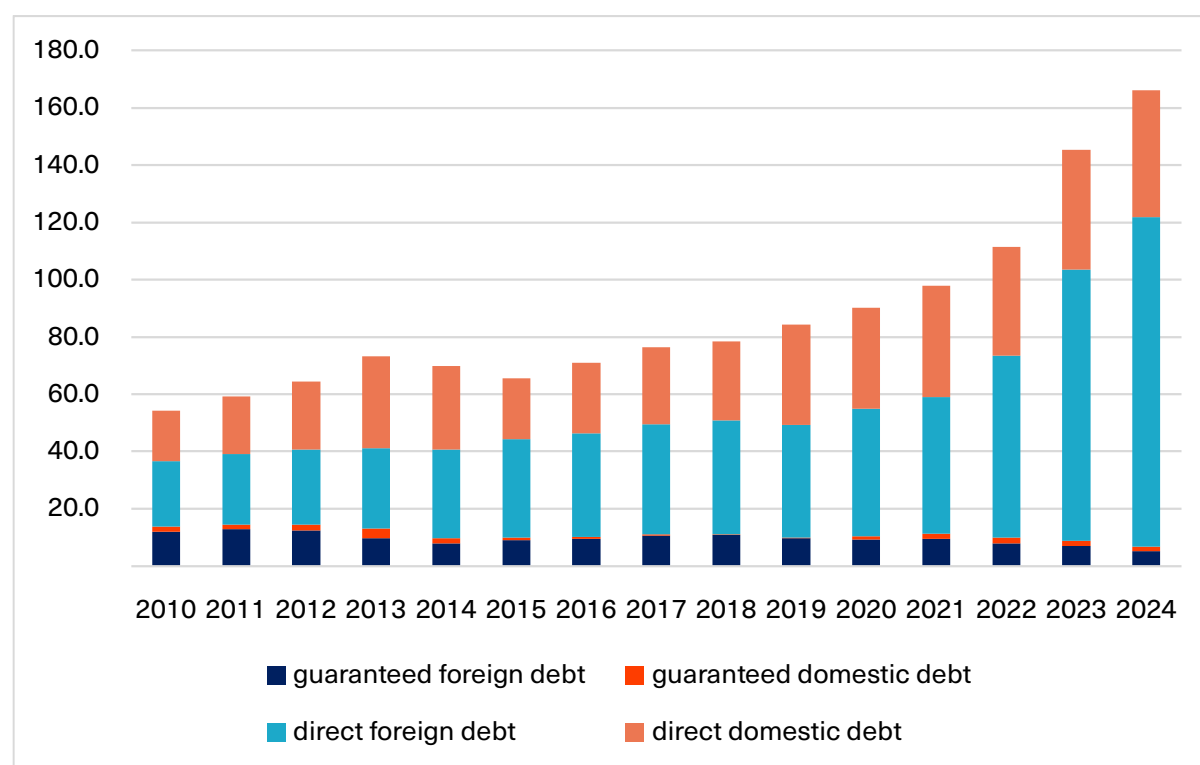


Source: Treasury and IMF reports

In August 2015, the Verkhovna Rada [introduced](#) a ranked voting system for selecting Accounting Chamber (ACU) members and tasked the Chamber with auditing not only public expenditures but also revenues, public procurement, implementation of public investment programs, and use of foreign loans. However, the main issue — the lack of a mechanism to ensure that government agencies implement ACU recommendations — was not resolved by this law.

In February 2018, the government [introduced](#) spending reviews as an instrument of budget funds management that assesses the efficiency and effectiveness of expenditures. However, the practical implementation of this tool is rather slow. For example, in 2019, five public agencies were supposed to implement spending reviews, in 2020 — eleven, in 2021 — twelve, in 2023 — seven (while the Ministry of Energy was supposed to complete a review that started in 2019), and in 2024 — fifteen. We were able to find 18 completed spending reviews on the websites of various government agencies. In 2020, the Ministry of Economy approved the [methodology](#) for assessing the effectiveness of budget programs, which is to become a part of the spending reviews.

Figure 5.3. Structure of public debt, end of period, billion USD



Source: Ministry of Finance

Public debt management

In 2015, Ukraine implemented a crucial and generally successful [restructuring](#) of its public debt. This restructuring involved a 20% haircut and replacement of “regular” government bonds with GDP warrants, on which the interest rate depends on GDP growth.

For more detailed information on the topic, see our articles on [GDP warrants](#) and [Ukraine’s public debt](#).

To improve public debt management, in 2015 the government designated an [official](#) (the Deputy Minister of Finance) responsible for public debt management. In 2019, it [created](#) the debt management agency (which is still not operational). In 2019, Ukraine joined the [Clearstream](#) system, which made it easier for foreigners to access Ukrainian government bonds.

Overall, the public finance reforms implemented during 2014-2019, together with budget discipline, allowed the government to finally implement [countercyclical](#) fiscal policy during the next crisis — the 2020 pandemic. The government was able to increase public spending to support the economy at the cost of higher public debt.

Fiscal policy in 2019-2024

The new government and Parliament elected in 2019 continued the reforms started in 2014, including changes in tax administration (mainly digitization), the introduction of some new taxes, and changes in tax rates. They also introduced several tax privileges (for farmers, charities, residents of Diia.City) and a subsidized loan program for businesses called “5-7-9%.”

The new government implemented a more [extensive](#) tax amnesty, which lasted from September 2021 to [March 2023](#). The idea was that people who declare previously undeclared assets (real estate, cash, precious metals, etc.) would be able to pay a tax of 5% or 9%, or 2.5% if they invest in government bonds. However, amnesty results were rather modest. The government [expected](#) that Ukrainians would declare USD 20 billion worth of assets and pay about USD 1 billion in taxes for them but in reality, they declared UAH [8,8 billion worth](#) of assets (about USD 250 million), on which they paid UAH 547 million in taxes (about USD 16 million). This is not surprising given that conditions for a successful amnesty were not in place — the people did not trust that the “rules of the game” had changed for good.

Changes in tax administration

On the one hand, the government has simplified tax administration and on the other hand it implemented measures to reduce tax evasion. For example, in 2019, the government [consolidated](#) reporting for personal income tax (PIT) and the Unified Social Contribution, [allowing](#) taxpayers to use a single account for tax payments (excluding VAT and excise) and the USC. At the same time, the government [continued](#) to implement the BEPS plan — introducing taxation of controlled foreign companies (CFCs) and expanding the list of payments considered dividends (and thus subject to taxation). At the end of 2022, Parliament [stated](#) that if the effective management of a foreign company is located in Ukraine, such companies must register as profit tax payers. Taxpayers were given the opportunity to request individual consultations from the tax authority by e-mail and to extend the deadline for appealing tax authority decisions for valid reasons.

At the same time, the government used a "carrot and stick" method to promote wider use of cash registers. It allowed the use of [software-based](#) cash registers and electronic receipts while at the same time increasing fines for failing to issue receipts and introducing cashback policies for customers who reported non-compliance by sellers. At the end of 2021, the government [exempted](#) entrepreneurs operating in rural areas from the mandatory use of cash registers due to unstable internet/mobile connection. These measures were effective: [according to](#) OpenDatabot, a startup that collects and aggregates open data produced by government agencies, between January 2021 and March 2024, the total number of cash registers in Ukraine increased by 2.5 times. The number of "traditional" registers slightly

declined (from 298,000 to 273,000), while the number of software-based registers increased significantly (from 59,000 to 604,000).

For a long time, the most "shadowed" sectors were the production and circulation of alcohol and fuel. To de-shadow these sectors, at the end of 2019, the government somewhat [simplified](#) the administration of excise duties on alcohol and fuel: it extended the deadline for submitting an excise invoice from 2 to 15 days, allowed for the correction of excise invoices, and clarified their template. Soon afterwards, information on stocks of fuel and ethyl alcohol was [transferred](#) to electronic format. This allowed tax authorities to automatically check the stock data, and taxpayers could see the results in their electronic cabinets.

In June 2023, Parliament took another step towards de-shadowing: it introduced [e-Excise](#) for alcohol and tobacco — an electronic excise stamp [system](#) that can track the entire supply chain of these products. In October 2024, the Cabinet of Ministers approved the [procedure](#) for calculating the excise payable on produced or imported goods in line with EU regulations. This allows the state to monitor whether all taxes are paid, and consumers will be able to verify the authenticity of products through the Diia app. As of December 2024, this system has not yet been implemented, but allegedly the size of the shadow market for alcohol and tobacco has somewhat [decreased](#). From April 2025 until January 2030, Ukrainian alcohol producers (except for those producing exclusively bioethanol) will pay excise taxes [based](#) on their maximum production capacity, so that producers cannot evade excise tax by underreporting their output.

Tax privileges

During the COVID-19 pandemic, the government provided some tax relief for entrepreneurs by [exempting](#) individual proprietors from paying the Unified Social Contribution for months when they had no income, effectively canceling the requirement introduced in 2016. The most significant change, however, was the simplification of closing a sole proprietorship. Entrepreneurs were allowed to write off tax debts if they had ceased operations since 2017 but had not officially closed their business due to the complexity of the procedure. These measures provided significant relief for individual entrepreneurs affected by the pandemic. In addition, the government [introduced](#) temporary tax discounts on income, real estate, and land taxes, and increased unemployment benefits.

In 2021, the government reduced [VAT rates](#) for certain types of agricultural products (according to the government, this was done to combat VAT "optimization," though experts from the Reform Index assessed this change [negatively](#) as it introduces unequal rules for different producers).

In the same year, Parliament passed the so-called "[Investor Nanny](#)" law, which introduces tax benefits for large investment projects (over EUR 20 million). The government can provide businesses implementing such projects with exemptions from customs duties and profit tax,

as well as offer land plots and provide infrastructure for these projects. However, the first [contracts](#) under this law were [signed](#) only in October 2024.

In September 2021, Parliament passed [the law](#) on the [digital](#) economy, which created a special tax regime, Diia.City, and introduced [tax privileges](#) for its residents. Companies operating there can choose to pay either the standard 18% profit tax or a 9% distributed capital tax. Additionally, the personal income tax rate is 5% (instead of 18%, as under the general system), and the Unified Social Contribution is 22% of the minimum wage (rather than the actual wage, as under the general system). To become a Diia.City resident, a company must pay employees or GIG specialists an average salary of at least EUR 1200 per month, employ at least 9 workers (excluding individual entrepreneurs), have been operating for at least 2 years, and have an annual revenue of at least 1167 minimum wages (in 2024, UAH 933.6 million).

This law is rather controversial, as it effectively legalizes reduced taxation for highly paid IT specialists. At the beginning of 2025, there were [over 1,500](#) companies in Diia City with nearly 100,000 employees.

Just before the full-scale invasion, the government decided to support science in Ukraine by exempting the import of equipment for scientific institutions from customs [duties](#) and [VAT](#).

After the start of the full-scale invasion, in March 2022, the government introduced significant tax relief for a wide range of businesses — even those that did not require such support, like the gambling industry. In particular, all businesses were allowed to switch to a simplified tax system and pay 2% of their turnover instead of the profit tax. This had a [negative](#) impact on budget revenues, so over time, the government began to return to the "regular" tax system. More details can be found in our reviews published in [May](#) and [October](#) 2022.

To encourage charitable activities (including support of the Armed Forces), Parliament created a tax exemption for money donated to [charities](#) or [volunteers](#). It also exempted the expenses of non-profit organizations related to volunteer travel, medical treatment, and humanitarian aid provided by charities.

Subsidies

In January 2020, the government introduced the "[5-7-9%](#)" program — subsidized loans for micro and small businesses (5% for businesses with annual revenues up to UAH 25 million that create at least two jobs within three months of receiving the loan; 7% for companies with revenues up to UAH 25 million; and 9% for enterprises with revenues up to UAH 50 million). Additionally, the government could provide partial loan guarantees to micro and small businesses. However, this program almost never functioned as intended. During the pandemic, it was quickly expanded to include medium-sized enterprises (some even received loans at 0%), and during the full-scale invasion, nearly all enterprises could get subsidized

loans. This program helped many small and medium businesses survive during the pandemic and full-scale invasion. However, funds for this program ran out fairly [quickly](#), and now the government, with the support of international partners, is restoring it to its original parameters.

In 2020, the government [created](#) the Agrarian Register, which effectively became operational in 2024. Through this register, farmers can apply for state support. In 2021, Parliament introduced partial loan [guarantees](#) for small and medium-sized farmers, subsidized [insurance](#) for agricultural businesses, and after the start of the full-scale invasion, exempted farmers from paying taxes on mined, occupied, or contaminated lands (a logical step, as they cannot use these lands).

Moreover, the government introduced a subsidized [mortgage](#) program at 7%, administered by the Entrepreneurship Development Fund, like the "5-7-9%" program. After the full-scale invasion, this program under the name eOselya was transferred to the state-owned enterprise "Ukrfinzhytlo." Before the full-scale invasion, few people used subsidized mortgages, but afterward, [nearly all](#) newly issued mortgages have been subsidized. As of early 2025, [over 15,000](#) mortgages were issued within the eOselya program totaling nearly UAH 25 billion.

In the spring of 2023, Parliament [launched](#) the eRecovery program, which provides compensation for destroyed or damaged property: citizens can receive compensation for the renovation of a damaged house or a certificate to purchase new property. The government hopes that the funds spent on this program will be reimbursed either through international donors or through reparations. At the moment, [compensation](#) is provided only from donor funds and the state budget. According to official information, from May 2023 to October 2024, tens of thousands of people received compensation for renovations or new housing totaling nearly [UAH 16 billion](#).

Introducing new taxes or raising the rates of existing ones

In June 2021, Parliament [introduced](#) the so-called "Google tax," which imposes VAT on non-resident companies providing electronic services in Ukraine (excluding remote learning). If an electronic services provider earns more than UAH 1 million annually, they are required to register as a VAT payer and pay the respective tax. In 2023, Ukraine received nearly [USD 110 million](#) from this tax, and in the first half of 2024, it amounted to USD 70 million.

In December 2021, as part of the "budget package," several taxes were [increased](#): the excise tax on tobacco products, rent payments for extracting natural resources, the environmental tax, and a minimum tax liability was introduced for landowners (excluding garden plots, private household plots, and land in occupied territories or on the front line).

However, the most significant tax increases were introduced at the end of 2024: during martial law, the military surcharge was raised from 1.5% to 5% of salary (excluding military

personnel), while individual entrepreneurs will pay the military surcharge either as a lump sum or as 1% of their income. In addition, banks will continue to pay profit tax at a 50% rate, as they did in 2024, and for financial companies (excluding insurance companies), the rate was raised to 25% (the standard profit tax rate is 18%). For fuel sellers and currency exchanges, advance payments were introduced, and rent rates for the extraction of certain minerals were increased. This tax hike is necessary to finance defense efforts. In 2025, due to this law, the budget is expected to receive an additional [UAH 140 billion](#), which is 2.5 times less than under the original version of the law.

The "Big Construction"

The Road Fund was [re-established](#) in the budget in 2016. It is a separate fund within the special budget fund. Its revenues are excise taxes on fuel and vehicles, custom duties on imported fuel, cars, and tires, fees for the use of roads by heavy vehicles, and fines for exceeding weight limits. This fund finances the construction and repair of roads, as well as the repayment of loans taken out for road construction. Thus, the Road Fund is an instrument by which road users finance the construction and repair of roads.

"Big Construction" (primarily road construction) became a true "mega-project" of President Zelenskyy and his party. To make it possible, at the end of 2019, the Verkhovna Rada [introduced](#) medium-term budget planning for road construction and [canceled](#) the requirement to obtain approval from the parliamentary Budget Committee for the list of road construction projects (meaning the Cabinet of Ministers can compile the list of these projects without parliamentary approval). It also introduced subsidies to local budgets for inspections and technical supervision of roads. Shortly thereafter, it [allowed](#) the use of state budget funds to repay local budget debts for road construction (such decisions typically have a negative impact on fiscal discipline).

In total, the government spent UAH 252 billion (USD 9.3 billion) on the "Big Construction" project in 2020-2021. At the same time, journalistic investigations [revealed](#) that companies close to the authorities were awarded contracts and that prices for construction were [inflated](#). Since 2022, money from the Road Fund has been redirected to defense, and only essential road repairs are performed (for example, [UAH 19 billion](#) are planned for this in 2025). To make it more difficult to inflate prices, in 2024, Parliament [mandated](#) that organizers of construction tenders publish the prices for materials specified in contracts on the Prozorro platform within three working days of the contract signing or any amendments to it. When constructing military fortifications, organizers will publish brief reports, without information that could jeopardize the safety of the buyer, contractor, or fortifications themselves.

In 2024, the state enterprise "Energoatom" launched a new "mega-project" — the [construction](#) of two reactors at the Khmelnytskyi Nuclear Power Plant. Despite experts' [suggestions](#) that Ukraine does not need outdated Russian reactors (which would be launched

in 10 years at the earliest) and the European Union's refusal to fund this project, in February 2025, Parliament [passed](#) the relevant law.

Recent developments in budget planning and oversight of public funds

In 2023-2024, despite the huge uncertainty caused by the war, the government [resumed](#) medium-term budget planning: in 2024, the government and Parliament approved the budget declaration for 2025-2027. Additionally, the Ministry of Finance [updated](#) the public debt management strategy and restored the practice of pre-approval for changes to the budget (except for military expenditures during the martial law).

A significant change was the restoration of medium-term [planning](#) for local budgets. This law also created opportunities for local authorities to refinance previous debts and attract new loans with the Ministry of Finance's approval. Local authorities will be able to approve their budgets with a deficit or surplus in the general fund if they buy government bonds with a maturity of more than one year, and the State Treasury will report monthly on the status of local debts and local guarantees provided. Additionally, local authorities [gained](#) the right to procure equipment for military units (previously, they did this either through subsidies to military units or semi-legally). Moreover, remaining funds at the end of the year can be used in the following year for any purpose (previously, there was a list of pre-approved purposes for such funds).

At the end of 2024, the State Audit Service (SAS) [began](#) to interact with the European Anti-Fraud Office (OLAF) to coordinate the fight against fraud. Among other things, the SAS will facilitate OLAF inspections on the ground, manage the development of a National Strategy for the protection of EU financial interests, and develop proposals for regulatory acts to support the implementation of this strategy.

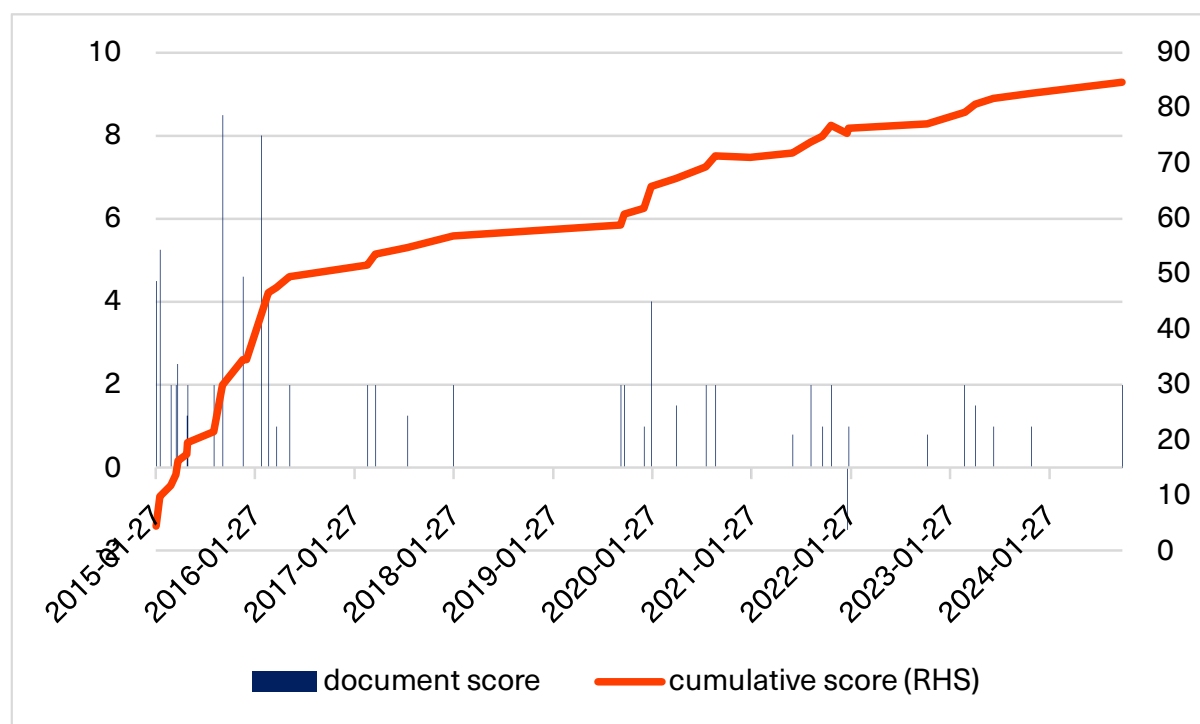
In December 2024, the Verkhovna Rada, after a year of [delay](#), finally passed a law to strengthen the powers of the Accounting Chamber. At the beginning of 2024, despite the request from G7 ambassadors to first adopt a new law on the Accounting Chamber and then appoint its members, the Verkhovna Rada [appointed](#) members of the Accounting Chamber loyal to the president and his party.

The new law brings the legal framework for the Accounting Chamber activities closer to the standards of the International Organization of Supreme Audit Institutions (INTOSAI). As a result, the Accounting Chamber will use the system of professional INTOSAI documents as a methodological basis for auditing government agencies. It will audit not only the state budget but also local budgets, as well as the finances of state and municipal enterprises, and the spending of funds received from foreign governments and international organizations. The independence of the Accounting Chamber has been strengthened (in particular, the Chamber's budget proposals must be taken into account by the Ministry of Finance and Parliament which approve budgets of public agencies). The head and members of the

Chamber will be selected by an advisory group with the participation of international experts, and, if there are no unjustified delays, the selection process should be completed by the end of 2025. This law also grants the Chamber the right to submit proposals to Parliament regarding measures to resolve non-compliance with the Chamber's recommendations. However, it **does not resolve** the issue of overlapping functions between the SAS and the Accounting Chamber.

Reforms of the public procurement system

Figure 5.4. Reforms in public procurement in 2015-2024, Reform Index data



Note: The cumulative score is the sum of event scores. Event scores are derived from surveys conducted with Reform Index experts

This reform has been one of the most successful, with the Prozorro electronic procurement system receiving numerous international awards. Before the introduction of Prozorro, the state primarily purchased goods and services from "insiders," making public procurement one of the largest sources of corruption rents (the volume of public procurement before 2014 was estimated at **approximately UAH 250 billion**, with around one-fifth lost to corrupt schemes).

Opening access to procurement for everyone not only saved taxpayers tens of **billions** of hryvnias but also provided entrepreneurs, especially small and medium-sized businesses, with a solvent customer, creating opportunities for their growth and development.

Of course, not everything works perfectly: tender participants can find ways to disrupt tenders or collude, and the cheapest product does not always offer the best quality. However, thanks to open data, flaws in the system cannot be swept under the rug. As a result, improvements to the procurement system continue, largely driven by civil society.

Shortly after the introduction of the Prozorro electronic procurement system, Ukraine introduced Prozorro.Sales — an electronic system for selling or leasing state or municipal property. This system significantly accelerated small-scale privatization (see Chapter 11).

Reforms in 2014-2019

The first step toward transparency in public procurement was an [order](#) by the Infrastructure Minister in early 2015 requiring transportation enterprises to broadcast their tenders online. At the same time, the Ministry [disclosed](#) the procurement information of all subordinate enterprises.

In March 2015, the government [introduced](#) the sale of seized property through electronic auctions via the SETAM system. At the same time, the development of the Prozorro.Sales system began. The first auctions in the latter system took place in November 2016. In February 2017, the system started [selling](#) assets from resolved banks, and since the summer of 2017, it has also been used to sell [seized](#) assets.

In May 2015, the Ministry of Economy [conducted](#) an experiment with electronic procurement, and by September of the same year, [public](#) procurement via an electronic platform was mandated by the law (this law received the highest score in Reform Index history — 8.5 points). The law required that participants in tenders engage in auctions via electronic platforms, and the results of such auctions would be made available to both the participants and the public. In February 2016, electronic procurement was made [mandatory](#) — starting from April 1 for central government authorities, and from August 1 for all state and municipal authorities and entities.

As with any reform, practical implementation revealed issues with the procurement system. For example, unsuccessful bidders could file complaints and block tender results. Some entities [split](#) procurement lots to keep them below the thresholds where Prozorro use was mandatory (UAH 200,000 for the procurement of goods and UAH 1.5 million for public works). Over time, these loopholes were addressed.

In May 2015, the government partially [transferred](#) responsibility for the procurement of medicines from the Ministry of Health (where it had been handled very inefficiently) to international organizations, with these procurements [exempted](#) from customs duties and VAT. By 2016, international organizations were [managing](#) the procurement of all medicines for state-level programs, while medical institutions began purchasing medications through

Prozorro. After establishing the specialized public enterprise "Medical Procurement of Ukraine" in 2020, the procurement of medicines for state programs gradually [transitioned](#) to this organization.

In March 2016, Ukraine [joined](#) the WTO Agreement on Government Procurement. This allowed Ukrainian companies to participate in public procurement in the 44 member countries of the agreement, including the EU, the USA, Japan, Canada, Hong Kong, China, Singapore, and South Korea. In April 2023, Ukraine signed an agreement on mutual [access](#) to the public procurement markets of Ukraine and the EU (however, the goods should comply with technical standards and some countries exclude certain goods from the public procurement system).

The Ministry of Defense was among the first users of the Prozorro system, but its procurement procedures were [adjusted](#) to account for the need to preserve state secrecy. In 2020, the law on defense procurement was amended again, which, according to experts, [reduced](#) the transparency of such procurements. However, the most significant changes in military procurement occurred after the start of the full-scale invasion, as detailed below.

In 2017, buyers of energy service contracts were [required](#) to conduct these purchases via Prozorro.

In December 2017, Parliament [expanded](#) the powers of the State Audit Service (SAS) to monitor procurement. Previously, the SAS could only review a limited number of completed tenders, but after these changes, it gained the power to audit tenders at any stage using a system of risk indicators to flag tenders with potential signs of collusion. Today, a new version of the law aligned with EU legislation is under development.

2019-2024

In the fall of 2019, Parliament passed a [new law](#) on public procurement, incorporating procurement practices established since 2016. The law lowered the procurement threshold from UAH 200,000 to UAH 50,000 and required all contracts to be published in the Prozorro system (previously, this was mandatory only for contracts worth UAH 50,000 or more). Entrepreneurs were given the opportunity to correct minor errors in their documents within 24 hours after winning a tender. Previously, such errors could result in the cancellation of the tender, leading to delays and the loss of potentially profitable contracts.

The 2016 law intentionally defined price as the sole criterion for awarding contracts to combat widespread corruption. However, the 2019 law, recognizing the professional development of procurement specialists, allowed for non-price criteria to be considered and introduced the concept of the life cycle cost (i.e., the price of the product plus its maintenance and disposal costs).

For detailed information about the “second procurement resolution,” please refer to the 2019 [White Book of Reforms](#)

Additionally, the law and the corresponding Cabinet of Ministers [resolution](#) introduced a differentiated fee for appealing tenders, which helped reduce the number of unjustified appeals. Finally, in 2021, a separate 10-person committee within the Anti-Monopoly Committee of Ukraine (AMCU) was [established](#) to handle procurement complaints. This change aimed to prevent so-called “tender trolling,” whereas procurement processes were unjustifiably delayed or disrupted by appeals.

In the fall of 2019, the Centralized Procurement Organization [began](#) operations. Its responsibilities include procurement for government entities under framework agreements of standardized goods, such as fuel, office equipment and supplies, hygiene products, electric appliances, and other goods that do not require specialized expertise.

A year later, Prozorro.Market was [launched](#), enabling the procurement of standardized goods via catalogs. The platform is managed by three centralized procurement organizations: the State Institution (SI) “Professional Procurement” fills the catalog with commonly used goods, SI “Medical Procurement of Ukraine” — with medicines and medical products, and the State Enterprise “Ukrainian Special Systems” is responsible for computer equipment and software. The Prozorro.Market catalog [contains](#) about 90,000 products from 3,000 qualified suppliers.

Initially, the catalogs were used for sub-threshold purchases, but from 2022 they can be used for all types of procurement. These purchases are much faster than traditional tenders. Research shows that procurement via catalogs is more [competitive](#) than tenders, with more participants and greater savings. Unsurprisingly, by 2023, [around 40%](#) of procuring entities were using Prozorro.Market. In July 2023, the Cabinet of Ministers [specified](#) a single instrument for all market participants: requesting proposals (buyers on Prozorro.Market must issue a request specifying the desired characteristics of goods or services, and suppliers submit their price offers. For procurements over UAH 500,000, at least two price offers are required). At the same time, the Cabinet of Ministers obliged medical institutions to procure medicines exclusively through Prozorro.Market.

As noted above, in 2020, the government [transferred](#) responsibility for the procurement of medicines from international organizations to the state-owned enterprise “Medical Procurement of Ukraine” (MPU). In fall 2021, the government [allowed](#) to procure drugs through managed entry agreements (MEA), enabling the purchase of innovative medicines under individual terms via direct negotiations with manufacturers. The terms of these agreements, excluding the price, must be published in the Prozorro system. The Cabinet of Ministers approves the list of medicines eligible for MEA procurement after a state evaluation of the medical technologies used in their production. At the same time, the government [permitted](#) MPU to purchase medicines not registered in Ukraine for the treatment of rare diseases.

In January 2022, MPU [launched](#) the MedData system, which monitors both medicine procurement and inventories in each medical facility. In October 2022, the government [introduced](#) reference (maximum) prices for medicines.

In September 2021, the government [mandated](#) that local authorities procure urban planning documentation expertise through Prozorro. At the beginning of 2022, Parliament passed an anti-reform measure — a law on [localization](#) in the machinery industry. Goods covered by this law include vehicles, generators, transformers, and similar products. Under this law, during procurement, buyers must give preference to goods with a localization level (i.e., the share of Ukrainian components) of at least 10% in 2022, increasing it to 40% by 2028. Parliament can revise the localization level for each year, and the government can adjust them for specific procurements. The law does not apply to [participants](#) of the WTO Government Procurement Agreement, including the EU and the US.

After the full-scale invasion, the government needed to rapidly procure many goods and services, which led to the temporary removal of procurements from the Prozorro system in favor of direct contracts. Procurement processes have been gradually returning to the Prozorro system since then.

For more information on changes in procurement during the first six months of the full-scale war, please read our [review](#).

After a series of scandals involving the Ministry of Defense (with billions of hryvnias lost in the procurement of [weapons](#) and other [supplies](#)), in March 2023, the Ministry was required to [publish](#) announcements for procurements that are not classified as state secrets. By the end of 2023, the government established two professional procurement agencies: the Defense Procurement Agency, responsible for weapons procurement, and the State Rear Operator, tasked with procuring other goods for the military. These agencies successfully [procured](#) a number of items at lower prices. Unfortunately, due to the conflict of the Minister of Defense with the head of the Defense Procurement Agency, the latter was fired. This significantly undermined Ukraine's credibility among international partners.

In the fall of 2019, Parliament adopted a new Bankruptcy Code, which [required](#) that debtors' assets be sold through the Prozorro.Sales system. Starting in January 2024, sanctioned assets are also [sold](#) via this system.

What next?

Over the past decade, there have been significant developments in the management of public finances. However, the tasks [outlined](#) for Ukraine in the IMF program, the Ukraine Facility plan, and the government's revenue strategy remain substantial. The two main vectors of future reforms are (1) counteracting tax evasion and (2) using existing funds more efficiently.

Additionally, Ukraine must harmonize its procurement and PPP legislation with the EU *acquis* and develop an effective system of public investment management for reconstruction.

For more efficient tax administration, Ukraine plans to:

- reform the Tax and Customs Services, particularly by improving their capacity to identify tax evaders and collect missing payments. This requires providing these services with access to more comprehensive data on the incomes of individuals and businesses (including confidential banking data). The prerequisite for this is the implementation of robust data protection mechanisms and the enhancement of staff capacity to process such information;
- introduce a tax risk management system;
- strengthen the capacity of local authorities to administer local taxes;
- implement anti-corruption programs for the Tax and Customs Services and establish data-sharing arrangements with relevant EU agencies;
- [introduce](#) a progressive personal income tax and reform the simplified taxation system while significantly reducing the scope of tax exemptions;
- continue implementing the BEPS action plan and align certain taxes with European ones, including taxes on tobacco and alcohol, VAT, emissions taxes, and taxes on virtual assets.

To ensure more efficient use of public funds, Ukraine plans to:

- improve the medium-term budget planning system and implement annual spending reviews;
- establish a fiscal risk management system;
- enhance public debt management and launch a debt management agency;
- implement a public investment management system (in particular, public investment should adhere to Ukraine's strategic priorities and be included in the budget declaration and state budget laws. Ultimately, all public investment projects should be managed via the [DREAM](#) platform);
- complete the reform of state-owned enterprises (see Chapter 11);
- increase the independence and effectiveness of the Accounting Chamber and the State Audit Service, which will also play a key role in reconstruction efforts.

Recently, the Verkhovna Rada [initiated](#) the process to establish a Parliamentary Budget Office to enhance its expertise on budgetary and tax matters. Hopefully, the experience of the [Office for Financial and Economic Analysis](#) will be preserved, and the newly created office will become a center of excellence in public finance management.

6/*BUSINESS*

ENVIRONMENT

Between 2014 and 2024, Ukraine implemented extensive reforms, at least a third of which were related to the business environment. These reforms were driven on the one hand by the implementation of the Association Agreement and joining the free trade area with the EU, and on the other hand by the need to reduce regulatory obstacles for businesses and respective opportunities for corruption (nearly 7% of reforms in this area include an anti-corruption component).

Figure 6.1 shows that in 2015 the government implemented many significant reforms. These reforms were primarily focused on deregulation and elimination of rent-seeking opportunities. Thus, the government liquidated the state waste management enterprise "Ukrecoresursy" used purely for corruption purposes, halved the number of licences, and simplified procedures for obtaining permits and registration. In 2015-2017, the government canceled many outdated Soviet standards and regulations that had long become irrelevant but allowed oversight bodies to create problems for businesses. It also finally abolished [state regulation](#) of prices for a number of so-called "social" goods, such as bread and other basic groceries.

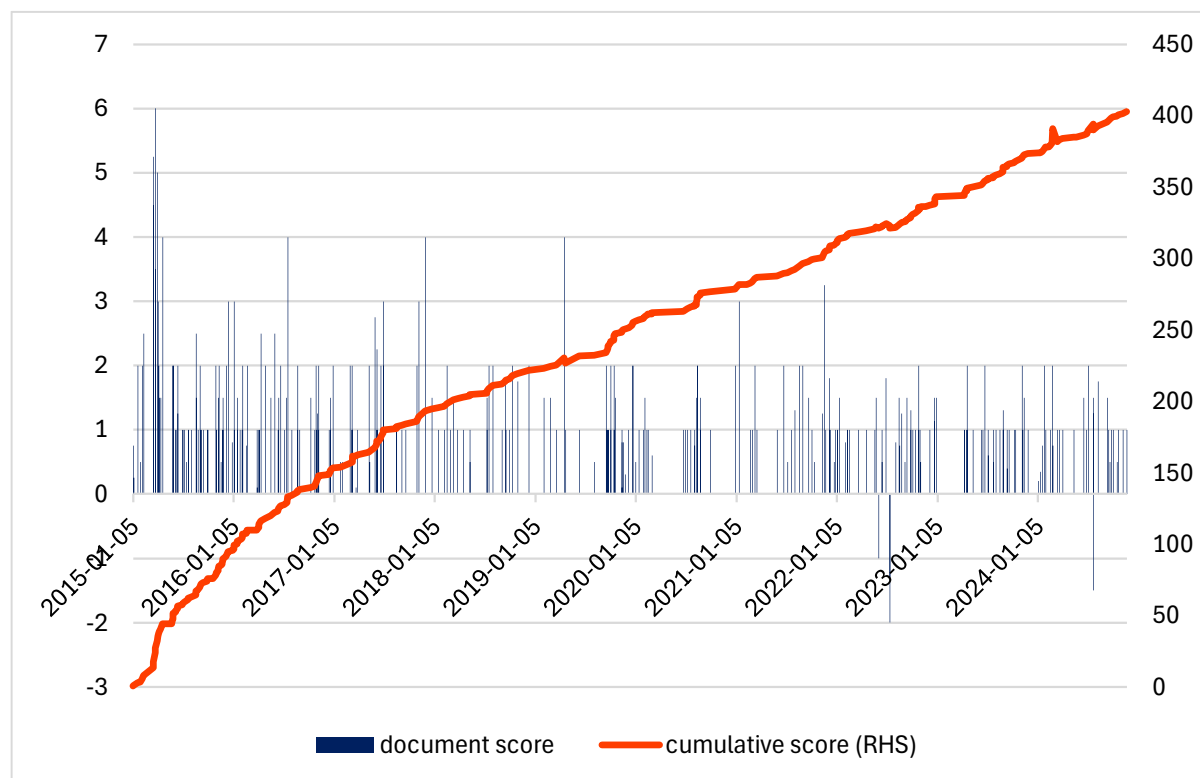
However, deregulation does not mean that law enforcement agencies have completely stopped pressuring businesses, as this would require comprehensive reform of the law enforcement and judicial systems (see Chapters 1 and 3). Therefore, it is not surprising that the adoption of several [laws](#) referred to as "Stop Masks-Show" [did not put an end](#) to this practice.

Later reforms were more incremental but, taken together, these incremental steps created significant change. For example, during 2019-2020, the government passed many regulatory acts on the protection of intellectual property rights. Each of these regulations received low grades because they addressed rather narrow issues but together they are essential for Ukraine's European integration. Since 2019, the digitization of interactions between the state and businesses has significantly accelerated.

We also recorded several anti-reforms: tax allowances for industrial parks and the "white business club" law, which (again) [created](#) an unequal playing field for businesses. Besides tax

allowances, the government invested into industrial parks nearly **UAH 1 billion** in 2024. This direct and indirect investment is **unlikely** to bring profits.

Figure 6.1. Business environment reforms in 2015-2024, Reform Index data



Note: Cumulative score is the sum of event scores. Event scores are derived from surveys of [Reform Index](#) experts

International organizations recognized the results of reforms. For example, Ukraine rose from 112th place in 2014 to **64th** place in 2020 in the Doing Business Index (after 2020 the index was discontinued due to potential data manipulation in favor of China). Table 6.1 shows that Ukraine significantly improved its indicators in certain aspects of doing business, but in other areas, such as connecting to electricity or contract enforcement, Ukraine, as of 2019, lagged far behind the leaders.

Business environment reforms in 2014-2019

Simplification of licensing, registration, and getting permits

In 2015, Parliament passed a new **law** on licensing which halved the number of activities subject to licensing to 29 and significantly simplified the licensing procedure. It also passed a **deregulation** law that eased the process of starting a business and a number of procedures for obtaining permits. Further simplification of starting a business was facilitated by the introduction of a "**silent consent**" during taxpayer registration (i.e., an entrepreneur needs to inform the state that they are starting a business rather than wait for the state's permission).

Table 6.1. Ukraine's scores in Doing Business Index indicators on a scale from 0 to 100

	2015	2016	2017	2018	2019	2020	Change 2020/ 2015, %
Total	61.52	63.04	63.9	65.75	69.1	70.2	14.1
Starting a business	87.35	93.88	94.4	91.05	91.1	91.1	4.3
Getting construction permits	75.29	61.36	61.42	75.8	77.2	81.1	7.7
Connecting to electricity	32.65	54.84	58.45	58.8	59.2	62.5	91.4
Property registration	74.82	69.44	69.61	69.61	70	71.3	-4.7
Getting credit	75	75	75	75	75	75	0.0
Protecting rights of minority investors	48.33	53.33	56.67	55	66	68	40.7
Paying taxes	70.33	70.69	72.72	80.77	79.4	78.1	11.0
Cross-border trade	53.96	63.72	64.26	64.26	77.6	80.1	48.4
Enforcing contracts	66.25	57.11	58.96	58.96	63.6	63.6	-4.0
Bankruptcy	31.17	31.05	27.5	28.24	31.7	31.4	0.7
Position in the rankings	96	83	80	76	71	64	-

Note: In all table rows, except for the last one, a higher number indicates a better score (i.e., closer to the maximum of 100). In the last row, Ukraine's rank in the Doing Business index is shown. Here, the smaller the number, the better. Note that the data from the previous year is used to calculate the Doing Business Index (e.g., the 2014 Index uses data from 2013)

Another [law](#) simplified the reorganization of enterprises and allowed entrepreneurs to reorganize branches without dismissing employees and bearing the respective costs.

In early 2015, the government [simplified](#) the process of obtaining permits for mining and work permits for foreigners and accelerated the passage of imported goods through the phytosanitary control system. A little later, it [canceled](#) the mandatory registration of a number of heavy and light industry products as well as fuel [types](#) that constitute about 90% of the market.

In August 2015, the Cabinet of Ministers [approved](#) a list of government agencies authorized to issue licences for business activities that require licences. Over the next few years, the government approved licensing conditions for a number of activities, such as security companies or tour operators. In 2016, online submission of licence applications was [allowed](#), and later, the government made stamps [unnecessary](#) and allowed the use of electronic signatures in almost all cases.

In 2016, the government [canceled](#) the mandatory registration of foreign investments, which had no practical purpose and only complicated business operations. Parliament [allowed](#) Ukrainian aircraft manufacturers to establish joint ventures with foreign companies (excluding companies from the aggressor states, i.e. Russia and Belarus).

New procedures for state registration of property rights were aimed at [reducing](#) opportunities for raiding, i.e., illegal "re-registration" of property to another party. The new rules increased the accountability of notaries for facilitation of raiding and obliged registrars to notify owners about any applications with respect to their property. At the same time, the Ministry of Justice [launched](#) permanent monitoring of registrar actions. Earlier, the government provided notaries more freedom in property rights registration while also [introducing](#) mandatory liability insurance for them.

Decommunization of standards

One of the first changes adopted in 2015 was the [new law](#) on technical regulations and conformity assessment, which established new rules for developing product technical regulations and requirements for conformity assessment agencies, bringing them closer to European standards. This was the first step toward creating a national product quality assessment system whose conclusions would be recognized in the European market. At the end of 2015, the Ministry of Economy [eliminated](#) 12,500 Soviet standards (de jure, they weren't mandatory, but many enterprises continued to use them by default). A little later, it canceled [Soviet](#) sanitary requirements. Finally, at the beginning of 2019, another remnant of Soviet times was [canceled](#) — the requirement that enterprises maintain a paper book of feedback and suggestions (in 2023, the book was [canceled](#) for service providers too).

Government supervision and compliance

As in many other areas, reforms in government supervision aimed to reduce the discretion of public officials during their interactions with businesses. To this end, an integrated automated government supervision system was [created](#), and a risk-oriented approach to state supervision and the "presumption of innocence" for businesses were [introduced](#).

Several initiatives aimed at limiting the ability of law enforcement agencies to exert pressure on businesses yielded only limited results. In 2016, the government [deprived](#) the State Fiscal

Service of the powers to open criminal cases against enterprises without evidence, reducing the opportunities for the tax police to attack businesses.

In 2017, Parliament passed the "[Stop Masks-Show](#)" law, intended to reduce pressure of law enforcement agencies on businesses. Among other, the law allowed video recordings during searches of businesses. The law was not very effective, so the following year Parliament had to pass the "[Stop Masks-Show-2](#)" law, which simplified the process of holding law enforcement officers accountable for unlawfully opening criminal cases against businesses. However, even after replacing the tax police with the Economic Security Bureau in 2021 (see Chapter 1), pressure on businesses remains. Perhaps the situation will not change until state officials stop treating businesses as "guilty until proven innocent" and as sources of corruption rent.

Regulation of activities of joint-stock companies (JSCs) and limited liability companies (LLCs)

The most significant change in this area was the adoption of [amendments](#) to the law on joint-stock companies, primarily aimed at improving the management of state-owned enterprises (see Chapter 11). Specifically, the quorum required for organizing a general shareholder meeting was lowered from 60%+1 to 50%+1 (this standard was later [extended](#) to LLCs). Notably, the law protected not only the rights of the state but also those of other shareholders who might suffer from unfriendly actions by minority investors by establishing liability for unpaid dividends and allowing supervisory boards to function even if not fully staffed as long as there is a quorum. A little later, Parliament [protected](#) the interests of minority investors in public joint-stock companies from managerial abuse (the law "On Investors' Protection" was one of the conditions for obtaining a World Bank loan).

In 2017, Parliament [adopted](#) European legislation on the compulsory buyout and sale of shares to prevent situations when minority investors could block decisions crucial for business operations, or could not sell their shares to majority stakeholders for a fair price. Subsequently, Parliament [clarified](#) the legislation on corporate agreements, requiring shareholders or LLC participants to clearly outline their mutual rights and obligations. A new [version](#) of the law on limited and joint liability companies created opportunities for small and medium-sized businesses to implement effective corporate governance.

The integration of Ukraine's corporate sector with European standards was supported by [laws](#) aligning financial reporting standards and electronic trust services with EU norms. These laws introduced European rules for electronic ID and signatures, and since 2023, Ukraine [permitted](#) the use of qualified electronic signatures issued by EU countries.

In April 2019, the Parliament adopted the Bankruptcy [Code](#), which strengthened the protection of creditors' interests and reduced the duration of bankruptcy or solvency restoration procedures, thus decreasing the number of enterprises stuck in "limbo" between bankruptcy and normal operations. With the new Bankruptcy Code, Ukrainian enterprises

would become more dynamic, because inefficient enterprises should exit the market to make room for more efficient ones. The Code also allowed personal bankruptcy (as of October 2024, Ukrainians filed over 2,000 personal bankruptcy cases). However, it is still necessary to align bankruptcy procedures with EU legislation.

Antitrust regulation and state support for enterprises

One key area of reforms from 2015 to 2019 was enhancing the capacity of the Antimonopoly Committee of Ukraine (AMCU), one of the main instruments for containing existing and potential oligarchs. Technical assistance projects funded by international partners contributed significantly to AMCU capacity development. However, neither the president nor Parliament dared to grant real independence to the Committee. Nonetheless, the government took several steps to increase the transparency and effectiveness of AMCU operations.

Thus, Parliament **obliged** the AMCU to publish its decisions on market concentration and collusion cases. It also relieved the AMCU of minor cases by **raising** the thresholds for asset or annual turnover after which enterprises must obtain approval for mergers from the Committee (the threshold for total assets or annual turnover of all parties in a deal was raised from EUR 1 million to EUR 30 million and for one of the parties from EUR 12 million to EUR 150 million).

In 2015, the government **granted** the AMCU the right to approve state aid for enterprises, with the law taking effect in 2019 (thus the Committee was provided time for institutional reform and acquiring the necessary competencies). Despite that, the distribution of state aid remains fairly **opaque** and chaotic.

The government eliminated monopolies in several markets directly with its decisions. In 2015, it **allowed** private enterprises to produce bioethanol alongside state-owned ones, and in the following year, it **canceled** the register of biofuel producers (this means that any enterprises, not only those included into the register, can produce it). In 2018, the government **dismantled** the state monopoly on alcohol production, replacing it with licensing of this activity (in 2015, the Cabinet of Ministers **introduced** electronic invoices to control alcohol circulation). Between 2019 and 2021, several distilleries were privatized. Unfortunately, a large part of the alcohol market remains in the **shadows**.

Services for businesses

In 2016, the National Energy and Utilities Regulatory Commission (NEURC) **simplified** the **rules for connection to the grid** of equipment that consumes between 160 and 5,000 kW (which is typical for many enterprises). The NEURC set clear criteria for the technical conditions for such connections and introduced a formula-based cost calculation (previously, regional power companies could impose additional conditions for connection to the grid at

will, thus creating significant opportunities for corruption). However, Table 6.1 shows that this improved the situation only marginally.

The **protection of intellectual property rights** in Ukraine was introduced mainly upon insistence from the EU and the US. For instance, the [law](#) on strengthening copyright protection, which regulated the activities of collective management organizations responsible for transferring royalties to authors, was only passed after the US restricted imports of certain goods from Ukraine.

In 2015, President Poroshenko [initiated](#) the **introduction of 4G cellular network** in Ukraine (by 2019, 4G coverage extended to 76% of Ukraine's territory, and by 2024, it reached [98%](#)). To simplify network development, the requirement to obtain permits for attaching telecommunications equipment to buildings and structures was [canceled](#). Then, Parliament [granted](#) equal access to infrastructure for developing telecommunications networks, and the National Commission for State Regulation of Communications and Informatization (NCSRCI) [introduced](#) a one-stop shop for obtaining phone numbers.

In 2015, Parliament passed a [framework law on e-commerce](#), which, among other things, defined the rights and duties of market participants and equated the legal validity of electronic contracts with contracts signed in other forms.

Regulation of specific industries

The main problems in **extractive industries (mining)** were corruption and lack of transparency in the use of natural resources. In 2015, the government [introduced](#) open auctions for obtaining permits to use mineral resources and [published](#) information about the mining industries (including tax payments, exploration status, use and protection of natural resources). In 2018, Ukraine [joined](#) the Extractive Industries Transparency Initiative (EITI), making reporting to this initiative mandatory for all companies in the sector (in 2021, this law was [amended](#) to align with the EITI 2019 Standard). In mid-2019, the government [streamlined](#) the issuance and re-registration of mining permits.

At the end of 2022, the government [allowed](#) assessing the volume of mineral reserves using international standards and deregulated extractive industries. It introduced cross-cutting licences for exploration and extraction and allowed owners of plots up to 25 hectares (so-called small subsoil users) to obtain special permits to extract local minerals without an auction.

In 2015, the government began simplifying regulatory requirements for private companies in the **port industry**: stevedores (companies that load and unload ships) were granted access to piers managed by the Ukrainian Sea Ports Authority (USPA), and dredging companies could [obtain](#) permits from the Ministry of Environmental Protection and Natural Resources just once, rather than each time such work was required.

The State Aviation Administration **established** equal access conditions for all **air carriers**. This was a key factor driving the entry of low-cost airlines into the Ukrainian market.

Changes in the **railway sector** focused on safety: the government **banned** Russian companies from rail transportation in Ukraine and strengthened safety requirements for companies involved in passenger and hazardous cargo transportation (for instance, to obtain a licence, these companies must have appropriately organized processes and their staff must be officially employed).

In 2015, Parliament **simplified** regulations for **agricultural producers**: the number of required permits was reduced, quarantine permits for fertilizer imports were canceled, and several certificates were made voluntary rather than mandatory. A little later, the government **eliminated** mandatory certification of agricultural machinery, **streamlined** and decentralized (transferred to the regional level) the provision of state support to agricultural producers. In 2018, the government cancelled sugar market **regulations** (price floors, import quotas) in line with WTO rules (although this regulation became irrelevant long before these changes).

Several EU-integration laws and regulations were adopted as well: on state **control** and compliance with legislation on food safety and quality (risk-based state control, permission for photo and video recording of the inspection process, and public oversight of it), on feed **safety**, on the **implementation** of phytosanitary expertise in private laboratories, and on food **labeling** in accordance with the EU Association Agreement.

In addition, the Cabinet of Ministers approved several **regulations** regarding organic production of various types of products, and Parliament passed a framework **law** on organic production that is harmonized with EU standards.

Between 2014 and 2019, the government significantly deregulated the **pharmaceutical market** to increase competition and make drugs more affordable for patients. This included **canceled** state expertise for drugs registered by the European Medicines Agency, **lifting** mandatory accreditation of pharmacies, and eliminating the requirement for **re-registration** of drugs every five years. In spring 2016, the government greatly **accelerated** the registration of drugs already registered in developed countries; later, the Parliament further **simplified** the registration of such medicines.

The **construction industry** in Ukraine (as in many other countries) remains quite corrupt. Therefore, since 2014, Parliament has taken steps to deregulate the sector and increase its transparency, aiming to reduce corruption. This included **limiting** the frequency of inspections by the architecture and construction control agency, **reducing** the list of construction works that require licensing, and introducing **electronic** licensing for construction businesses.

In 2017, Parliament **simplified** the regulation of construction activities: it abandoned the requirement to obtain a separate permit from the State Emergency Service for objects of I and II complexity levels and allowed to obtain construction permits and to put buildings into operation through electronic services. At the same time, the government **reduced** the list of construction works that require documentation, **sped up** the change of construction standards from 1.5 years to 10 months, **allowed** the use of EU construction standards in Ukraine, and made urban planning documentation publicly **available**, considerably speeding up the searching and formalizing land plots for construction.

Unsurprisingly, "obtaining construction permits" indicator in the Doing Business Index improved by 20 points between 2016 and 2020 (see Table 6.1).

Changes during 2019-2024

The new government elected in 2019 continued aligning Ukrainian legislation with European standards, aiming to fulfill the Association Agreement. Significant progress (at least in terms of legislation) was achieved in protecting intellectual property rights and strengthening the Antimonopoly Committee. However, the majority of reforms were implemented in the construction sector, perhaps because the "Great Construction" initiative became the flagship project of the new government.

Protection of intellectual property rights: implementation of EU rules

In October 2020, the Cabinet of Ministers **established** the National Intellectual Property Authority, whose functions were **transferred** to the Ukrainian National Office for Intellectual Property and Innovation in 2022 (these entities were created on the basis of the "Ukrpatent" agency subordinate to the Ministry of Economy). This office is responsible for issuing patents and other documents certifying intellectual property rights for inventions.

In 2020, the government **reformed** patent legislation in accordance with EU standards by introducing the opportunity to submit patent applications online. It also made life more difficult for so-called "patent trolls" (enabling the cancellation of patents for long-existing products, a tactic used by some unscrupulous entrepreneurs to block the selling or import of certain goods). This reform was complemented by a **law** strengthening the protection of trademark and industrial design rights.

A significant step forward was the **introduction** of protection for geographical names in line with EU legislation. This means that Ukrainian producers can no longer label their products as "cognac" or "champagne," but they gained the right to register local brands (e.g., "Melitopol cherry"). Then, Parliament **established** procedures for obtaining protection for geographical brands of agricultural products and **aligned** the geographical names of spirits with EU rules, which will promote the production of craft alcoholic beverages. The development of

production of these beverages is supported by [simplified](#) tax administration and reporting rules and cutting the price of a wholesale licence from UAH 500,000 to UAH 30,000. For small producers of wine made from Ukrainian materials, the rules are even [softer](#): they will be able to sell their wine to final consumers without a licence.

In 2023, Ukraine continued to implement EU directives on intellectual property, [expanding](#) the list of copyright objects and [introducing](#) European rules for intellectual property rights protection. That same year, virtual assets were [recognized](#) as copyright objects.

With the onset of the full-scale war and the respective decline in domestic demand, the entry of Ukrainian enterprises into foreign markets, primarily the EU, became even more important. To promote Ukrainian goods abroad, in 2024, the government [allowed](#) unrestricted use of the "Made in Ukraine" trademark (entrepreneurs can obtain and use the respective brand book).

Standards: harmonization with the EU and consumer protection

Since October 2019, national standards [can](#) be used voluntarily — this is one of the key steps toward implementing the "industrial visa-free regime" with the EU (for more details on the "industrial visa-free regime," see Chapter 9 of this book).

In January 2025, the recently adopted Technical [Regulation](#) on the Safety of Chemical Products came into effect. It implements the norms of the European REACH Regulation, ensuring a high level of protection for human health and the environment from potential risks associated with chemical substances. A key requirement of the regulation is the mandatory registration of all chemical substances produced, imported, or placed on the market in Ukraine in quantities exceeding 1 ton per year. This enables the state to track the movements and final destinations of chemical substances to determine whether they pose a danger to people and the environment.

The new consumer protection [law](#), which also harmonizes Ukrainian legislation with EU norms, will come into effect after the end of martial law. It clarifies the provisions of the above-mentioned e-commerce law, particularly by allowing public organizations and the State Service on Food Safety and Consumer Protection to protect consumer rights if a product is purchased online (this interaction will be organized via the eConsumer portal), and extends consumer protection rules to food products. It also obliges sellers to provide guarantees not only for new but also for used products (since 2023, guarantees [can](#) be provided in the electronic form). The [law](#) that strengthens protection of consumers of digital content and digital services came into effect in the summer of 2023.

The government continued to shift away from ad-hoc inspections, which were often used to enrich inspectors, to risk-oriented approaches. The State Energy Supervision Agency [implemented](#) this approach in 2020. Since 2022, fire inspections have been replaced with liability [insurance](#) (insured enterprises with minimal risk will be inspected once every ten

years, while those with a medium level of risk will be checked once every six years). The market [surveillance](#) agency will inspect products from manufacturers only if there are documented reasons to believe that a product is dangerous or does not meet standards due to the manufacturer's fault.

Antitrust policy: extending the powers of the Antimonopoly Committee of Ukraine

In 2021, the AMCU was [designated](#) as the agency responsible for handling public procurement complaints (the AMCU established a commission to review such complaints). In September 2023, to comply with the Association Agreement and the IMF program, Parliament [equipped](#) the AMCU with more powers to obtain information from enterprises and implement investigations (including searches). At the same time, the list of information which the AMCU must publish was expanded. However, the issue of the Committee's political independence remains unresolved.

The government approved several resolutions specifying the criteria for providing state aid in various areas: regional [development](#), [local](#), [sports](#), and [recreational](#) infrastructure, [services](#) of general economic interest, and enterprises in [civil](#) aviation and [port](#) industries. This somewhat streamlined the AMCU's process of review and approval of the public aid to businesses.

Business operations: regulation of shareholder relations and simplification of connection to the grid

The most significant reform in regulation of JSCs/ LLCs activities was [introduction](#) of the trust ownership mechanism and mandatory compensation of losses to minority shareholders. This same law canceled the "equity contribution" in construction, which had been a significant source of corruption in this sector (the equity contribution is a certain number of apartments that a developer had to provide to city authorities, for example, for social housing, or the obligation to build certain social infrastructure near new housing. Since local authorities could set the equity contribution at their discretion, it often varied greatly for "friendly" and "unfriendly" companies).

The new [law](#) on joint-stock companies defined the procedures for establishing, operating, and terminating JSCs, outlined the rights and duties of shareholders, introduced the mechanism for holding general meetings with electronic voting, and clearly defined the separation of operational management and oversight functions for different types of JSCs. As a result, the operations of joint-stock companies became more transparent, and "ordinary" shareholders gained more opportunities to influence them. At the same time, Parliament [introduced](#) mandatory notarization of agreements on the transfer of corporate rights with simultaneous state registration of rights, which should help reduce raidership.

In September 2023, the government [approved](#) a methodology for identifying final beneficial owners of enterprises based on FATF principles, and shortly before that, it [allowed](#) the submission of information about such owners electronically. This will simplify compliance for honest entrepreneurs and complicate operations for dishonest ones.

In 2021, Parliament [allowed](#) online submission of applications for connection to gas networks, provided customers with an opportunity to conduct an expertise of technical conditions for connection to ensure compliance with standards, while operators were required to eliminate any pitfalls within five days. This law provided for the creation of an Information Database on Natural Gas Consumption (this database has not yet been created, but in July 2024, the Ministry of Energy published for public discussion a [draft](#) resolution on setting up this database).

Additionally, the government [introduced](#) a "one-stop shop" system for connecting to power grids for consumers of up to 1 MW per year (i.e. small and medium businesses). The new rules include the principle of tacit approval of project documentation and free access to geospatial data on the territory, geological conditions, construction activities, engineering infrastructure objects, etc.

Development of public-private partnerships and attempts to "revitalize" industrial parks

Legislation on public-private partnerships (including concessions) in Ukraine was adopted back in the 1990s, but it was very [impractical](#). In 2016, the Cabinet of Ministers [introduced](#) a single methodology for calculating concession payments based on international rules (previously, three "Soviet" methodologies were in place) and included the sum of concession payments in the terms of the concession tenders. However, more effective concession legislation was [implemented](#) only in 2020. The full-scale invasion halted the execution of two concession [agreements](#) signed at the end of 2021.

Similarly, special legislation on industrial parks has existed for a long time. However, as of early 2022, only four out of 62 registered industrial parks (6%) were operational in Ukraine; currently, [15 out of 86](#) (18%) are operational. Since 2014, the government has tried to "revitalize" industrial parks: in 2015, they were [granted](#) the right to use land free of charge for three years, and in 2021, they were given the opportunity to receive budget [compensation](#) for the construction of engineering infrastructure. Later, tax and customs benefits were [introduced](#) for them (this decision was negatively assessed by Reform Index experts, as such benefits are a potential source of corruption or tax evasion). Similarly, experts negatively evaluated the recent law on the "[White Business Club](#)", as it creates an uneven playing field for enterprises.

Although industrial parks are pretty popular in the world, research [shows](#) that they very rarely become profitable (i.e., tax revenues from them do not cover the amount of provided benefits

even after 10-20 years). And, of course, they cannot replace reforms establishing the rule of law and predictable public policies.

Opinions of experts on the "investment nannies" law, aimed at increasing Ukraine's investment attractiveness, were polarized. On the one hand, it creates an uneven playing field; on the other hand, some of Ukraine's neighboring countries also grant special preferences to foreign investors. By February 2023, only [five projects](#) were submitted under this law, and no actual investments were made. In October 2024, the Ministry of Economy signed [two projects](#) under this law — with "Astarta" (a large agrarian company) and "Bukovel" (an operator of the largest ski resort in Ukraine).

Another approach to attracting entrepreneurs to Ukraine, particularly in the IT sector, is [e-residency](#). An e-resident can register as an entrepreneur through the newly launched [portal](#) and pay a 5% income tax as long as their income does not exceed USD 180,000 per year. Currently, e-residency is available to [citizens](#) of Slovenia, India, Pakistan, and Thailand. The Cabinet of Ministers plans to expand the list of countries whose citizens can use this opportunity.

A useful innovation for business operations is the [establishment](#) of uniform registration and reporting rules for branches of foreign legal entities and Ukrainian legal entities in accordance with the EU Directive 2017/1132.

Services for businesses

In November 2023, the Diia portal [launched](#) the **e-Entrepreneur** service, which includes state registration of entrepreneurs in the Unified State Register, registration as taxpayers, account opening, and other features (the service implies automatic information exchange between government agencies and registries). In March 2024, Diia.Signature for legal entities was [introduced](#) (before that, only individuals could use this feature).

In the fall of 2024, the government [launched](#) the Unified State Electronic Permit System named **ePermit**. This experimental project will run for two years, after which the system will be permanently deployed. Economic agents will be able to use this system to obtain permits related to employee safety, obtain and suspend licences for various activities, and to submit complaints about actions of licensing authorities. ePermit will interact with more than ten registries, including the Unified State Electronic Database on Education (USEDE), the Unified State Register of Legal Entities, Individual Entrepreneurs, and Public Organizations, and the State Register of Property Rights to Real Estate, allowing permit or licence recipients to avoid having to re-submit documents already available in these registries.

In September 2019, Parliament [canceled](#) licensing for **telecommunications operators**. According to the Association Agreement, they only need to notify the National Commission on Communications and Information (NCCI) about the start of their operations. The ban on

using 4G mobile communication in the 800-900 MHz bands was also **lifted**, allowing operators to extend high-speed mobile internet services to almost the entire territory of Ukraine. For this purpose, access to land plots for telecommunications companies has been **simplified**.

The law on electronic communications introduced a **single** licence for mobile operators instead of licences for each type of service. It also allowed consumers to choose individual services (if technically possible) instead of service packages and to receive full information about services from operators. At the same time, the Parliament **increased** the independence of the NCCI and introduced competitions for the appointment of its members, which is expected to enhance its professionalism.

In June 2024, Ukraine **began** integrating into the single EU roaming zone. Thus, Ukrainians in the EU and Europeans in Ukraine will soon be able to use mobile communication services without additional charges under the RLAH (Roaming Like at Home) mode.

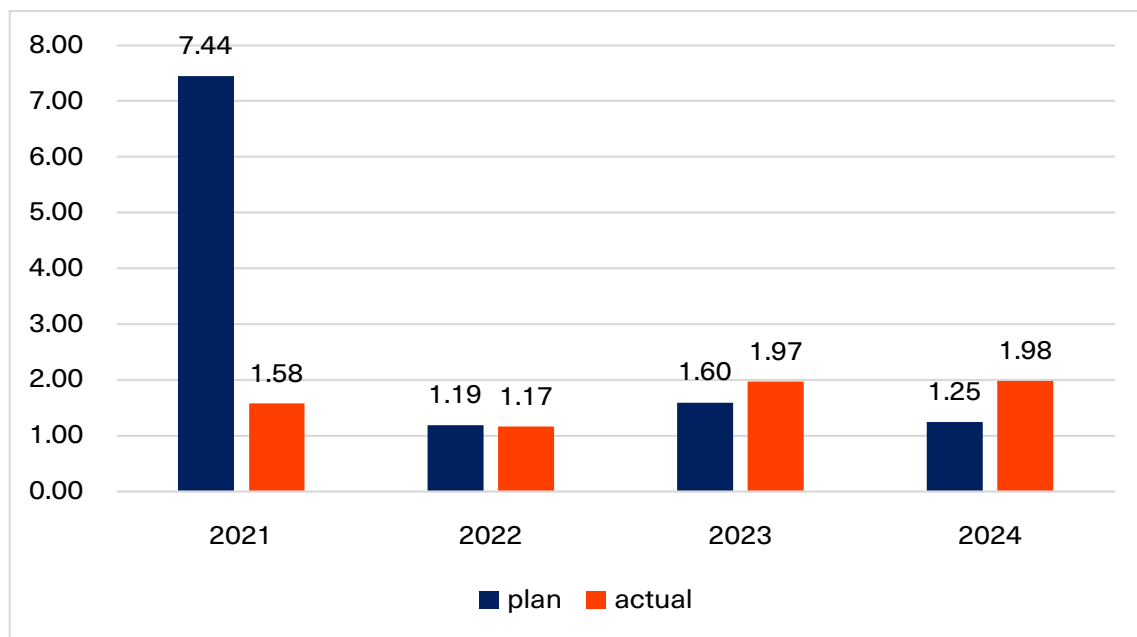
Regulation of certain industries or markets

Gambling was legal in Ukraine until it was banned in 2009, and consequently, the sector went underground. Discussions on legalizing gambling started in 2014, and it was actually **legalized** in August 2020. However, revenues from this activity turned out to be significantly lower than expected (Figure 6.2) as **most** of the income from the gambling sector was hidden from tax authorities (in addition to licence fees, casinos must pay income tax, profit tax, tax on prizes, and a military surcharge). Therefore, the authorities gradually began to restrict this activity again: the government **introduced** real-time casino revenue tracking, the President **prohibited** military personnel from accessing casinos, and the NBU **banned** the use of credit funds for gambling. Moreover, the Commission for Regulation of Gambling and Lotteries (CRGL) **maintained** a registry of individuals prohibited from gambling (an individual or their relatives can request their inclusion on the registry, or can be included there by a court order), and the Economic Security Bureau (ESBU) began an **investigation** into tax evasion by some casinos. In December 2024, the government **liquidated** CRGL and introduced a number of restrictions on advertising of gambling and access to it. A new powerful regulatory agency for gambling has to be created by April 2025.

To align Ukrainian legislation in the **construction sector** with European standards, Parliament **simplified** construction regulations, allowing developers to use the European approach, which specifies certain characteristics of the buildings (e.g., resilience to natural disasters), instead of the “Soviet” approach that mandates specific materials or technologies. Subsequently, the Ukrainian construction product market was **harmonized** with EU regulation 305/2011 in order to **prevent** counterfeit and hazardous products from entering the market (the law requires sellers of construction products to provide detailed specifications of their products and their suitability for use in structures of different levels of complexity and allows the market surveillance authority to ban the sale of substandard products). Finally, the

government [introduced](#) international pricing standards for road construction, enabling the use of new technologies and materials

Figure 6.2. License fees for organizing and conducting gambling activities and for issuing and conducting lotteries, billion UAH



Source: CRGL [reports](#), state budget laws

Another positive step by the new government was the [elimination](#) of a rent-seeking [scheme](#) in property valuation (the so-called "Yatsenko platforms"). The law ended the need to obtain fee-paid certificates and notes on the assessment of real estate objects from certain private electronic platforms. Now anyone can get a certificate of evaluation of a real estate object online for free.

Perhaps the most significant change was the [creation](#) of the Unified State Electronic System in the construction sector (USESCS), which later began operating as a "[one-stop shop](#)" system. This system [allows](#) the electronic provision of all administrative and other services in the construction sector, including requesting construction expertise, which can only be provided by [organizations](#) that meet the criteria set by the Ministry of Regional Development. At the end of 2024, the government started an experiment to implement a system for managing multi-apartment buildings. The system will be compatible with USESCS and will make the management of buildings more transparent.

In 2023, the government [allowed](#) to implement a technical inventory of real estate within the system, and [simplified](#) the procedures for getting construction permits during martial law and one year after martial law is lifted. For instance, the construction of private houses or structures not higher than two floors can proceed without a construction permit if it complies with urban planning documentation and the project designer uploads the relevant documents

into the system (if the local authorities do not object within ten days, the construction is considered approved). In 2022, the system was [used](#) to find suitable premises or sites for business relocation. However, its role will be most crucial during reconstruction.

Table 6.2. Licences issued and fees collected for them in 2021-2023

	2021		2022			2023			Number of licences as of 01.01.2024
	licences issued	licence fees paid, million UAH	licences issued	licence fees paid, million UAH	licences revoked	licences issued	licence fees paid, million UAH	licences revoked	
Offline casino	8	432	0	72	8	3	417	5	6
Gaming table	106	57.2	0	5.4	20	31	36.8	66	54
Roulette table	43	45.2	0	6.3	7	13	27.6	29	20
Online casino	13	304.2	3	286.7	4	6	486.3	2	16
Online poker	3	18	0	18	0	3	18	1	2
Slot parlors	19	171	0	5	0	4	161.2	12	11
Slot machines	3811	411.8	593	72.5	327	1713	352.4	3350	2540
Bookies	1	108	4	693	2	1	462.6	1	3
Betting outlets	0	0	0	0	0	1	0.201	0	1
Gambling service licences	18	32.55	3	7.26	0	4	6.84	3	0
Total	4 022	1 579.9	603	1 166.1	368	1 779	1 969.0	3 469	2 653

Source: CRGL

With reconstruction in mind, the government approved the procedure for [drafting](#) spatial development plans for amalgamated territorial communities (hromadas). Such plans serve as both urban planning documentation and land management documentation for hromadas. After a plan is developed, everyone will be able to access a public cadastral map and see the

information on the maximum allowed height of buildings in a given area, cultural heritage protection zones, etc. These plans will be developed with the participation of citizens.

Moreover, the Cabinet of Ministers made several decisions to simplify construction. It allowed the use of "[standard](#)" projects in construction, which will help reduce project costs during the reconstruction process. Second, it simplified the process of changing the allowed land use from agricultural to industrial during martial law and 5 years afterwards. For land outside of settlements areas, the allowed land use will be changed without urban planning documentation and land management documents. Third, it allowed foreign companies to build objects with moderate and significant consequences during martial law without a licence (after the end of martial law, they will need to obtain licences within three months).

Finally, it introduced the [protection](#) of property rights for unfinished construction objects. This measure aims to prevent fraudulent schemes in which a developer disappears with the investors' money after the initial stages of construction.

In recent years, the **fishing industry** has seen revolutionary changes. In 2020, the government [mandated](#) the installation of remote monitoring devices (GPS) on fishing vessels, and in 2023, Parliament launched a comprehensive [reform](#) of the sector. This includes electronic auctions of commercial fishing quotas on the Prozorro.Sales platform and creation of eFish, an electronic management system for the industry through which fishing permits and fish origin certificates can be obtained. The reform established legislative requirements for fish wholesale places, rules for lease and use of water objects, etc. In the first few months after the reform, budget revenues from the sale of commercial fishing licences [increased](#) by an order of magnitude, and the introduction of GPS tracking allowed to "find" over 300 vessels, resulting in a one-third increase in Ukraine's legal fishing fleet. The next step is to implement full traceability of fish products, which will enable Ukraine to enter the European market.

In **agriculture**, the implementation of European standards and deregulation continued. The government [reduced](#) the number of documents and the time required to obtain them in veterinary medicine, with the option to receive them online. The requirement for re-registering veterinary drugs every five years was eliminated and replaced with post-registration monitoring of their effectiveness, which will help combat counterfeit veterinary products.

During 2022-2023, the government introduced European [rules](#) for handling pesticides and agrochemicals, along with international [standards](#) for natural food ingredients and the recognition of feed additives registered in the EU. Seed certification was [simplified](#) in line with EU rules (allowing private auditors, not just state ones, to perform this task), and the [registration](#) of plant variety rights was streamlined by eliminating the need for expertise. International organic labeling was [legalized](#) for Ukrainian organic producers, and European [rules](#) for handling GMOs were [implemented](#). At the end of 2025, European [restrictions](#) on the

use of palm oil in food products will come into effect in Ukraine (this will be beneficial for the health of Ukrainians).

In 2024, Ukraine aligned its viticulture [legislation](#) with international rules and EU regulations. This law will come into force in 2026. It establishes European standards for wine and other viticulture products, a mechanism for protecting geographic brands, and provides for the creation of a Viticulture and Winemaking Register, which will contain information about all plots where grapes are grown, all producers and products made of grapes.

In 2022, Parliament [allowed](#) private technical services and testing laboratories to participate in tractor testing procedures. Thus, official agricultural machinery dealers will be able to register equipment, which will promote competition in the market, leading to improved service quality.

The framework [law](#) on agricultural cooperation (July 2021) established principles for the formation and operation of agricultural cooperatives (democracy, voluntariness, and openness), defined the rights and responsibilities of cooperative members, etc. In European countries, agricultural cooperatives play a significant role not only in producing agricultural products and supporting farmers but also in the life of their respective communities. Hopefully, in Ukraine cooperatives will be as successful as in the EU.

At the end of 2021, the government established a partial credit guarantee [fund](#) for agricultural producers to make loans more affordable to farmers. By early September 2024, the fund had [provided](#) guarantees to nine enterprises totaling UAH 6.25 billion. In 2024, Ukraine [joined](#) the International Fund for Agricultural Development. This opens more opportunities for international cooperation and will allow for the attraction of additional resources to develop the agricultural sector.

In October 2024, Parliament adopted a [law](#) on the State Agricultural Register (SAR). The SAR has been operating since 2022. Agricultural producers register in it voluntarily, but they can obtain state support, including credit guarantees or subsidized insurance, only through the SAR. The law defines entities responsible for maintaining and updating the register, rights and obligations of its users, procedures for data exchange with other registers and for monitoring of the state support use.

In the **transport and postal sectors**, as in many others, Ukraine implemented European norms, although somewhat selectively. For example, the new [law](#) on postal operators introduces electronic stamps and inclusive postal services, aligning regulations with modern technologies. However, it also stipulates that only operators designated by the Ministry of Infrastructure and registered with the Universal Postal Union (currently Ukrposhta and Meest) can implement customs clearance of international postal shipments. This restriction of competition may not be entirely appropriate.

In the **road transportation** industry, **fin**es for overweight trucks were introduced (although the infrastructure for truck weighing is not very well developed), along with a road safety audit **procedure** and a risk-based **approach** to carrier inspections.

In 2024, the Ministry of Infrastructure changed the rules for **bus transportation**. Passengers will no longer have to purchase insurance when buying tickets; instead, carriers will be **required** to insure their liability to passengers. Additionally, only **bus stations** listed in the electronic Register of Bus Stations will be allowed to provide services to passengers and carriers. Previously, some bus stations were licensed for this activity, while others operated "in the shadow," i.e. without licences. Now bus station owners will be required to enter information about their stations into the register, and the government will cross-check this data with information on bus stations listed in the carriers' routes.

In 2020, Parliament significantly **updated** the regulation of **inland water transport**, specifying maintenance requirements for waterways and structures, technical requirements for vessels and crew qualifications, principles for collecting port fees, etc.

In April 2023, in line with EU regulation, Ukraine **simplified** market access in **civil aviation**. Under the new law, certified air carriers are no longer required to obtain permits for operating air routes; they only need to coordinate airport time slots.

Reforms in the **pharmaceutical sector** improved access to drugs for patients. Parliament allowed **creation** of mobile pharmacies to serve remote areas, and the government set requirements for companies engaged in the **e-commerce** of medicines (such companies must have warehouses with appropriate storage conditions, their own website, a delivery service, or a contract with a postal operator which is able to maintain proper temperature during delivery). In 2022, the government **allowed** compassionate drug use, which means that patients can receive free of charge drugs that are not registered in Ukraine but are undergoing at least the second stage of clinical trials in the USA, EEA countries, Australia, Canada, Japan, Great Britain, Israel or Switzerland.

In 2023, Parliament passed a new law "**On Medicinal Products**," which will take effect 30 months after the end of martial law. This law comprehensively outlines the path of drugs and medical products to market — from drug development to testing, production, and sale, defines the responsibilities of authorities and the procedure for drug quality control.

In 2024, Ukraine **harmonized** its rules for labeling medicines with the EU Directive 2001/83/EC (banned placing advertising on drug packaging, including claims about the uniqueness or exclusivity of a medicine). The medication **verification** system with 2D coding was introduced to reduce the volume of counterfeit products on the market.

Sanctions

Following the full-scale invasion, Ukraine intensified its efforts to impose sanctions on individuals and legal entities from aggressor states. It [introduced](#) a new type of sanctions — confiscation of assets that belong to or are under direct or indirect control by such individuals or entities. As of June 2024, assets from 49 individuals have been [confiscated](#) by the state, including monetary funds, various properties, and cultural artefacts. Given that sanctions have been [imposed](#) on over 17,000 individuals, this number may seem small. However, the confiscation procedure requires a decision of the High Anti-Corruption Court, making 49 a decent number.

What next?

Better governance (Chapter 1), judicial and law enforcement reforms (Chapter 3), improvements in education, especially adult education (Chapter 13), changes to labour legislation and social support system (Chapter 12) will all benefit the business environment. Other reforms, such as sound monetary policy (Chapter 4), energy market reform (Chapter 7), and transportation improvements, also impact the business climate in Ukraine. Therefore, in this Chapter we focus on the [recommendations](#) provided by EU enlargement reports, the Ukraine Facility plan, and the IMF program specifically for business development. These are:

- 1) Rebuilding infrastructure, particularly energy infrastructure. Given the security situation, the best solution seems to be the decentralization of generating capacities and using "green" power plants with batteries where possible. Further simplification of procedures for connecting to the power grid is also necessary.
- 2) Implementing the Public Investment Management [Roadmap](#). The main idea is that public investments can act as catalysts for developing industries or regions (e.g., an investment in the production of construction materials can reduce construction costs in a specific city and create jobs in retail and HoReCa). However, due to limited public resources, locations of such "targeted" investments should be chosen very carefully and under public oversight. The same logic should be applied to public aid provision.
- 3) Developing concessions and public-private partnerships. This tool is highly underestimated in Ukraine, although it can improve the management of state assets (ideally making them profitable) while also reducing risks for investors, who would not need to purchase an asset to generate profits from it.
- 4) Further harmonization with EU legislation in the areas of standards, quality control, market surveillance, and others to facilitate access of Ukrainian goods to the European market.

- 5) Work on mutual recognition of qualifications between Ukraine and the EU for integrating services markets and simplifying access for EU citizens to the Ukrainian labour market (this will also benefit Ukrainian businesses, which are currently facing a labour shortage).
- 6) Developing a technological solution for transferring financial reports of Ukrainian enterprises to a single state registry, enhancing transparency in financial reporting and processes related to the transfer of enterprise ownership in line with EU legislation (transparency of reporting and company ownership structure is a necessary condition for attracting foreign investors).
- 7) Further harmonization with EU legislation in the area of intellectual property rights protection, and the launch of the High Court on Intellectual Property.
- 8) Continued [deregulation](#) and digitalization, including adopting by the end of 2025 a deregulation law that will introduce electronic permits and risk-based approaches, such as insurance, instead of inspections (currently, these approaches are implemented in just a few sectors).
- 9) Updating bankruptcy legislation in accordance with EU Directives 2019/1023 and 2017/1132.

7/ENERGY SECTOR REFORMS IN UKRAINE

Until 2014, Ukraine's energy sector suffered from many interconnected [problems](#). First, the lack of transparency and the monopolization of the sector made it a convenient source of rent for corrupt officials and oligarchs and, consequently, an instrument of Russian political influence. For example, in 1999, Ukraine [handed over](#) its strategic bombers to Russia for imaginary or real gas debts, and in 2010, in exchange for a “discount” on gas (i.e. somewhat lower price than initially set by Gazprom), it [extended](#) the stay of the Russian Black Sea Fleet in Crimea until 2042.

Second, high energy use due to outdated technologies and universally low prices for households at the expense of the industry (cross-subsidization). Although Ukraine now consumes significantly less energy than in the 1990s, this [reduction](#) is mainly the result of restructuring the economy (a decline of the heavy industry share) rather than introduction of energy-saving technologies. Today, Ukraine's energy consumption per unit of GDP remains approximately [twice](#) higher than the European average.

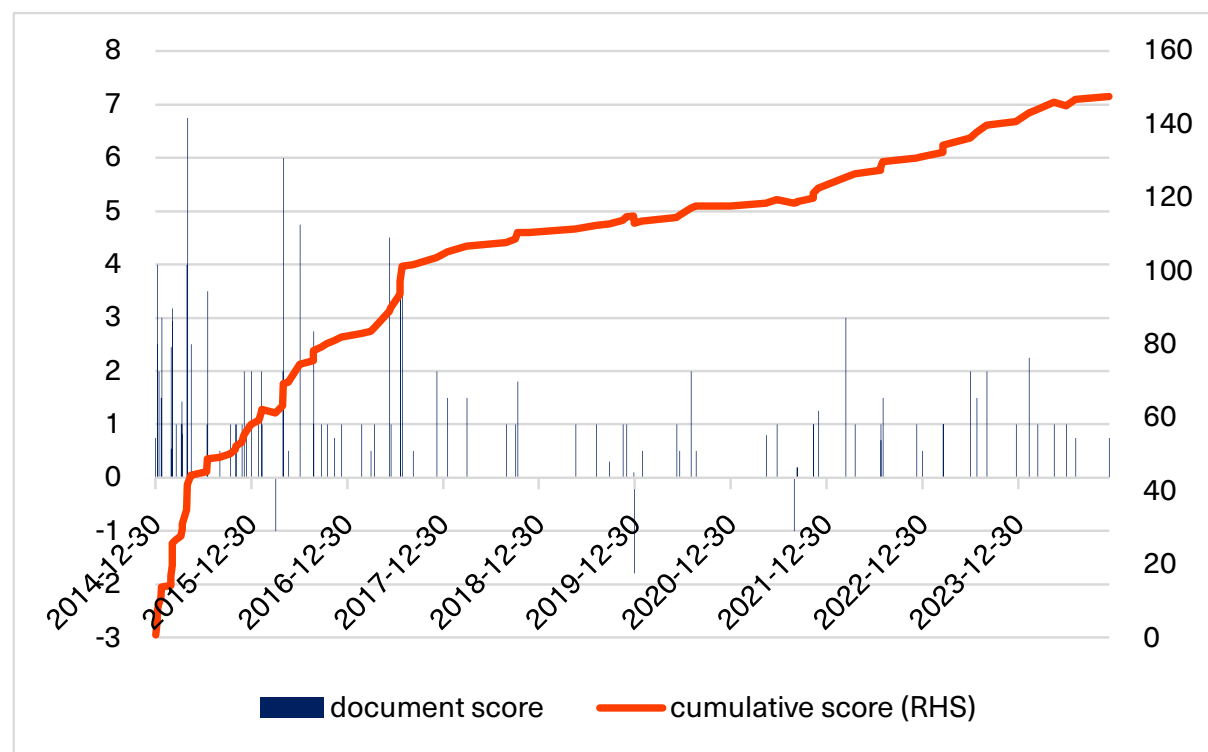
The non-market structure of the sector makes it not only vulnerable to foreign influence but also highly politicized inside the country. Such issues as low tariffs or support for [coal](#) mines have always been rallying points for various populists. As a result, reforms aimed at introducing market prices and rules and containing corruption rents, have always been hard to implement.

Nevertheless, over the past 10 years, Ukraine's energy sector has seen revolutionary changes. Due to the war, economic hardship and the need to secure IMF financing, the government had to agree to significant energy market reforms in line with EU regulations. These reforms included unbundling energy suppliers from transportation and distribution companies, introducing competition into the market, increasing the regulator's independence, partially implementing market-based pricing, and establishing proper corporate governance in state-owned energy companies.

Ukraine's integration into the European electricity grid is the most significant change in recent years. Ukraine's grid was disconnected from the Russian-Belarusian network just a few hours before the full-scale Russian invasion. On March 16, 2022, Ukraine had successfully joined the European grid. Of course, this transition was prepared by several years of intense work. Without this integration, Ukraine would have faced a complete blackout already in February 2022.

Despite significant progress, the reforms are far from complete (e.g., households still don't pay market price for energy). Moreover, there are occasional attempts to roll back some of the reforms, e.g. to bring the management of state-owned companies under political control. Therefore, Ukraine's partner countries and civil society must pay as much positive attention to this sector as Russia does with negative intent (as of May 2024, Russian attacks had incurred **USD 60 billion** worth of damages to the Ukrainian energy sector).

Figure 7.1. Energy sector reforms in 2015-2024, Reform Index data



Note: The cumulative score is the sum of event scores. Event scores are derived from surveys conducted with Reform Index experts

2014-2019

Energy sector reforms are closely intertwined. For example, the introduction of market-based tariffs is a necessary condition for more energy-efficient behavior. However, consumers will not be motivated to save energy if they are billed based on standardized consumption norms rather than actual consumption. Also, it will be more challenging for them to save if they cannot switch suppliers because of the monopolized market. Therefore, although the reforms

in this section are grouped into several thematic categories, they work well only when implemented together.

More details about energy sector reforms of 2014-2019 are provided in the White Books of Reforms for [2017](#), [2018](#), and [2019](#)

Introducing market prices for energy

During the initial stage of energy sector reforms, the government focused on eliminating various privileges, as the introduction of market-based pricing was a necessary condition for further reforms. In January 2015, the government [canceled](#) subsidized electricity exports to several Eastern European countries (Belarus, Moldova, Slovakia, Hungary, Romania, and Poland): they paid less than Ukrainian consumers on the wholesale market. At the same time, the preferential electricity transmission tariff for coal mines was [lifted](#) (between 2007 and 2009, the Cabinet of Ministers compiled a [list](#) of mines that paid for electricity distribution as first-class consumers, whose tariffs are [several times lower](#) than those for second-class consumers. Since 2015, coal mines pay according to their actual consumption).

In February 2015, the independent regulator, the National Energy and Utilities Regulatory Commission (NEURC), decided to gradually [increase](#) household electricity tariffs by 3.5 times by 2017 (Table 7.1). According to the Commission's estimates, the economic impact of this increase was expected to reach [UAH 5.4 billion](#) per year. The following month, the NEURC raised [household](#) gas tariffs by 3.3 times and tariffs for [district heating companies](#) (DHCs) by 2.2 times. It also increased the price paid to [Ukrigasvydobuvannya](#) (the state-owned gas extraction company) for domestically produced gas.

In July 2015, Verkhovna Rada passed a [law](#) from the "[IMF package](#)" on formation of utility tariffs for households. This law prohibited setting utility prices below their economically justified costs, and heating tariffs had to include profits of district heating companies (DHCs). However, in the following years, the government often set a tariff cap, due to which DHCs accumulated debts to Naftogaz and other suppliers, which we discuss below.

In April 2016, the government [equalized](#) gas prices for households and DHCs with prices for gas imported from Europe, and the NEURC increased heating tariffs by 75-90%. According to [Naftogaz](#), implicit subsidies (i.e., selling gas to households at prices lower than the cost of imported gas) cost the company USD 60 billion between 2005 and 2015. Following the tariff increases, household gas consumption [decreased](#), partly due to switching to other energy sources.

Table 7.1. Electricity tariffs for households, UAH per kWh

Start date of tariff	Minimum	Maximum	Number of categories*
October 1, 2012	0.22	0.96	24
June 1, 2014	0.24	1.34	12
April 1, 2015	0.37	1.41	13
September 1, 2015	0.46	1.48	13
March 1, 2016	0.57	1.56	13
September 1, 2016	0.71	1.64	13
March 1, 2017	0.90	1.68	13
January 1, 2021	1.68	1.68	1
October 1, 2021	1.44	1.68	4
June 1, 2023	2.64	2.64	1
June 1, 2024	2.64	6.32	4

*Source: Resolutions of the NEURC. Note: *categories are groups of consumers with different tariffs based on such factors as consumption volume, place of residence (city/village), gas or electric stove etc. Over time, the number of categories has been reduced*

During 2015-2016, Ukrainian society intensely [discussed](#) different gas tariffs for households and industry. Supporters of low tariffs for everyone argued that households and DHCs received domestically produced gas, which should be cheaper than imported gas. However, in reality, different tariffs allowed some companies to profit from arbitrage: they purchased gas at the "household" price and sold it to industrial enterprises at market price. As long as Ukraine imports gas, the "fair" price is the European market price. Thus, in February 2017, the Cabinet of Ministers approved a [procedure](#) for adjusting natural gas prices: the price cap for households and DHCs was to be revised twice a year — in October and April, with retail price cap linked to the average monthly price at the German gas hub plus transportation costs.

To protect low-income households, along with tariff increases, the government introduced a broad energy subsidy program (see Chapter 12), which in 2014-2015, was open to almost anyone. Over time, the government reduced spending on energy subsidies by narrowing the eligibility criteria, e.g. owners of large houses were not eligible for subsidies.

Initially, subsidies (i.e. the difference between market price and subsidized price) were paid directly to gas or heating suppliers, who were interested in maintaining high consumption norms. They received payments based on “normative” consumption and, since actual consumption was lower, could reap additional profits. To cut costs, in April 2015, the government [halved](#) the gas consumption norm for households without meters from 6-18 to 3-9 cubic meters per person per month (depending on whether a household has a gas stove and central heating). In 2018, the government initiated the monetization of energy subsidies.

However, since market pricing for households was never fully introduced, the government continued to avoid raising tariffs under different pretenses when gas prices in Europe increased. For instance, the planned introduction of market tariffs [in 2020](#) was initially postponed due to the pandemic and later due to the full-scale war. As a result, Naftogaz continues to be the supplier of last resort (SLR), providing gas to households and some other organizations at regulated tariffs. In the fall of 2023, Naftogaz's SLR role was [extended](#) until the end of martial law plus six months, despite the law requiring a competitive selection of SLR.

Due to regulated tariffs, the government and Parliament periodically have to address the issue of debt of district heating companies to Naftogaz. For example, in February 2014, the debt amounted to [UAH 27 billion](#). To tackle the problem, in 2014, the government [introduced](#) special accounts: payments made by consumers to DHCs were credited to these special accounts and could only be used to pay for gas supplied by Naftogaz. By the end of 2015, similar accounts were [introduced](#) for water supply companies. Until March 2015, [100%](#) of the funds were automatically deducted from the special accounts. Later, DHCs were allowed to allocate a portion of the funds for their operational needs.

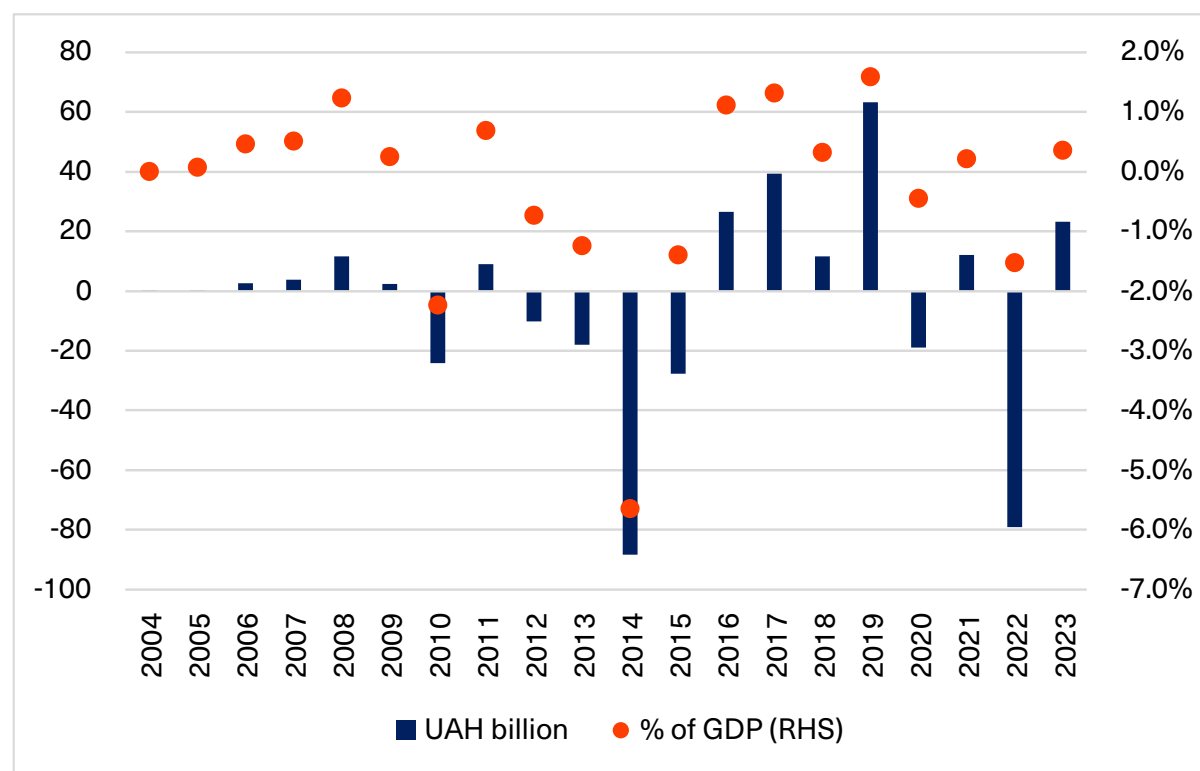
In May 2015, Naftogaz was [authorized](#) to sell debts and disconnect DHCs from the gas supply if they failed to meet payment deadlines. This [equipped](#) Naftogaz with higher leverage over debtors. However, Naftogaz did not always exercise this right as cutting off entire city districts from heating would have been socially unacceptable.

In April 2016, Parliament [prohibited](#) Naftogaz from stopping gas supply to DHCs that use it for water heating, provided a DHC had no outstanding debt or was making current payments and had submitted a debt repayment schedule to Naftogaz. In November 2018, this restriction was lifted.

In 2017, the government and Parliament [restructured](#) and partially wrote off DHCs debt. In 2021, another restructuring was [conducted](#) for nearly UAH 60 billion, with accrued penalties

written off. In October 2021, the government [abolished](#) the special accounts while obliging DHCs to purchase gas at market prices. However, by the fall of 2023, the debt of DHCs to Naftogaz had reached [UAH 95 billion](#). Thus, the current IMF program requires that this debt does not exceed UAH 60 billion (currently USD 1.5 billion).

Figure 7.2. Net profit/loss of NJSC Naftogaz of Ukraine



Source: Naftogaz, State Statistics Service

Even the partial increase of tariffs became one of the key factors to help Naftogaz emerge from a persistent crisis (Figure 7.2) and become one of the country's largest taxpayers. Other significant factors include the introduction of proper corporate governance in the company and the regulation of the gas market in accordance with European principles discussed below.

Alongside tariff increases, the government also worked to enhance tariff transparency. Since December 2015, state authorities and local governments have been [required](#) to provide citizens with access to information about electricity, gas, heating, and water tariffs on their official websites.

In March 2016, the NEURC [approved](#) a formula for calculating the wholesale electricity tariff to increase tariff transparency. The formula included the cost of coal on Dutch exchanges (the so-called [Rotterdam+](#) formula), even though Ukraine primarily imported coal from South Africa, and the share of imported coal at thermal power plants (TPPs) was only about 5% (the rest was domestic coal). The formula was scrapped in 2019 after the adoption of the law on

the electricity market. However, since 2017, court hearings have been ongoing on whether NEURC could have introduced this formula and whether it resulted in unjustifiably high prices for consumers. The situation is complicated by the fact that when the formula was introduced, 70% of coal generation was owned by the DTEK company (today its assets are significantly damaged by Russians), thus some politicians and NGOs suspected that the formula was implemented in the interests of this company. The case is currently under consideration of the High Anti-Corruption Court.

Demonopolization of energy markets and regulation of natural monopolies

In January 2015, the Cabinet of Ministers [canceled](#) a 15% discount on oil auctions for Privat Group, thereby depriving the group of the opportunity to profit at the state's expense. The [scheme](#) worked as follows: oil-extracting company Ukrnafta, which was 60% state-owned and 40% controlled by Privat Group, sold domestically produced oil at a discount to Privat's oil refineries. This allowed Privat to generate higher profits from fuel sales. After the discount was canceled, Privat started paying the market price for oil. The government also amended legislation on quorum in joint-stock companies to regain control over Ukrnafta (see Chapter 11).

At the same time, the government [split](#) regional gas distribution companies (“oblgazes”) into supply and distribution entities, thereby demonopolizing the retail gas market. This measure aligned with European practices and was later incorporated into the [Law](#) on the Natural Gas Market, adopted in 2015 under the [IMF program](#).

The law aligned Ukraine's gas market with EU Directive 2009/73/EC and Regulation 715/2009 on the conditions of access to gas networks. As a result, the rules for using state-owned gas networks were standardized for all operators, whereas previously some operators were able to use the networks free of charge. After the adoption of the law, industrial consumers, state-owned enterprises, and institutions began purchasing gas on the open market. Since gas is a homogeneous good, its market quickly [became](#) one of the most competitive. District heating companies and households still purchase gas at regulated tariffs but from August 2020, households can freely choose their gas suppliers.

In October 2015, the government [returned](#) state-owned distribution networks, which had been managed by “oblgazes” controlled mainly by fugitive oligarch Dmytro Firtash, to Naftogaz [ownership](#). Thus the natural monopoly of gas distribution networks remained under state control, providing equal access to the infrastructure for both state-owned and private gas suppliers.

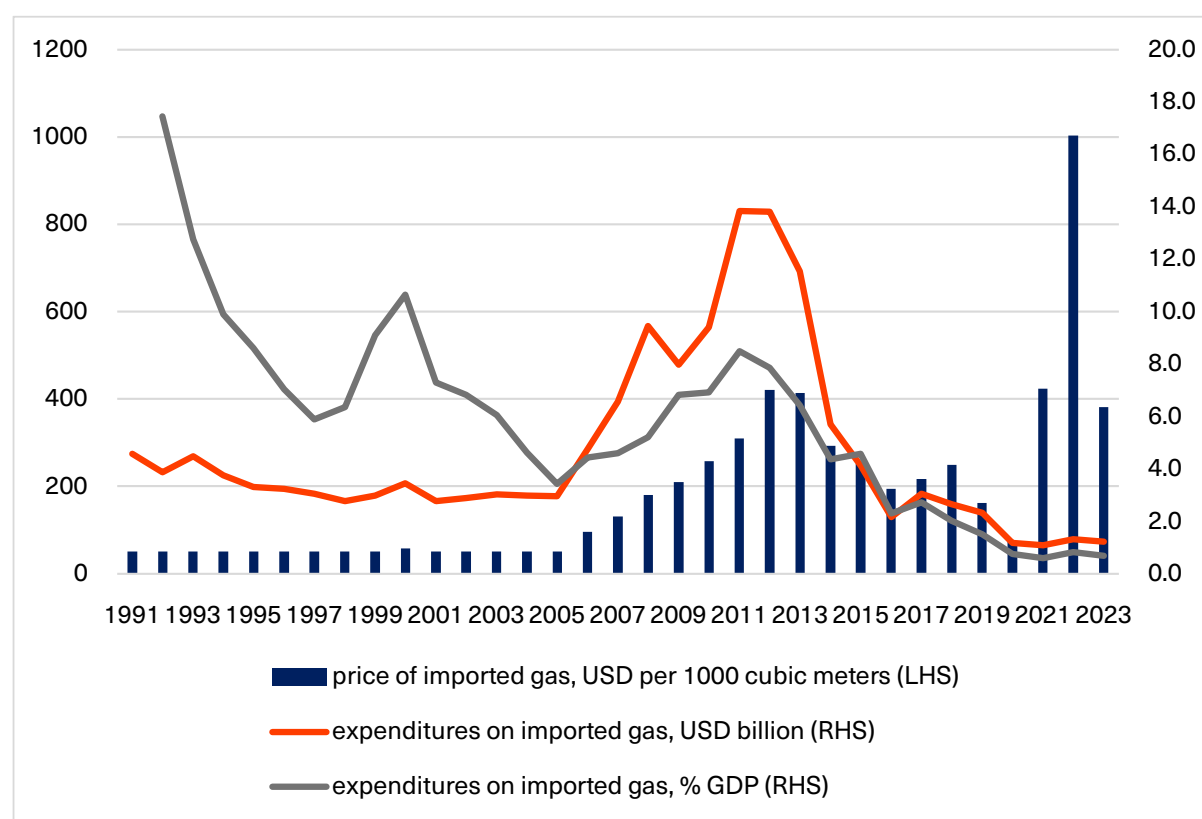
Additionally, the law provided for the unbundling of Naftogaz, separating it into extraction and transportation companies. The government [approved](#) the resolution on unbundling in July 2016, and the restructuring was completed by a new government in 2020. These changes enabled Ukraine to join the European Energy Union. In October 2016, the law was amended

to introduce **mandatory** gas reserve stock of up to 10% of the next month's consumption, ensuring energy security and stability of supply.

In December 2015, the Ministry of Energy **aligned** Ukraine's gas supply regulations with European standards by introducing a local version of the Prevention Action Plan and the Emergency Action Plan. These plans outline potential gas supply risks, risk mitigation measures, and crisis response actions.

One of the major objectives of energy sector reforms was reducing Ukraine's dependence on Russia that uses energy as a weapon. In 2014, Ukraine began negotiations to purchase gas from European countries. From January 1, 2015, Ukraine completely halted gas purchases from the aggressor state. Gas from Europe turned out to be **cheaper** than from Russia (e.g., in 2013, Ukraine imported gas at USD 414 per 1,000 cubic meters, whereas in 2014, the price dropped to USD 292 — see Figure 7.3). This shift deprived Russia of one of its leverages over Ukraine. In 2019, Naftogaz won a court case against Gazprom, thus the latter has to pay **USD 5 billion** compensation to the Ukrainian company.

Figure 7.3. Prices of imported gas and spending on it



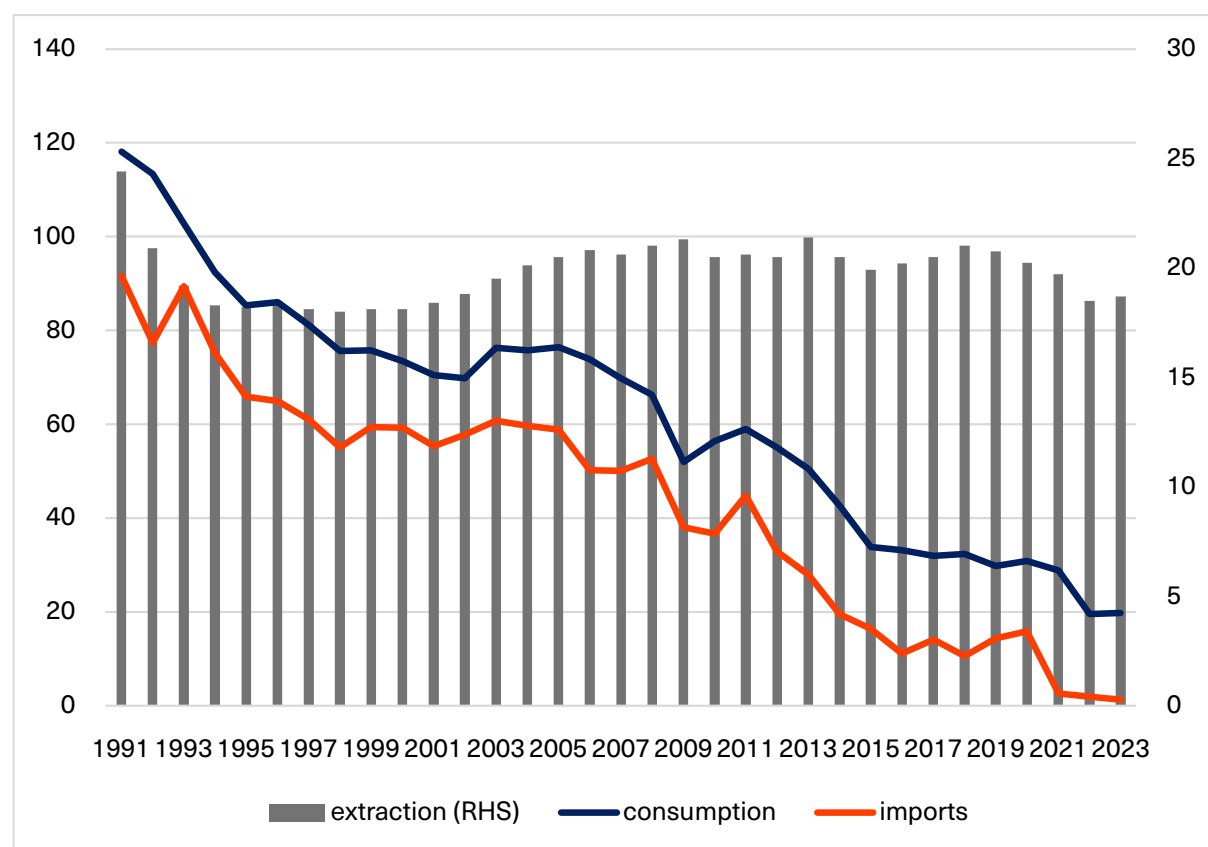
Source: Naftogaz, NEURC, Ministry of Economy. Note: Since September 2022, the Ministry of Economy has stopped publishing import gas prices. Therefore, the price for 2022 is calculated as the average for January-August 2022, and the data for 2023 is from the NEURC report for the 4th quarter of 2023

Until 2020, gas was physically transported from Ukraine to Europe and then back to Ukraine, even though the Ukrainian Parliament had approved virtual reverse back in 2016 (whereas Ukraine retains part of the gas during transit and pays the European supplier for it). However, Gazprom blocked this arrangement for four years. It was finally included in the new contract for transit of Russian gas signed at the end of 2019, which expired on December 31, 2024. From January 1st, 2025 onwards, Ukraine stopped the transit of Russian gas.

Additionally, to encourage domestic hydrocarbon production, the government simplified the process of renting land for oil and gas extraction. However, domestic gas production has so far remained approximately at the same level (see Figure 7.4).

In September 2016, Parliament passed a law that significantly increased the NEURC independence, particularly financial independence. The law introduced funding for the Commission's operations through a portion of tariffs allocated to a special budget fund. It also established a competitive selection process for Commission members. The selection committee includes representatives appointed by the President, Parliament, and Cabinet of Ministers, a stark contrast to the previous procedure under which Commission members were appointed solely by the President.

Figure 7.4. Gas production, consumption, and imports, billion cubic meters



Source: NJSC Naftogaz

In June 2017, Parliament [passed](#) the Electricity Market Law. This law introduced market-based electricity tariffs for enterprises (household tariffs are still regulated by the NEURC) and allowed consumers to freely choose their electricity supplier. The wholesale electricity market operator publishes electricity [prices](#) in real time.

For some time, there were discussions on whether Ukraine should introduce [RAB tariffs](#) to provide distribution companies with resources for infrastructure investments, as energy losses in the network were significant (e.g. in 2020 Ukraine lost [about 10%](#) of electricity during transportation). However, the government and market players could not reach an agreement on how exactly these tariffs should be calculated. Today this issue is irrelevant at least until the end of the war, as Ukraine is likely to focus on developing decentralized energy generation.

In December 2017, Parliament [demonopolized](#) the housing and utilities market, allowing both homeowner associations and individual consumers to sign contracts directly with service providers, including energy suppliers. This change enabled consumers to choose the best conditions for themselves.

Energy efficiency and accounting

In April 2015, Parliament allowed budgetary institutions, e.g. schools or hospitals, to sign contracts with [energy service](#) companies (ESCOs), which implement energy modernization of buildings and are paid for their services out of savings on electricity and heating bills. This law was developed in collaboration with the EBRD. Later, the government approved an energy service [contract](#) template (as of the mid-2022, [578 ESCO contracts](#) for UAH 1.34 billion were signed).

In December 2015, Ukraine adopted the National Energy Efficiency [Action Plan](#) until 2020. The action plan was a [commitment](#) within the European Energy Union, which Ukraine joined [in 2011](#). The plan aimed to reduce domestic energy consumption by 9% compared to the 2005-2009 levels by 2020. In 2021, the government approved a similar [action plan](#) until 2030. This new plan envisions that by 2030, Ukraine's final energy consumption will be approximately in line with the average level of 2015-2019 while incorporating several energy-saving measures. In line with Ukraine's European integration, the country is likely to adopt stricter commitments than those outlined in the current strategy, which aims to limit emissions to 35% of 1991 level by 2030.

In mid-2017, the government introduced energy efficiency [certificates](#) for buildings that are issued based on the results of energy audits. At the same time, the Energy Efficiency [Fund](#) was established to provide loans or grants for the thermal modernization of buildings based on energy audit results. These initiatives [partially](#) implemented Directive 2010/31/EU. According to the Fund's [report](#), by early 2024, it helped implement more than 300 thermal modernization projects, with an additional 340 projects in progress.

Resource metering is a key prerequisite for energy savings. Therefore, between 2014 and 2019, the government focused on installing meters where they were lacking — primarily gas and heat meters.

In 2014, only 20% of buildings were equipped with heat meters; by 2018, this share increased to 77%, and by early 2024, it had reached 85%. In 2017, the installation of heat meters became mandatory, but progress had been slower than expected due to technical challenges. To address these challenges, in October 2018, the government developed guidelines for determining the technical feasibility and economic viability of installing individual meters in buildings with so-called vertical heating distribution systems, which are the most common type in Ukraine. Thus, for some houses only building-level meters will be installed, and payment will be distributed among households according to the area of their flats.

The situation with gas meters is better. At the beginning of 2015, 71% of household consumers had meters, covering 95% of total gas consumption. By 2020, only 800,000 households (5% of the total) did not have individual or building-level gas meters. In 2024, the number of households without meters remained roughly the same — around 700,000. However, it is hard to calculate the share of apartments equipped with meters, since many homes have been destroyed. For some time, gas distribution companies attempted to install building meters instead of individual ones to reduce costs. To stop this practice, in January 2018, the government prohibited such installations without residents' consent. Additionally, residents were allowed to independently install individual gas meters in their apartments. The deadlines for achieving 100% gas meters coverage have been postponed several times — from the end of 2018 to 2021 and later to the end of 2023. However, full coverage has not yet been achieved.

In August 2016, the Cabinet of Ministers canceled the monopoly of regional power distribution companies (“oblenergos”) on the sale of multi-zone electricity meters to households (that is, meters that allow for tracking the time of energy consumption. These meters help save money, as the price of electricity varies at different times of the day). Additionally, the NEURC set a maximum period of 3-5 days for oblenergos to connect these meters to their databases.

Green energy

Ukraine introduced the green tariff in 2008. In 2015, households were allowed to sell electricity generated from renewable sources (mainly solar panels) to the grid at green tariff rates. The state-owned enterprise “Guaranteed Buyer” is responsible for purchasing this energy, meaning that the government effectively subsidizes expensive green energy, partly with cheaper electricity from nuclear and hydroelectric power plants. This approach is common in many EU countries.

Government subsidies stimulated significant investments in renewable energy: between 2014 and 2020, **over EUR 8 billion** was invested in green energy generation. In 2015, the capacity of renewable energy power plants was **1 GW**, and by the end of 2019, it increased to nearly 5 GW. This rapid growth in green energy generation required substantial government spending to cover the green tariff payments. Thus, the “Guaranteed Buyer” accumulated debt to renewable energy producers. Since most investments were financed through loans, these financial difficulties also affected banks that had a large share of “green” loans in their portfolios.

To mitigate this problem, in May 2019, the system of renewable energy support was **revised**. Instead of administratively set green tariffs, Parliament introduced green auctions. Under this system, the right to build solar or wind power plants is awarded to the investor who offers the lowest tariff, which remains fixed for 20 years. Green tariffs for existing power plants were slightly reduced (Table 7.2 illustrates the reduction in tariffs for small power plants). Owners of small private solar power plants (SPPs) located on land (rather than on rooftops, facades, etc.) were banned from selling energy to the system under the green tariff. This ban was **lifted** in July 2019.

Despite the gradual reduction of green tariffs, the debt crisis in the energy sector **remains**. In 2021, the debt to renewable energy producers amounted to nearly **UAH 18 billion**; by 2024, it had grown to approximately **UAH 36 billion**.

From 2019, Parliament **increased** the carbon dioxide tax rate from UAH 0.41 to UAH 10 per ton. However, if Ukraine aims to align with the EU Green Deal, this tax will need to increase **significantly**.

2019-2024

Developing markets and introducing EU market regulations

The new government and Parliament, which started working in the fall of 2019, continued the previously initiated gas market reforms. They passed a **law** to establish an independent gas transmission system operator (TSO) separate from Naftogaz and to ensure the independence of the electricity transmission system operator. This law aligns with the previously adopted laws on the Natural Gas Market and on the Electricity Market, as well as with the EU Third Energy Package. At the end of 2019, the Gas Transmission System Operator of Ukraine (GTSOU) was certified for compliance with the EU Third Energy Package requirements and became an observer in the European Network of Transmission System Operators for Gas (ENTSO-G).

As of January 1, 2020, GTSOU was fully **separated** from Naftogaz, but the Ministry of Finance still managed it via the state-owned enterprise “Main Gas Pipelines of Ukraine” (MGU). MGU

was [dissolved](#) only in the fall of 2023, and GTSOU was transferred to the management of the Ministry of Energy. At the same time, the Cabinet of Ministers established a supervisory board for GTSOU and approved its new charter, which was a structural benchmark of the IMF program.

Table 7.2. Green tariffs for certain types of renewable energy plants, USD per kWh

Year when energy facility started operations	Small private solar energy facilities (up to 30 kW)	Commercial solar energy facilities	Small private wind energy facilities (up to 30 kW)	Commercial wind energy facilities
2013	1.07	0.63	-	0.15
2014	0.72	-	-	-
2015	0.22	0.28-0.51	0.13	0.12-0.14
2016	0.18	0.17-0.46	0.11	0.11
2017	0.17	0.17-0.48	0.10	0.11-0.12
2018	0.17	0.18-0.56	0.10	0.07-0.14
2019	0.18	0.18-0.57	0.11	0.07-0.14
2020	0.14	0.15-0.48	0.09	0.07-0.12
2021	0.14	0.14-0.31	0.09	0.07-0.14
2022	0.12	0.11-0.25	0.08	0.06-0.12
2023	0.11	0.12-0.27	0.07	0.06-0.12
2024	0.10	0.12-0.27	0.06	0.06-0.12
2025	0.09	0.08-0.25	0.05	0.06-0.12

Source: [NEURC](#) resolutions. Note: The UAH was converted to USD using the average annual exchange rate of the National Bank of Ukraine, numbers are rounded

In the fall of 2019, market gas prices significantly decreased, providing the new government with an opportunity to introduce market-based pricing for households. It even [introduced](#) a key prerequisite for this — separate payments for gas and for its transportation for households. However, due to political speculation by populist politicians, the government refrained from taking the final step toward fully market-based tariffs. In early 2020, the government introduced a [price cap](#) for gas sold under public service obligations, setting it at the price level of the Dutch TTF gas hub. With the onset of the full-scale invasion, the government returned to manual regulation of price of gas sold to households. This decision resulted in significant financial losses for Naftogaz in 2022 (see Figure 7.2), as the state-owned company had to cover the difference between market and regulated prices.

In April 2021, Parliament [continued](#) the implementation of the EU Third Energy Package, in particular, by creating the legal framework for the certification of the electricity transmission system operator (SOE Ukrenergo), under the Independent System Operator (ISO) unbundling model. Under this model, the operator manages assets that ensure the integrity of Ukraine's unified energy system while the assets remain state-owned. The transmission system operator must be separate from electricity producers or traders.

In May 2022, Ukraine [switched](#) to the European system of gas measurement — in energy units (kWh) instead of the Soviet-era cubic meters. This change reflects the fact that the true value of gas lies in the amount of energy it can produce.

In December 2022, the government [implemented](#) EU Regulations 715/2009 and 2017/1938 in Ukraine. These regulations are related to certification of gas storage facilities, their filling schedules, and the regulation of storage operators' activities. The NEURC is responsible for ensuring compliance with these new rules.

In July 2020, the government somewhat [lowered](#) “green” tariffs, and in June 2021, the “Guaranteed Buyer” was [allowed](#) to sell the renewable energy it had purchased through auctions. The SOE was granted the right to sign long-term contracts (up to 12 months) and independently determine the starting auction price. In the spring of 2022, Parliament passed a [framework law](#) enabling the creation of energy storage operators as independent market participants. Energy storage is a crucial component for the development of renewable energy, since its production cannot be easily increased or decreased in response to changes in demand.

In August 2022, Ukraine [introduced](#) bilateral contracts in the electricity market. This allows market participants — producers, suppliers, Ukrenergo, consumers, etc. — to freely choose their counterparties and sign contracts with them. Market participants can sell electricity through bilateral contracts above the quantities (set by the NEURC) which they are required to sell on the day-ahead market. Until April 2023, energy under bilateral contracts was sold only through electronic auctions (previously, only state-owned generating companies had to

sell energy via auctions). This transitional phase was necessary for market development. Now, energy can be sold both through auctions and direct contracts.

In 2020, Parliament [restored](#) the independence and regulatory powers of the State Nuclear Regulatory Inspectorate, which had been deprived of many functions in 2016 as part of deregulation efforts. The inspectorate regained its powers to 1) conduct annual inspections of nuclear power plants (NPPs) and unplanned inspections of facilities that use nuclear energy; 2) licence activities in the sphere of nuclear energy use; and 3) apply sanctions to entities that violate radiation and nuclear safety regulations and suspend related operations. With these measures Ukraine aligns with EU Directive 2014/87/Euratom and the IAEA safety recommendations.

In February 2023, Parliament passed a [law](#) on the corporatization of Energoatom, a state-owned operator of nuclear power plants. By the end of the year, the company was [transformed](#) into a joint-stock company with 100% state ownership. The reorganization of Energoatom is a condition of the loan agreement between the company and the European Bank for Reconstruction and Development (EBRD). Reorganization is also foreseen by the Comprehensive [Program](#) for Safety Upgrade of Power Units of Nuclear Power Plants, approved in 2011 and financed by the EBRD.

Independence of the regulator

In December 2019, Parliament [addressed](#) loopholes of the 2016 law on NEURC. However, the new law received an overall negative assessment from Reform Index experts, as it created risks to the regulator's independence by allowing the Cabinet of Ministers to dismiss Commission members. Additionally, the law granted the NEURC the right to conduct unjustified inspections of energy market participants.

In mid-2023, Ukraine [implemented](#) the provisions of the EU Regulation on Wholesale Energy Market Integrity and Transparency (REMIT). This law expanded the NEURC's authority to monitor potential market manipulations, such as price-fixing collusion, and obligated market participants to disclose the necessary information for such oversight. The NEURC still needs to adopt secondary legislation to implement the law in full. The same law reduced tariffs for renewable energy power plants that started operations after July 1, 2023 (prior to this, green tariffs were already [reduced](#) in July 2020).

In 2024, to increase the independence of the NEURC, the Cabinet of Ministers canceled the requirement for it to approve its resolutions with the Ministry of Justice.

Energy efficiency and development of renewables

At the end of 2021, Parliament [introduced](#) a [biomethane](#) registry, which allows for the verification and issuance of certificates of origin to producers selling biomethane into the gas

transmission system. This registry is an important prerequisite for both the domestic use of biomethane and its export to the EU. Ukraine has the potential to produce [up to 22 billion cubic meters](#) of biomethane annually, which is approximately equal to the country's current gas consumption.

In 2023, Parliament passed a [comprehensive](#) law on developing green energy, introducing a registry of certificates of origin for renewable energy producers. This system enables Ukrainian renewable energy power plants to sell electricity independently on both domestic and international markets. When selling on the domestic market, producers will receive additional payments from the "Guaranteed Buyer" if the market price is lower than the green tariff, in accordance with the EU Directive 2018/2021. Companies that use green energy in their production processes will benefit from reduced tariffs when exporting their products to the EU (under the EU Green Deal, additional duties are applied to goods produced using energy from "traditional" sources).

The framework [law](#) on energy efficiency came into force in November 2021. Among other provisions, it mandated annual expenditures on energy efficiency programs to be at least 1% of the state budget expenditures. Currently this provision is not being implemented due to the war.

In August 2022, Parliament approved [regulations](#) for the comprehensive thermal modernization of buildings. It prohibited partial facade insulation, defined the process and responsible parties for implementing energy certification of buildings, and simplified the process of getting funds from the Energy Efficiency Fund for insulation of buildings.

In March 2023, Parliament [established](#) legislative conditions for the introduction of cogeneration plants that simultaneously produce heat and electricity. This law implements the provisions of the Directive 2012/27/EU on energy efficiency.

At the same time, Parliament [introduced](#) incentives for the development of charging infrastructure for electric vehicles, including simplified procedures for acquiring land plots and connecting to the grid, the possibility of installing charging stations by homeowner associations, and a ban on the use of internal combustion engine buses (except for hydrogen and methane-powered ones) in public transportation starting from 2036.

In September 2024, the State Energy Efficiency Agency established the "Decarbonization Fund" Joint Stock Company. The fund will be financed by the environmental tax on carbon emissions and public borrowings. The fund will provide subsidized loans at 9% per year to local authorities, as well as municipal and private enterprises, for the purchase of equipment for energy modernization, installation of solar panels, heat pumps, cogeneration units etc. To receive funding, projects must reduce energy intensity by at least 15%, fossil fuel consumption by at least 20%, or thermally modernize buildings to at least class C. In the first four months of 2024, the fund issued UAH 181 million to [17 projects](#).

Starting from May 2025, fuel consumed in Ukraine must [include](#) at least 5% biofuel (excluding gasoline with an octane number 98 or higher, as well as fuel supplied for the Ministry of Defense and the state reserve). The State Agency on Energy Efficiency will monitor implementation of this policy.

Energy security

The most significant development enabling Ukraine to maintain its electricity supply today is its connection to the European energy network, [ENTSO-E](#). Ukraine joined the network on March 16, 2022, after five years of preparation (in the night of February 23, 2022, a few hours before the full-scale invasion, Ukraine's energy system was disconnected from the Russian-Belarusian grid to test its autonomous operation). Joining ENTSO-E allows Ukraine to both import electricity from the EU and export surplus energy when it is available. Further expansion of cross-border transmission capacity is still needed but the EU Commission [plans](#) to completely integrate energy markets of EU, Ukraine, and Moldova by the end of 2026.

In accordance with the EU Directive 2009/119, the government has established a strategic [reserve](#) of oil and petroleum products to enhance energy security. The reserve must cover at least 90 days of imports or 61 days of consumption, whichever is greater. However, oil reserves will only be fully formed six months after the end of martial law, while fuel reserves are expected to be established by approximately 2032-2033.

In the spring of 2024, the government approved [regulations](#) for using natural gas extracted under production sharing agreements (PSAs). Under these regulations, investors will transfer the state's share of gas to the state-owned enterprise "Gas of Ukraine," which will sell it at the exchange. The Ministry of Energy website provides a list of [seven](#) production sharing agreements which were signed back in 2020-2021. At the end of 2023, Ukrnafta was [expected](#) to sign additional PSAs, but they have not yet materialized.

What next?

The Ukraine Facility and the IMF program [outline](#) further [harmonization](#) of Ukrainian legislation with European standards, integration of Ukraine's energy markets with the EU, climate change mitigation measures, and improvements in energy efficiency. These include:

- enhancing the independence of the National Energy and Utilities Regulatory Commission (NEURC);
- lifting the moratorium on tariff increases for heating and hot water, followed by the gradual liberalization of the gas market after the end of martial law;
- decentralizing heating systems, including approving rules for the connection and disconnection of individual heating plants;

- implementation of the [strategy](#) for thermal modernization of buildings, establishing minimum energy efficiency standards for buildings and approving a modernization program for district heating companies;
- developing an energy and climate plan to reduce greenhouse gas emissions, approving a new national commitment under the Paris Agreement, and establishing an independent Scientific Council on Climate Change;
- passing a new electricity market law to implement EU directives in Ukraine, appointing an electricity market operator, and introducing the EU directive on cross-border electricity trade;
- regulating state support for green investments by introducing stable and predictable rules that the government must comply with;
- increasing emission taxes and introducing emission trading mechanisms.

Despite Russia's persistent attempts to destroy Ukraine's energy system, since 2022, Ukrainian businesses and households have not remained without electricity for more than a couple of days. Many of them are adopting decentralized solutions, such as generators. The share of decentralized generation is likely to increase, particularly through "green" solutions such as solar panels. On the other hand, there is a pressing need to enhance energy efficiency, both in industrial enterprises and buildings. A significant effort is required to [harmonize](#) current regulations with European laws and to define the conditions for Ukraine's integration into the Green Deal (Ukrainian enterprises will need financial support for this). On the other hand, Ukraine can play a significant role in providing Europe with "green" hydrogen and biomethane.

8/*ENVIRONMENTAL PROTECTION*

Human activity always affects the environment in one or another way. Environmental policy is about finding a balance between people's need for goods and services that ensure a comfortable life and the state of the environment — air and water quality, soil fertility, a mild climate, biodiversity, and other so-called "nature services." For example, we want our homes to be warm, but we also want to breathe clean air, despite power plant operations.

The concept of "natural services" is [absent](#) from Ukrainian legislation, and environmental impact is often understood only in terms of compliance with or violation of state regulations on industrial pollution.

Overall, we cannot say that Ukraine has paid much attention to environmental protection. Sometimes, environmental concerns were used just to cover up corruption schemes (e.g., "Ukrecoresursy" — see Chapter 6) while the state of the environment continued to deteriorate. Although greenhouse gas emissions in Ukraine in 2019 were only [42%](#) of the 1991 level, this reduction was [primarily](#) due to the sharp decline in industrial production rather than the adoption of technologies that reduce environmental impact.

As in other areas, most environmental reforms in Ukraine were introduced to comply with the EU Association Agreement. Implementing the European Green Deal will be one of the biggest challenges of Ukraine's EU integration. However, today, the greatest threats to Ukraine's environment come from the aggressor country.

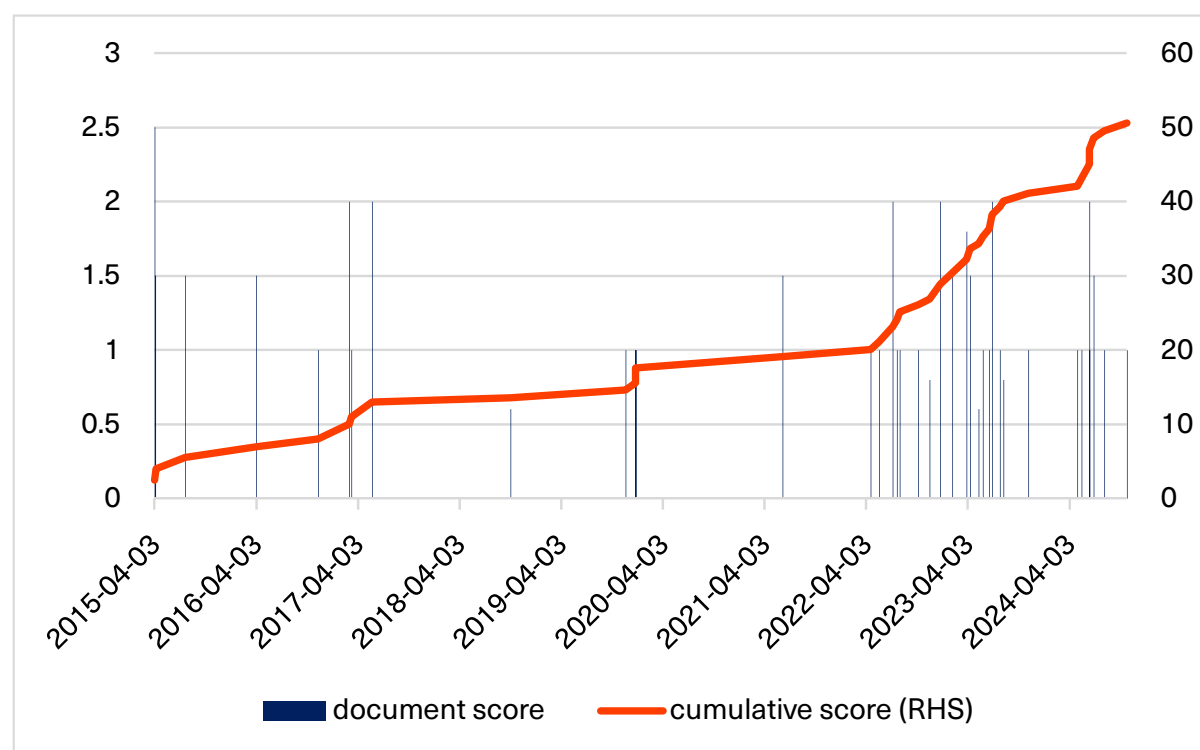
Reforms in 2014-2019

In 2015, the government eliminated a corruption scheme ([1](#), [2](#)) involving the control of isolated ballast in ports. Isolated ballast is water that ships take in from a sea or river into special tanks to improve stability. According to international conventions, this water can be freely replaced at sea within the 12-mile zone. However, before the relevant government resolutions were adopted, Ukrainian state authorities could conduct chemical inspections of this water and fine ships for alleged "violations of standards."

In 2016-2017, the government adopted several EU-related documents in the field of environmental protection. First, it [ensured](#) that lubricants and oils were indeed processed and

recycled, rather than disposed of. Only companies that have the necessary equipment were allowed to recycle these substances, and importers of lubricants and oils were required to recycle them either independently or through authorized companies. Second, it approved a [new](#) technical regulation limiting the use of certain substances (lead, mercury, cadmium, and several organic substances) in electrical equipment, in line with Directive 2011/65/EU.

Figure 8.1. Reforms in the environmental protection in 2015-2024, Reform Index data



Note: The cumulative score is the sum of event scores, which are derived from surveys conducted with [Reform Index](#) experts

Third, the government adopted the Law "On Environmental Impact Assessment." This law requires enterprises that affect nature, such as oil and gas refineries, thermal and nuclear power plants, chemical plants, and the construction of airports, airfields, highways, and hydraulic structures in sea and river ports, to conduct environmental impact assessments, hold public hearings on these assessments, and obtain resolutions from the Ministry of Ecology with recommendations on reducing environmental impact (if the Ministry doesn't issue a resolution, the project cannot proceed).

The government [introduced](#) risk-based control in hazardous waste management. It also [simplified](#) the process of obtaining permits for special water use, which includes taking water from rivers or lakes for industrial needs and discharging polluted water back into them.

In 2018, Parliament [increased](#) fines for illegal logging (tripling them to UAH 510 for individuals and raising them tenfold to UAH 2,550 for officials) and introduced prison sentences of 3 to

10 years for timber smuggling. However, due to a lack of control over the movement of wood, these measures failed to stop either illegal logging or smuggling.

Reforms in 2019-2024

Forest protection

One of the first environmental decisions of the new Parliament was the [adoption](#) of a law regulating amber extraction in December 2019. Illegal amber mining was turning Ukraine's Polissia region into a barren landscape. The new law introduced criminal liability for unlawful amber mining while also allowing auctioning of permits for legal extraction. The land rent for amber mining was reduced from 25% to 15%, with 30% of the rent revenue allocated to communities of respective regions. From then until 2024, [77 amber mining permits](#) were sold in the Rivne region and 13 in the Zhytomyr region, with legally extracted amber volumes increasing significantly, from less than one ton in 2019 to nearly 24 tons in 2023.

In the fall of 2019, Parliament imposed a [moratorium](#) on clear-cutting of forests in the Carpathians. However, experts from the Reform Index doubt that this law will be enforced, since previous similar laws were not. A system for monitoring the circulation of timber has still not been introduced. In October 2024, Parliament passed a [law](#) to address this issue, but due to poor communication and public backlash, the President [did not sign](#) it. The moratorium on timber exports also remains in place, although Ukraine has to lift it once this law is enacted (more details in Chapter 9).

In 2022, the government approved [regulations](#) for forest protection, setting rules for prevention of fires (as well as for fire tracking and reporting), illegal logging, and other harmful activities. This document also clearly defines the rights and responsibilities of forest rangers, which had previously been vague.

In April 2024, the Cabinet of Ministers established a [procedure](#) for logging forests for military needs at the request of military administrations. The same resolution states that starting in April 2027, clear-cutting for primary use (i.e., harvesting mature trees for industrial purposes) will be banned in the Carpathians. Instead, logging will be selective (i.e. only certain trees will be cut within a forest plot) to help preserve the forest ecosystem.

Air pollution control

At the end of 2019, in compliance with Ukraine's obligations under the Montreal Protocol on substances that deplete the ozone layer, Parliament [banned](#) the production of ozone-depleting substances and fluorinated greenhouse gases in Ukraine. It also restricted the import of these substances to registered entities, which are required to work on reducing their emissions. That same year, Parliament approved a law laying the foundation for an emissions trading system for greenhouse gases (GHG). The law [introduced](#) monitoring rules

for GHG emissions and penalties for violations of these rules. Establishing an emissions trading system is one of Ukraine's commitments under European integration.

In 2022, the Verkhovna Rada [revised](#) the conditions for obtaining permits for emissions of air pollutants. To obtain a permit, businesses must comply with emission limits and technological process requirements for reducing emissions. They must also submit annual reports on compliance with the conditions outlined in their permit. Permits will be issued by the Ministry of Ecology and local state administrations based on environmental impact assessments, if those are available.

That same year, Ukraine [allowed](#) other countries to participate in environmental impact assessments if they can be affected by projects implemented in Ukraine, such as construction of highways, airports, ports, and railways. In the fall of 2022, Parliament [passed](#) a law to create a unified national online system for tracking emissions and spreading of pollutants. The system will feature an interactive online map displaying all polluting enterprises along with information on their emissions, thus facilitating citizen participation in environmental policy development. In 2023, Parliament [shortened](#) the duration of public discussions during ecological impact assessments and allowed them to be implemented online.

Also in 2022, Parliament introduced a unified [register](#) for strategic environmental assessments (this is an evaluation of environmental impact of government projects and programs). This open-access register will include project planning documents, environmental impact assessments, and the results of public discussions of environmental impact.

In 2023, Parliament [established](#) a new public environmental monitoring system, initially [planned](#) for implementation in 2015. A public environmental monitoring system had [existed](#) since 1993, but after regional branches of the Ministry of Ecology were transferred to local authorities, its funding was significantly cut. This led to a lack of comprehensive and impartial information on environmental conditions. The new [system](#) that [provides](#) open access to environmental data is currently being populated with information. The state environmental monitoring system covers quality of air, water, land and soil, forests, biological and landscape diversity, the [geological](#) conditions, waste management, and the impact of physical factors such as temperature, noise, vibration, ionizing and non-ionizing radiation. The digital system is [integrated](#) with the State Water Cadastre, simplifying the issuance of special water use permits and the development of river basin management plans.

In July 2024, Parliament introduced industrial pollution [control](#). The law establishes the procedure for [obtaining](#) an integrated environmental permit from the Ministry of Ecology for specific equipment covering air emissions, special water use, and waste management. It [aligns](#) Ukrainian legislation with Directive 2010/75/EU on industrial pollution and is one of the requirements of the Ukraine Facility program. The directive mandates controlling and reducing industrial pollution using the best available technologies. It requires a

comprehensive assessment of a company's environmental impact and obtaining an integrated permit for discharges and emissions according to the "polluter pays" principle.

Within five years after the end of martial law, Ukrainian enterprises [will be required](#), in line with the Directive 2010/75/EU, to install automated systems for monitoring emissions of air pollutants at pollution sources. Currently, this requirement applies only to new equipment, while older "Soviet-era" equipment remains exempt from control systems. The government has time to refine this regulation before the end of martial law.

Also under the Ukraine Facility Plan, Ukraine introduced a framework [law](#) on the principles of state climate policy. The law outlines Ukraine's commitment to climate neutrality and compliance with its obligations as a member party of the [Paris](#) Agreement. Currently, Ukraine has pledged to reduce greenhouse gas emissions to 35% of the 1991 level by 2030, but this target will likely be tightened.

Waste reduction and waste management

Reducing waste and, ideally, implementing a [circular](#) economy should be a strategic goal for Ukraine as it proceeds to the EU. In recent years, Ukraine has adopted several waste management laws aligned with European principles.

Thus, in 2021, Parliament [banned](#) free plastic bags in retail trade and set minimum prices for them. Moreover, bags must be biodegradable.

In July 2022, the Verkhovna Rada passed a [comprehensive](#) waste management law. It regulates waste collection, transportation, and processing, introduces the European waste management hierarchy (prevention — preparation for recycling — recycling — other types of recovery — disposal), and enforces the "polluter pays" principle. The law establishes the organizational framework for waste management systems at various levels. Complementary regulations include the [procedure](#) for ending waste status (i.e. reclassifying waste, such as scrap metal, as raw materials) and the [procedure](#) for monitoring waste processing facilities. Waste processing enterprises will receive operating permits only if they have a program to monitor their environmental impact. These monitoring programs must be submitted annually to the Ministry of Environment. Together, these regulations implement three EU directives.

Water protection

Two key reforms took place in water protection between 2019 and 2024. In 2023, a framework [law](#) "On Wastewater Management and Treatment" was adopted. It defines the duties of wastewater management enterprises, establishes wastewater treatment requirements and discharge standards, defines technical conditions for connecting to centralized sewage systems, and outlines the procedure for state control in this sector.

In 2024, the Ministry of Environment approved [regulations](#) for protecting groundwater. These rules cover the drilling, conservation, and decommissioning of wells, as well as the requirement that water users provide regular reports on the condition of their wells.

Chemical and technogenic safety

To prevent negative environmental impact of chemical products and align Ukrainian legislation with European standards, Parliament [canceled](#) the licensing of production of highly hazardous chemicals. Instead, it laid the ground for a national chemical management system based on the European model and the implementation of key technical regulations from [REACH](#) (Registration, Evaluation, Authorisation and Restriction of Chemicals) and [CLP](#) (classification, labelling and packaging of substances and mixtures).

In 2023, the Verkhovna Rada [amended](#) the Civil Protection Code, clearly defining mechanisms for public oversight of industrial and technical safety, as well as obligations of businesses for fire safety protection. Later that year, Ukraine [joined](#) the Minamata Convention on Mercury, adopting internationally recognized mercury management rules. This is the start of efforts to address the issue of mercury waste at defunct enterprises where mercury is stored in [unsafe](#) conditions. Ukraine will be able to access funding from the Global Environment Facility as well as technical and expert support for these efforts.

The war has caused immense damage to Ukraine's environment — forest fires, soil and water contamination with toxic substances, and the destruction of rare wildlife in nature reserves. However, one of the most serious issues is landmine contamination. As of July 2024, approximately [144,000 square kilometers](#) were potentially mined. To address this, in June 2024, the Cabinet of Ministers approved a national demining [strategy](#) until 2033, along with its implementation plan for 2024-2026 (one of the benchmarks of the Ukraine Facility). Ukraine receives international assistance for demining, but in some cases, farmers [take](#) the risk of clearing land themselves.

What next?

According to the [Ukraine Facility](#) Plan, Ukraine must continue embedding European environmental standards into its legislation.

In particular, installation of automated pollution monitoring systems must be mandatory for all enterprises, not just new ones. Ukraine should also adopt a law on protection of the [Emerald](#) Network and introduce measures to mitigate environmental risks from industrial accidents.

Additionally, Ukraine must approve a Strategy and action plan for Implementing [Circular](#) Economy Principles, update the National Waste Management [Plan](#), launch a long-awaited

electronic timber accounting and wood product certification system to curb uncontrolled logging, and align its legislation with the European [Green Deal](#).

Of course, environmental protection is not only the government's responsibility. Every [company](#) and every citizen must make efforts to ensure that future generations enjoy nature "services" too.

9/EUROPEAN INTEGRATION AND INTERNATIONAL TRADE

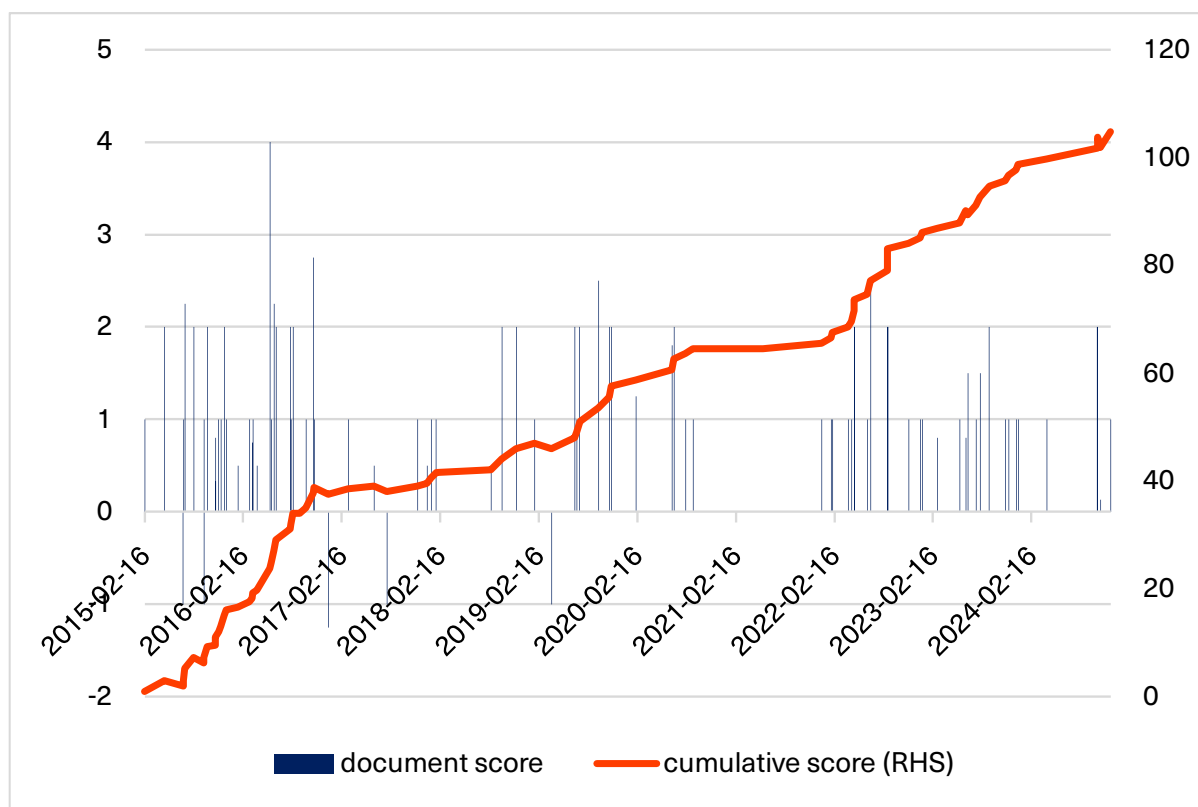
Ukraine is an open economy, with a significant share of its GDP driven by external demand, while imports of goods and services play a crucial role in budget revenues. Before the full-scale war, foreign trade in goods and services accounted for 80% of GDP (2021), and even during the war, it remained at above 50% (64% in 2023). In 2024, revenues from imports (excise duties, customs duties, and VAT on imported goods) constituted one-fifth of the state budget revenues.

Therefore, the efficiency of institutions, particularly customs authorities, trade regulation mechanisms, and logistics infrastructure, directly impacts the country's ability to generate foreign currency inflows, attract foreign investment, and secure resources for post-war recovery.

Over the past decade, reforms in international trade have focused on implementing the Association Agreement with the EU (signed in March-June 2014) and the Deep and Comprehensive Free Trade Area (DCFTA) Agreement (effective since January 1, 2016). These efforts aimed to align Ukraine's and EU regulations, expand market access, and strengthen the position of Ukrainian producers in the global market.

The trade-related reforms introduced since 2014 can be grouped into three major areas: customs modernization and facilitation of border crossings (including the introduction of “one-stop-shop” system), harmonization of non-tariff barriers (e.g., aligning sanitary regulations, product standards, and certification requirements with EU norms), and support for exporters (including the establishment of an Export Credit Agency). Strengthening intellectual property rights protection has played a crucial role in developing foreign trade too (see Chapter 6).

Figure 9.1. Reforms in trade across border in 2015-2024, Reform Index data



Note: The cumulative score is the sum of event scores, which are derived from surveys conducted with [Reform Index](#) experts

Reforms in 2014-2019

Signing of international treaties

As a [member](#) of the World Trade Organization (WTO) since 2008, Ukraine has adhered to its commitments in shaping and implementing tariff policies. These commitments include non-discrimination in the application of tariffs (ensuring uniform customs duties for all supplier countries, except for special regimes) and compliance with non-tariff regulations on imported goods and services. Additionally, Ukraine has maintained legislative transparency and engaged in trade dispute resolution through consultations and negotiations.

Since regaining independence in 1991, Ukraine has [signed](#) nearly 20 free trade agreements covering more than 45 countries worldwide (some bilateral agreements were annulled after signing of multilateral agreements) — see Table 9.1.

Table 9.1. List of countries with which Ukraine has signed free trade agreements

Country or Group of Countries	Date of Agreement Ratification	Document
Georgia	May 5, 1995	Free Trade Agreement Between the Government of Ukraine and the Government of the Republic of Georgia
North Macedonia	July 5, 2001	Free Trade Agreement Between the Republic of Macedonia and Ukraine
Switzerland, Liechtenstein, Norway, Iceland	December 7, 2011	Free Trade Agreement Between Ukraine and the States of the EFTA
CIS: Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Uzbekistan, Russia (the last one terminated by Russia in 2016, and by Ukraine via export ban)	July 30, 2012	Treaty on a Free Trade Area
Montenegro	October 16, 2012	Free Trade Agreement Between the Government of Ukraine and the Government of Montenegro
Austria, Belgium, Bulgaria, Croatia, Czechia, Cyprus, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Germany, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden	September 16, 2014	Association Agreement Between Ukraine, on One Side, and the European Union, the European Atomic Energy Community, and their Member States, on the Other Side
Canada	The first agreement was ratified on March 14, 2017; it was superseded by a new agreement ratified on April 10, 2024.	Free Trade Agreement Between Ukraine and Canada (no longer valid) Free Trade Agreement Between Ukraine and Canada
Israel	July 11, 2019	Free Trade Agreement Between the Cabinet of Ministers of Ukraine and the Government of the State of Israel
United Kingdom	December 16, 2020	Agreement on Political Cooperation, Free Trade, and Strategic Partnership Between Ukraine and the United Kingdom of Great Britain and Northern Ireland
Türkiye	Signed on February 3, 2022, awaiting ratification	Draft Law on the Ratification of the Free Trade Agreement Between the Government of Ukraine and the Government of the Republic of Türkiye

Source: [Ministry of Economy of Ukraine](#), [Verkhovna Rada of Ukraine](#)

The signing of the Association [Agreement](#) Between Ukraine and the European Union marked a pivotal step in the liberalization of trade relations. One of its most significant components was the establishment of the Deep and Comprehensive Free Trade Area (DCFTA), which aims to reduce both tariff and non-tariff barriers to trade. As a result, Ukraine's economy is gradually integrating into the EU single market. With the agreement in place, Ukraine can export goods to the EU duty-free or with minimal tariffs, although some products are subject to tariff quotas. Before the Association Agreement fully came into force in 2017, the EU unilaterally granted Ukraine autonomous trade preferences in 2014-2016. Under this regime, import duties were [eliminated](#) on 94.7% of Ukrainian industrial goods and 83.4% of agricultural and food products. The agreement also outlines the gradual opening of Ukraine's market to European goods.

Since 2018, Ukraine [has been](#) a member of the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention) — an international treaty establishing uniform rules of origin for goods traded among participating countries under free trade agreements. Thanks to the system of [cumulation](#) of origin, Ukrainian producers can use raw materials from other Convention member states (over 50 countries) while still having their products classified as being of Ukrainian origin. In contrast, goods from non-member countries may be subject to stricter import rules or higher tariffs when entering the markets of Convention participants.

Since December 1, 2023, the "origin of goods" [concept](#) is active under PEM, which simplifies the certification process by reducing the number of required documents and significantly extending the submission deadlines for them.

Rules for the cross-border transportation of goods

Ukraine has made significant progress in harmonizing its standards with EU requirements. By 2019, more than half of the technical regulations ensuring product safety were [aligned](#), and institutions responsible for standardization and market surveillance are developing. Changes of sanitary and phytosanitary measures have improved and accelerated Ukrainian producers' access to the European market. For example, in 2015, the Ukrainian Parliament [reduced](#) the issuance time for quarantine certificates for the import/export of plants from 5 to 1 day and required the customs service to publish a comprehensive list of quarantine-controlled items for each country. That same year, seed certification [procedures](#) and plant variety registration were aligned with EU standards strengthening intellectual property rights protection and improving seed quality in the Ukrainian market. Simultaneously, Ukraine [introduced](#) mandatory identification of livestock, a key prerequisite for Ukrainian meat products entering the EU market.

In 2019, Parliament introduced European [technical](#) regulations, enabling the recognition of results of Ukrainian product testing and certification by the EU. At the same time, adoption of

European food [quality](#) standards provided Ukraine's State Service on Food Safety and Consumer Protection the right to inspect quality control procedures in countries seeking to export food products to Ukraine.

In the services sector, a major [milestone](#) was the 2016 law on removing administrative barriers to exports. This law streamlined exports of services, particularly benefiting freelancers and IT professionals. Key changes included allowing electronic contracts, easing capital controls by replacing paper documents with bank statements, and eliminating unnecessary bureaucratic requirements, such as the mandatory translation of documents to Ukrainian.

Earlier, in 2016, the National Bank of Ukraine (NBU) [allowed](#) banks to use electronic documents to monitor foreign trade operations and [lifted](#) the requirement to obtain a "Derzhzovnishinform" certificate for imports of services. Previously, any resident willing to purchase services, works, or intellectual property rights from a non-resident for more than EUR 50,000 had to obtain a certificate from the state-owned enterprise "DerzhzovnishInform" confirming that the price of a service aligned with market conditions. Initially, this requirement was introduced to shut down a capital outflow channel. It was canceled because the NBU improved its financial monitoring system.

Unfortunately, there were [anti-reforms](#) in this sector. In 2015, the government [introduced](#) reference prices for imported goods set by the State Fiscal Service. This mechanism intended to prevent importers from declaring lower than actual prices of goods to reduce import tax obligations. However, due to lack of integrity among customs officers, importers quickly adjusted their schemes (e.g., by misclassifying their products under tariff codes for cheaper goods). This regulation was [repealed](#) in 2016.

Customs office reform

Both [individuals](#) and [businesses](#) consider customs to be one of the most corrupt institutions in Ukraine, with estimated losses due to customs-related corruption reaching [USD 4-5 billion](#) annually. Initially, the government attempted to tackle the issue using traditional methods, such as creating [mobile](#) inspection groups and a [cross-regional](#) customs service (no longer operational), to conduct unexpected border checkpoint inspections. However, these efforts failed to produce meaningful results.

The most progressive reform came in 2016 with the [introduction](#) of the one-stop-shop system for international trade. This system streamlined customs procedures and reduced cargo clearance times at the border by integrating all types of import and export controls, including customs, sanitary-epidemiological, veterinary, phytosanitary, environmental, and radiological inspections. This reform eliminated bureaucratic obstacles and significantly improved coordination among government agencies responsible for monitoring international shipments.

Like many other reforms, the one-stop-shop system [did not become fully operational](#) right away due to the insufficient digitalization of government agencies. To address this issue, in 2018, the government [improved](#) the electronic exchange of information between state authorities and businesses, mandated all customs offices to operate under the new procedure, and [limited](#) the waiting time for cargo inspections to 12 hours. Additionally, a risk-based approach was introduced for controlling goods transported in wooden or paper packaging materials. In October 2018, the single window procedures were further [aligned](#) with the WTO Agreement on the Application of Sanitary and Phytosanitary Measures and significantly simplified.

Finally, in July 2019, Parliament [eliminated](#) the need for two separate customs declarations for trade between Ukraine and the European Free Trade Area. This was an important move toward Ukraine's integration into the EU Common Transit System, a process that the subsequent government and Parliament continued. These reforms streamlined border-crossing procedures and reduced opportunities for corruption. However, other critical elements, such as selecting honest customs officers and increasing their salaries, have yet to be implemented.

Export Credit Agency

Due to several structural factors that kept lending rates in Ukraine relatively high, including a lack of trust in the judicial system and persistent inflation, Ukrainian businesses have traditionally relied on self-financing rather than loans for development projects. Thus, the idea of establishing a specialized institution to support the financing of export contracts had been under discussion for a long time. The first step came in 2016 when the National Bank [simplified](#) access to credit for Ukrainian companies conducting import operations through foreign export-import agencies. The NBU also allowed businesses to submit electronic copies of documents instead of original paper documents.

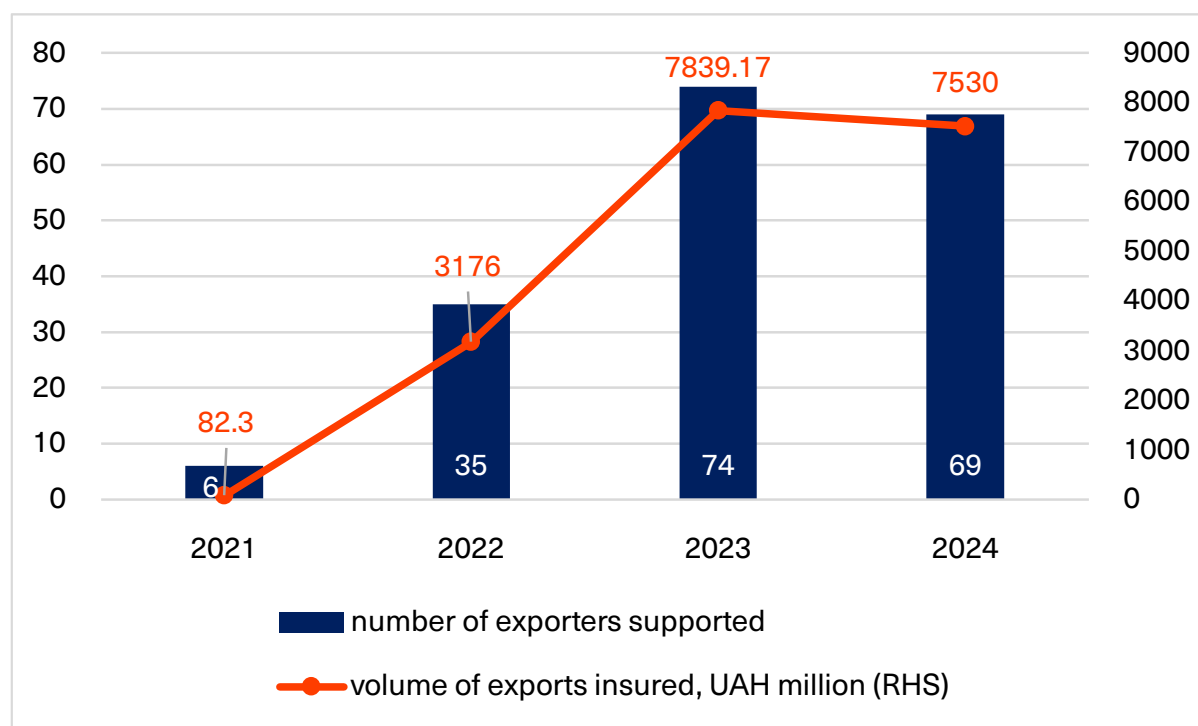
In late 2016, Parliament passed a [law](#) creating the Export Credit Agency (ECA). However, experts from the Reform Index evaluated it [negatively](#) due to several flaws. It contradicted WTO rules, created opportunities for fraud (as the ECA was initially exempt from insurance and financial market regulations), and established a non-level playing field, limiting the range of manufacturers of goods and services eligible for ECA services. To address these issues, in 2022, the ECA was [transferred](#) from the Ministry of Economy to the supervision of the NBU. In 2023, the NBU updated the [regulation](#) of the agency's operations, granting it the status of a special-purpose insurer.

The ECA effectively began operations in 2021. However, due to its relatively small statutory capital — only UAH 2 billion — its transaction volume remains limited (Figure 9.2).

In 2023, the ECA [obtained](#) the right to insure investments against war risks — a function previously available only through foreign organizations like MIGA, a World Bank agency.

However, this type of insurance has not yet been implemented due to a lack of funding. Meanwhile, the government has provided [ship owners](#) with a mechanism to receive compensation directly from the state budget for damages resulting from military aggression if insurers refuse to cover the losses.

Figure 9.2. Activities of the Export Credit Agency



Source: Export Credit Agency

Export Restrictions

Adverse developments in international trade included the introduction of export restrictions on timber and scrap metal, which violated Ukraine's international commitments.

In 2015, the government [canceled](#) export licensing requirements for non-ferrous scrap metal. However, since scrap metal is a valuable raw material for the metallurgical industry, domestic steel producers lobbied for export restrictions. In response, in 2016, Parliament passed a compromise [law](#). Licensing requirements for scrap metal exports were lifted, but export duties were temporarily increased from EUR 10 to EUR 30 per ton for one year. In the same year, import duties on scrap metal were [removed](#). In 2017, the higher export duty was [extended](#) for another year, sparking criticism from Ukraine's European trade partners. By 2019, the export duty on scrap metal was [raised](#) even further. However, this measure did not apply to countries with which Ukraine has free trade agreements, including the EU, preventing further objections from European partners.

In 2020, Parliament significantly **deregulated** scrap metal operations by eliminating the distinction between "household" and "industrial" scrap, allowing cash transactions, and removing local governments' power to oversee scrap collection businesses. These changes aimed to bring the market out of the shadows.

A much more damaging issue in Ukraine's relations with the EU was the 10-year export **ban** on roundwood, which Parliament imposed in 2015. This violated Ukraine's international commitments and caused Ukraine to lose **out on** a EUR 600 million macro-financial assistance tranche from the EU. In 2021, an international arbitration tribunal **ruled** that Ukraine must lift the moratorium. However, the restriction remains in place, **awaiting** the implementation of a law on timber market transparency.

The government justified the moratorium on roundwood exports by two main reasons: the need to preserve forests and create conditions for the development of the furniture industry. Our **research** shows that the ban did not reduce deforestation, and the growth in furniture and paper production was minimal. Moreover, these industries represent only a small fraction of Ukraine's GDP. At the same time, exports of minimally processed wood, such as firewood and planks, increased, along with the smuggling of roundwood. Therefore, to effectively preserve Ukraine's forests, it is essential to impose logging restrictions and establish a robust enforcement mechanism for these restrictions.

After 2019: four “visa-free regimes” for Ukraine

The main areas of Ukraine's progress in the development of international trade are closely linked to the implementation of the Association Agreement with the EU. They can be broadly described as the four "visa-free" regimes — economic, customs, transport, and industrial.

Economic visa-free regime

The development of the economic "visa-free regime" began with the creation of the Free Trade Area with the EU and has focused on simplifying export procedures for goods and services. It includes free access to EU markets, alignment of Ukrainian legislation with European standards, and streamlined cross-border trade procedures, such as mutual recognition of product certification and harmonizing packaging, labeling, and technical standards.

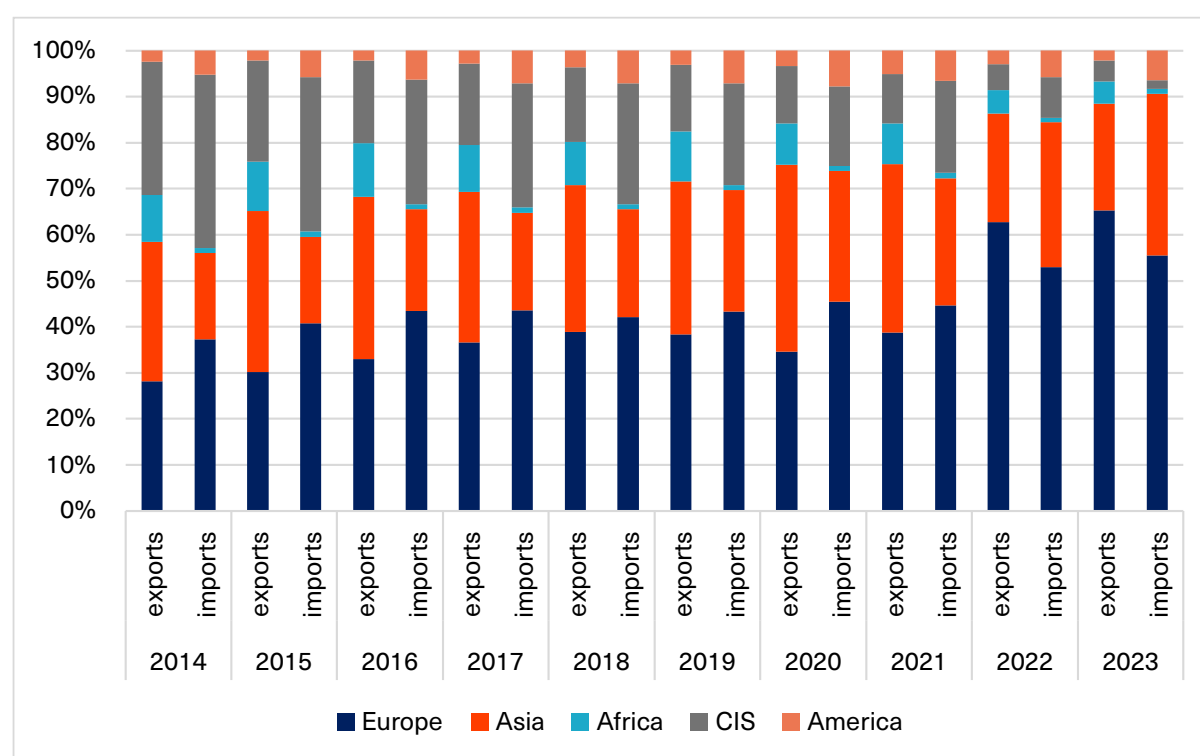
Ukraine is gradually integrating into the EU Digital Single Market, facilitating e-commerce and IT cooperation. This closer collaboration includes **recognizing** electronic signatures and **digital** identification tools, simplifying cross-border electronic payments, and creating favorable conditions for developing digital services.

Since June 2020, Ukraine has **implemented** a customs procedure for protecting intellectual property rights that is **aligned** with EU regulations. This reform not only protects business interests but also serves as an important factor in attracting investment.

With the onset of Russia's full-scale war against Ukraine, the economic "visa-free regime" gained even more significance. In May 2022, the European Union **suspended** import duties and quotas on a wide range of Ukrainian goods, including agricultural and industrial products. The EU also introduced "**solidarity lanes**" to facilitate exports of Ukrainian goods. This decision became a lifeline for Ukraine's economy, which was struggling due to the blockade of traditional maritime logistics routes and the occupation of industrial regions. As a result, Ukraine significantly increased its exports to the EU, making the region its largest trading partner (Figure 9.3), accounting for over 65% of total trade volume.

The European Commission extended the preferential trade regime for Ukrainian exports for two consecutive years. This decision was a part of the comprehensive aid package to support Ukraine during the war. However, certain agricultural products were **exempt** from these benefits. Despite widespread EU support for Ukraine, the preferential trade regime sparked protests among farmers in some EU countries, particularly those bordering Ukraine. Nevertheless, the transit of Ukrainian goods through these countries was allowed to ensure access to other markets. Moreover, the EU provided financial support to affected European farmers to compensate for their losses.

Figure 9.3. Regional structure of Ukraine's foreign trade in 2014-2023, %



Source: *NBU*

Currently, the Ukrainian government is negotiating not only about the preservation of preferential access to the EU market but also on amending the Association Agreement to make these trade benefits permanent.

Ukraine continues to harmonize its standards with international norms. One of the key areas of progress has been the modernization of the classification of goods for foreign economic activity. In 2020, Ukraine [aligned](#) its Classification of Goods for Foreign Economic Activity (UCGFEA) with the sixth edition of the Harmonized Commodity Description and Coding System ([HS 2017](#)). By 2023, the country had [implemented](#) the latest [HS 2022](#) update. These changes are more than just formal updates — they include new codes for modern goods that have become part of everyday life, such as electric vehicles, smartphones, medical equipment, semiconductors, advanced electronics, and products supporting green energy development. By aligning the UCGFEA with the EU's Combined Nomenclature, Ukraine ensures a consistent approach to product classification between Ukrainian and EU customs authorities, thereby speeding up border clearance procedures.

Customs visa-free regime

In the fall of 2019, during the so-called "turbo mode" legislative period, Parliament passed numerous previously prepared bills necessary for Ukraine's integration into the European transit system.

One of the most significant changes was the [integration](#) of Common Transit Convention (CTC) provisions into Ukrainian legislation. This reform allows Ukraine to exchange customs information with 35 European countries, access data on goods in transit, and use a single customs declaration for moving goods between countries via the New Computerised Transit System (NCTS) — a shared IT platform for customs procedures.

In 2022, Ukraine fully [joined](#) the CTC and can now use a single transit declaration and financial guarantee to cover customs duties across all transit countries. Additionally, real-time customs data exchange between nations has been implemented. In 2023, the government [allowed](#) Ukrainian companies to use the NCTS for domestic transit, enabling businesses to complete customs procedures at inland customs offices rather than at border checkpoints.

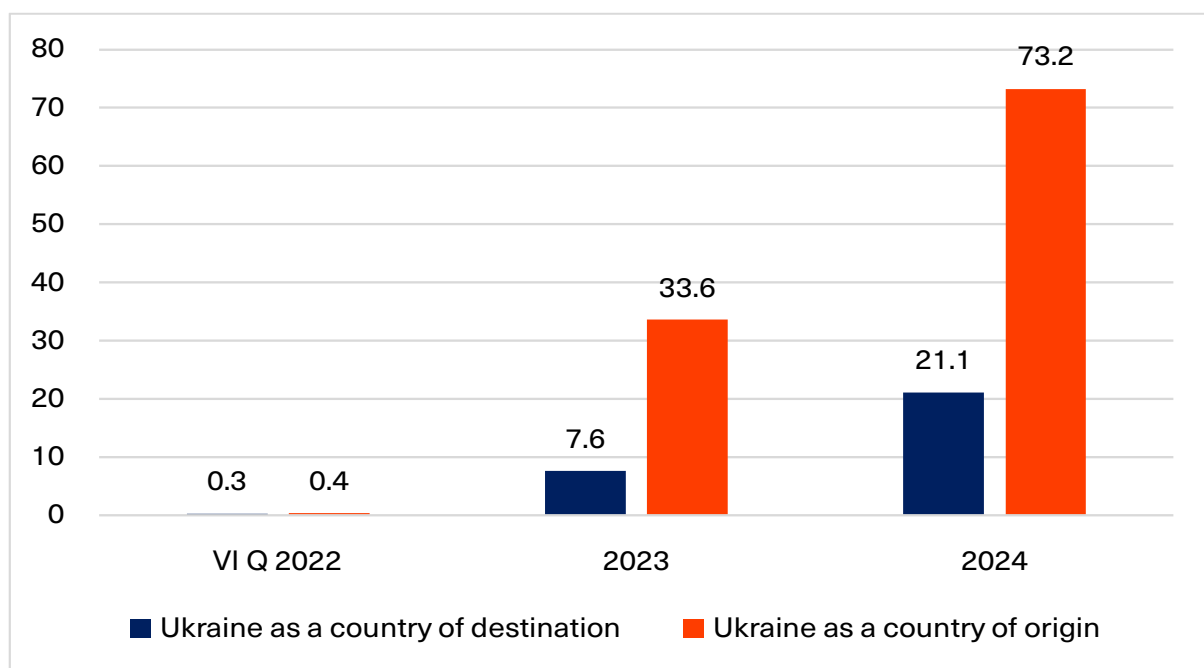
In 2024, Ukraine became one of the first Convention member states to [transition](#) to Phase 5 of the NCTS. Customs authorities have increased the number of transit clearances (Figure 9.4), demonstrating the system's efficiency and successful implementation in Ukraine.

As a member of the World Customs Organization (WCO), Ukraine has committed to aligning its customs legislation with international standards, particularly the SAFE Framework of Standards to Secure and Facilitate Global Trade. Additionally, under the EU Association Agreement, Ukraine has pledged to implement the provisions of the EU Customs Code. One of its key provisions is the introduction of the Authorized Economic Operators (AEO). This

initiative will simplify customs procedures for businesses that meet reliability, transparency, and legal compliance criteria.

The first steps in this direction were made as early as 2012 when Parliament adopted a new [Customs Code of Ukraine](#), which included a separate Chapter on AEO status. However, the mechanism was not implemented in practice due to a lack of sub-legal acts and relevant institutions. Between 2019 and 2020, with the support of the EU Public Finance Management Support Program for Ukraine (EU4PFM), the government developed the necessary regulatory framework to launch the AEO program. In 2019, Parliament passed a respective [law establishing](#) criteria for obtaining AEO status, outlining enterprise assessment procedures, and defining privileges for AEO-certified entities.

Figure 9.4. Number of customs declarations processed under the NCTS, thousands



Source: [State Customs Service of Ukraine](#)

During 2020-2021, in collaboration with international partners, the State Customs Service of Ukraine worked on developing regulatory acts, training personnel, and creating electronic tools for managing the AEO program. The first company [received](#) AEO status in March 2021. By the end of 2023, 21 enterprises were certified as AEO. The number of AEOs grew most during 2024, when their number reached 77. The Customs service continues developing software solutions to expand the AEO program.

Since 2023, Ukraine has been a [participant](#) in the EU "Customs" program — an initiative aimed at enhancing cooperation between EU member states' customs administrations and their partners. The program aims at harmonizing customs procedures, strengthening border security, and integrating customs systems across different countries through common standards.

To harmonize its legislation with the EU, in December 2023, Ukraine [criminalized](#) large-scale smuggling of goods, although criminal liability for smuggling specific items (such as cultural artifacts, weapons, and narcotics) had already been in place. In April 2024, Ukraine [opened](#) a Coordination Center for Integrated Border Management with the EU, aligning with the border management framework used by all EU member states.

Starting in April 2025, Ukraine will implement a [law](#) aimed at [harmonizing](#) its customs legislation with EU standards. This law introduces simplified customs clearance procedures similar to those used in the EU to facilitate trade and reduce administrative burden on businesses (implementing the system of "customs representatives," adopting the European model for types of customs warehouses, expanding available services, updating the approach to applying customs regimes etc.).

Transport visa-free regime

Ukraine's integration into the EU Single Transport Area aims to remove restrictions in four key transport sectors: road, rail, aviation, and maritime. This process not only improves Ukraine's national infrastructure but also enables the country to integrate into European transport corridors, ensuring seamless movement of goods and passengers across EU borders.

In 2019, the Ukrainian government launched a pilot [project](#) to [introduce](#) a unified domestic electronic consignment note (e-TTN) — a digital document confirming the right to transport cargo. This significantly simplified transportation procedures and reduced administrative barriers for transport companies. Building on this experience, in 2020, Ukraine adopted a [law](#) [allowing](#) the use of electronic consignment notes for international road freight transport under the e-CMR framework (the electronic version of the Convention cargo transportation by automobile transport). This was a major step toward integrating Ukraine's transport system with the European one.

The primary goal of these reforms is to develop Ukraine's transit potential, enhance the competitiveness of Ukrainian international carriers, and ensure participation in international digital transport corridors, simplifying logistics and reducing costs.

In 2021, Ukraine introduced a barcode [system](#) for transport permits and [adopted](#) European size and weight regulations for trucks — a measure that can also help reduce damage to Ukrainian roads.

In June 2022, Ukraine [signed](#) an agreement with the EU allowing permit-free road freight transport for one year. Similar to removing tariffs and quotas, this measure helped Ukrainian exporters compensate for the loss of major maritime logistics routes by shifting to land transportation. In 2024, the agreement was extended until the end of 2025, with the possibility of automatic renewal. The government is working on making this arrangement permanent.

Beyond the EU, Ukraine has signed similar freight transport agreements with North Macedonia and Norway, expanding trade route options and enabling market access without additional administrative barriers.

In October 2021, Ukraine [signed](#) the Common Aviation Area Agreement with the EU, simplifying market access for airlines. Under this agreement, Ukraine committed to adopting EU standards in aviation safety, environmental protection, passenger rights, and competition regulations. The agreement aims to liberalize the aviation market by removing restrictions on the number of flights, carriers, and routes, as well as simplifying access to the air transport market.

Industrial visa-free regime

Ukraine is working on signing the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA), often referred to as the industrial "visa-free" agreement. This agreement will enable mutual recognition of product quality certificates between Ukraine and the EU, allowing exports of Ukrainian manufacturing products to the EU without additional certification. In the first phase, the agreement will cover three priority sectors — machinery, low-voltage equipment, and electromagnetic compatibility — with the potential to expand to 27 industrial sectors in the future. Ukraine has already completed a significant portion of the [preparatory work](#), including adopting 25 out of 27 technical regulations, harmonizing standards, and engaging in negotiations with the EU to finalize the agreement.

Reforming the Ukraine's Customs Service

Institutional reforms of Ukraine's Customs Service have been one of the key priorities in the country's European integration efforts. These objectives are outlined not only in [national](#) policy documents but also in several international agreements, such as the [Ukraine Facility](#) and the IMF [Extended Fund Facility](#). The challenges facing Ukraine's customs system require radical solutions, as an efficient customs service is essential not only for budget revenue generation but also for national security.

Until 2019, customs functions were performed by the State Fiscal Service of Ukraine (SFS), which also [implemented](#) the functions of the tax authority. This concentration of powers within a single agency led to inefficient management, excessive bureaucracy, and an environment [conducive to corruption](#). The joint administration of tax and customs procedures complicated the implementation of clear policies in each area, ultimately reducing the quality of services for businesses and citizens.

In response to these challenges, in 2019, the government returned to the model that existed before 2013, when the Ministry of Revenues and Duties was [created](#) by merging the tax and customs services. In 2019, the State Customs Service of Ukraine and the State Tax Service of

Ukraine were established as separate legal entities. This step allowed for a clearer division of their functions and responsibilities, helping to avoid overlap. The establishment of a separate State Customs Service was also intended to ensure greater transparency and efficiency in customs procedures, enhance supervision of financial flows, and reduce political influence. The Customs Service is subordinate to the Ministry of Finance.

Efforts to reduce corruption at customs have been supported by implementing EU-aligned procedures, [introducing](#) preliminary customs declarations to detect suspicious transactions (2019), and digitizing customs operations. To broaden the tax base and curb smuggling, since 2022, Ukrainians are required to declare postal [shipments](#) from abroad, with duties and VAT applicable to shipments valued over EUR 150 (today the government [plans](#) to tax all the shipments).

Despite structural reforms, Ukraine's customs service remains a "[leader](#)" among the government agencies most prone to corruption. Frequent leadership changes — seven different heads or acting heads between 2019 and 2024 — have only worsened the situation, preventing the development of a stable policy and eroding public trust in the customs system.

To address these issues, in 2024, Parliament passed a [law](#) to fundamentally [reform](#) the approach to customs management and personnel selection. One of its key innovations is the introduction of a competitive selection process for the position of Head of the State Customs Service, with the participation of international experts, to prevent political interference in the appointment process. Moreover, the Ministry of Finance will no longer approve appointments into mid-level positions at the Customs Service, and every customs officer will be required to pass a one-time evaluation. There are also plans to implement a KPI system for evaluation of customs officers and to increase funding for the customs service, which is expected to enhance the professionalism and motivation of its employees.

Future steps and plans

By the end of 2023, Ukraine's overall progress in implementing the Association Agreement was [estimated](#) at 77%. This means that most requirements and commitments under the agreement have been met, but further improvements are still needed in certain areas. The highest progress — 89% — was achieved in overcoming technical barriers to trade, while advancements in transport (59%) and customs (61%) remained significantly lower.

Further international trade reforms are outlined in the Ukraine Facility Plan and the Association Agreement, while customs reforms are detailed in the [Revenue Strategy](#) approved by the government at the end of 2023. These reforms can be broadly categorized as institutional and sectoral.

Institutional reforms focus on the ongoing reform of the State Customs Service aimed at increasing its transparency and efficiency. The [plan](#) for the coming years includes personnel evaluation, optimization of processes, implementation of KPIs, defining performance indicators for the Customs Service [Anti-Corruption Program](#), and granting the State Customs Service new investigative functions. This latter change is embedded into the law on the criminalization of smuggling and aligns with the EU practice where customs authorities have law enforcement powers.

In February 2024, the Ministry of Finance [approved](#) the Strategic Digitalization Plan of the State Customs Service for 2024-2026, based on the EU Multi-Annual Strategic Plan for Electronic Customs ([MASP-C](#)). This plan aims to implement paperless procedures, develop and integrate modern IT systems, and strengthen cybersecurity for customs infrastructure. From an IT system development perspective, the key objective for 2025 is the transition to the next (sixth) phase of the New Computerized Transit System (NCTS).

In 2024, the government began preparing a new Customs Code fully harmonized with European legislation to facilitate Ukraine's integration into the EU single customs area. The document is expected to be [adopted](#) in 2025.

Sectoral reforms are primarily focused on the transport network. Naturally, addressing the consequences of the war is a priority — restoring damaged logistics routes, demining lands, and resuming transport services in deoccupied territories. However, reforms extend to all areas of transportation, particularly in the context of Ukraine's active participation in the modernization of the Trans-European Transport Network (TEN-T).

At the end of 2024, Ukraine adopted the updated National Transport [Strategy](#) and the relevant action plan extending until 2030, replacing the 2018 [strategy](#). The new strategy focuses on developing all transportation modes, aligning with EU policy goals, and enhancing Ukraine's export and logistics potential in line with EU standards. Another government [strategy](#) until 2030 envisions the development of border crossing infrastructure — modernization of checkpoints, increasing the capacity of transshipment hubs, and the development of service areas.

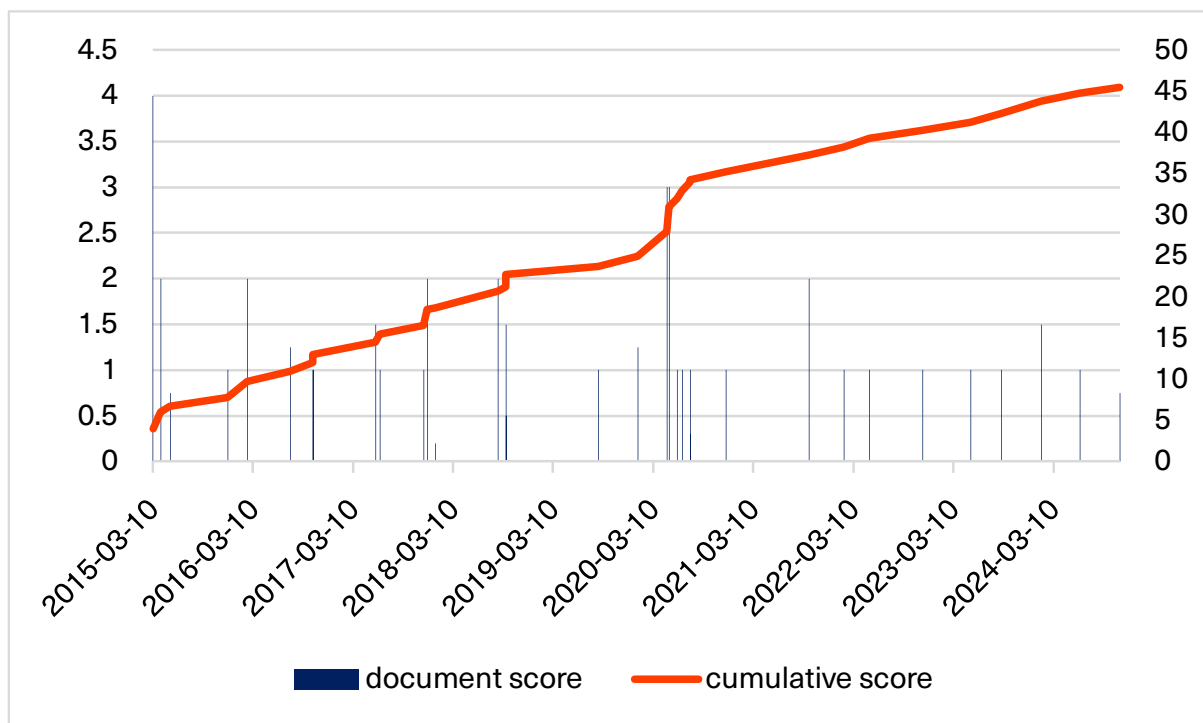
The Cabinet of Ministers of Ukraine has [drafted](#) a new Law on Railway Transport, which aims to create a competitive railway transportation market. This means opening the market to private carriers, establishing railway transport regulatory agencies modeled after the EU ones, and defining interoperability requirements to ensure safe transportation.

Beyond European integration, foreign trade development requires negotiating new free trade agreements with such countries as the United States, Mexico, South Korea, Japan, Singapore, other nations in Africa, Asia, and South America (particularly those that have FTAs with the EU). Besides direct bilateral benefits, expanding Ukraine's FTA network will enable our country to better utilize the opportunities provided by its membership in the PEM Convention.

10/LAND MARKET

Ukraine's transition from collective farms to private land ownership and the development of farming was far from easy. Between 1991 and 2001, land from former collective farms was [distributed](#) among collective farm workers and villagers. As a result, about 7 million rural residents received a total of 27 million hectares of agricultural land (so-called “pai” or land plots), accounting for 45% of the total land area of Ukraine. At the same time, almost anyone could get 0.06 hectares of land for subsistence farming, which provided many people a means to survive during the 1990s economic crisis. As of 2019, about [73%](#) of Ukraine's agricultural land was privately owned (31.1 million ha, of which 27.7 million were private land plots/pai). 10.5 million ha were in state or communal ownership.

Figure 10.1. Land market reforms in 2015-2024, Reform Index data



Note: The cumulative score is the sum of event scores. Event scores are derived from surveys conducted with [Reform Index](#) experts

In the late 1990s, landowners had the right to sell their land. However, in early 2001, the government imposed a moratorium on land sale until the adoption of the Land Code. Even though the Land Code was adopted in October of the same year, the moratorium stayed in effect until July 2021 (at the same time, other land except for pai could be traded). The moratorium was [extended](#) nine times because lawmakers failed to pass land market regulation.

The moratorium was disadvantageous for land plot owners, as these were typically older people who could not work the land themselves. Landowners could neither take a loan (for example, to buy agricultural machines) using their land as collateral, nor sell their land plot (and, for example, start their own business), so they had to lease their land at a lower price. While the moratorium was in effect, about a million landowners passed away, so before introducing the land market, the parliament had to address the issue of their plots (they were transferred to municipal ownership).

As an implicit subsidy for agrarian producers, the moratorium not only reduced the efficiency of agriculture and contributed to land depletion but also led to the emergence of the [shadow land](#) market. However, populist politicians strongly [opposed](#) the land market for a long time and ultimately not only significantly [increased](#) the share of people who do not support the market (figure 10.2B) but also turned public opinion against the privatization of land (figure 10.2A). Later, they used survey results to justify extending the moratorium. However, when the question is framed differently (Figure 10.2C), the majority of Ukrainians actually support the land market.

Figure 10.2A. What is your attitude to the privatization of land?

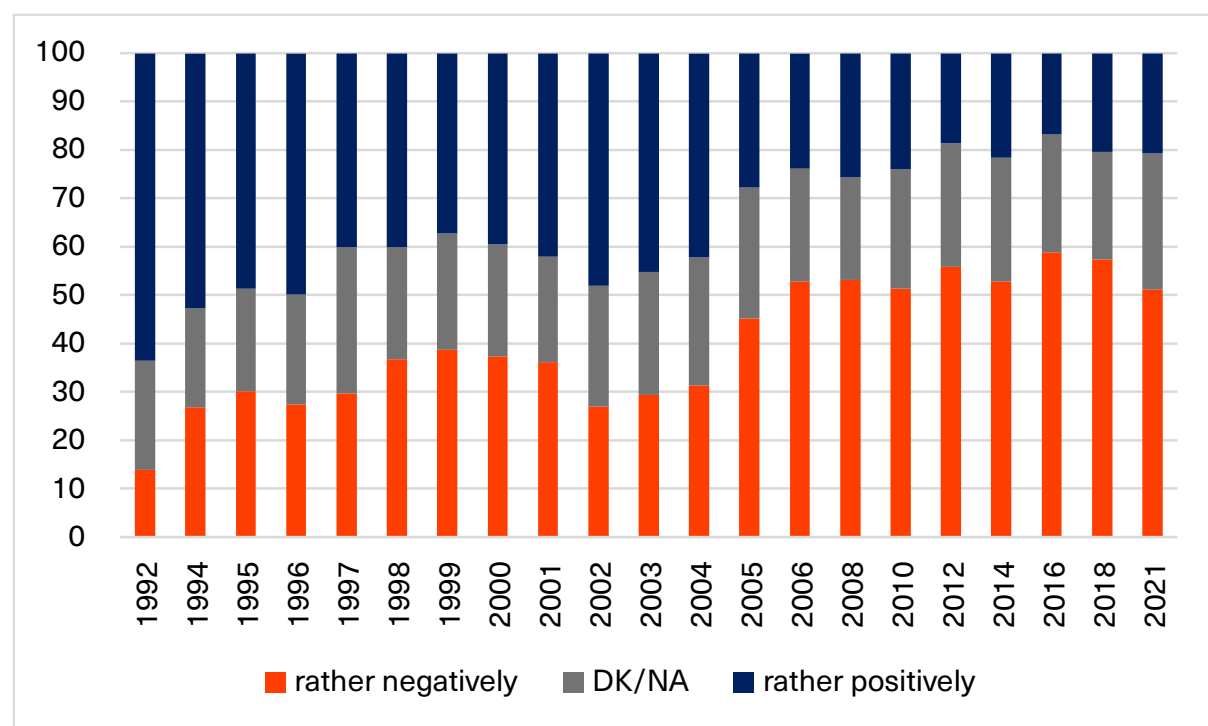


Figure 10.2B. In your view, should the land trade be allowed?

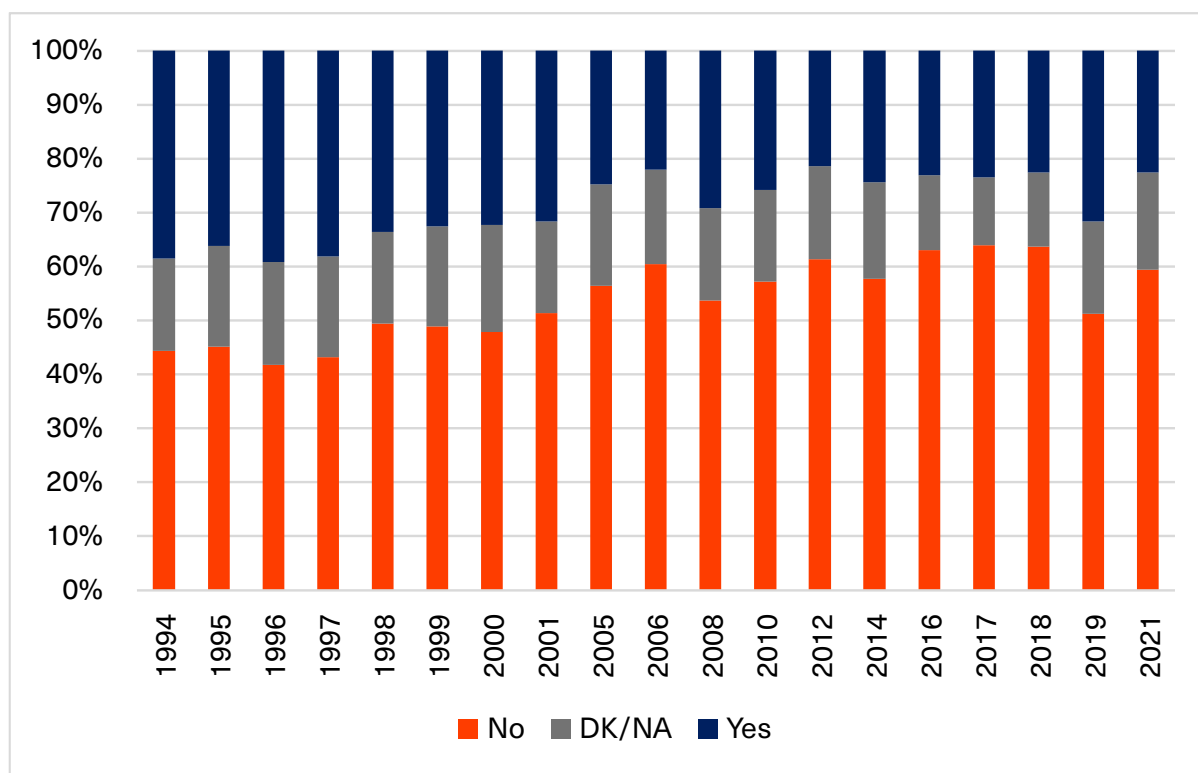
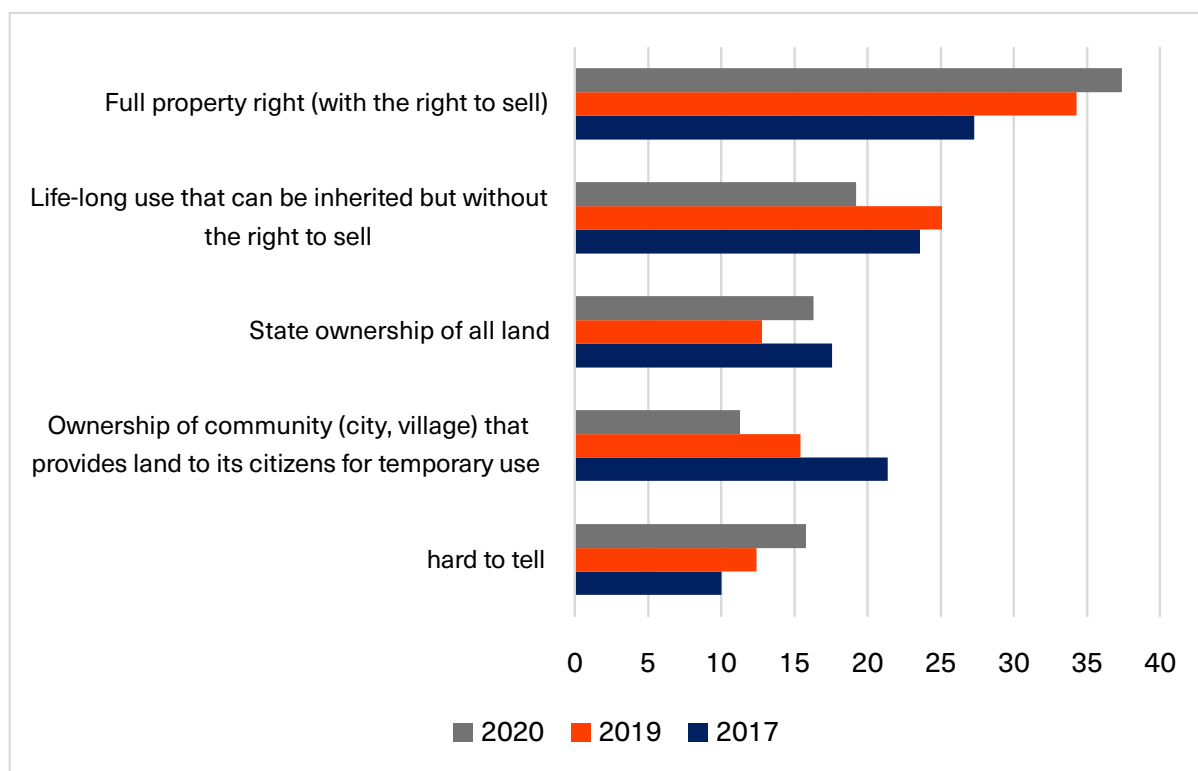


Figure 10.2C. In your opinion, what should land property rights be like?



Source: Survey "Social Monitoring of Ukrainian Society" by the Institute of Sociology of the NASU

After 2014, discussions became more specific — experts and politicians started debating the land market model. Specifically, they raised such questions as: Should there be a cap on the land owned by one person? Should foreigners be allowed to buy land? Should state land be sold first, followed by private land? VoxUkraine consistently advocated for a more [liberal](#) model. In the end, Parliament adopted a compromise model that bans foreigners from the land market and limits the amount of land one entity can own. At the same time, both state and private land sales were permitted simultaneously. Reforms implemented since 2014 established the land market infrastructure: rules for registration, identification of owners in case of disputed plots, mechanisms for leasing land or changing its ownership, etc. Next, we overview these reforms.

Reforms in 2014-2019

State GeoCadastrе, State Agency of Water Resources, Land Monitoring and Registration

In 2015, the government [dissolved](#) the State Land Agency and transferred its functions to the State GeoCadastrе (at different times, the State GeoCadastrе was [subordinate](#) to different ministries, but this decision aligned with the broader strategy of consolidating all land management functions). The main task of the State GeoCadastrе was to [register](#) all land plots, including their coordinates, owners, and encumbrances, which was a prerequisite for launching the land market.

Next year, the government [tasked](#) the State GeoCadastrе with detecting illegal transactions with land (e.g. illegal trade or raidership). If a violation was found, the State GeoCadastrе would report it to law enforcement agencies. However, this did not entirely stop land raiding as we discuss below.

In 2018, the government [introduced](#) a risk-based approach to state supervision of land management performed by the State GeoCadastrе. Under this approach, business entities are categorized into three groups (high, medium, and low risk), and the frequency of scheduled inspections is determined based on their risk group. Shortly afterwards, the risk-based approach was [implemented](#) for oversight of topographic, geodetic, and cartographic activities by the State GeoCadastrе.

In August 2019, the government changed the procedure for the management of State GeoCadastrе and [approved](#) a new procedure for land monitoring. During the land monitoring, the State GeoCadastrе or its regional offices detect changes in land fertility, pollution levels, landslides, etc. for timely prevention and mitigation of negative processes. The Ministry of Agrarian Policy implements monitoring of soils, a component of land monitoring.

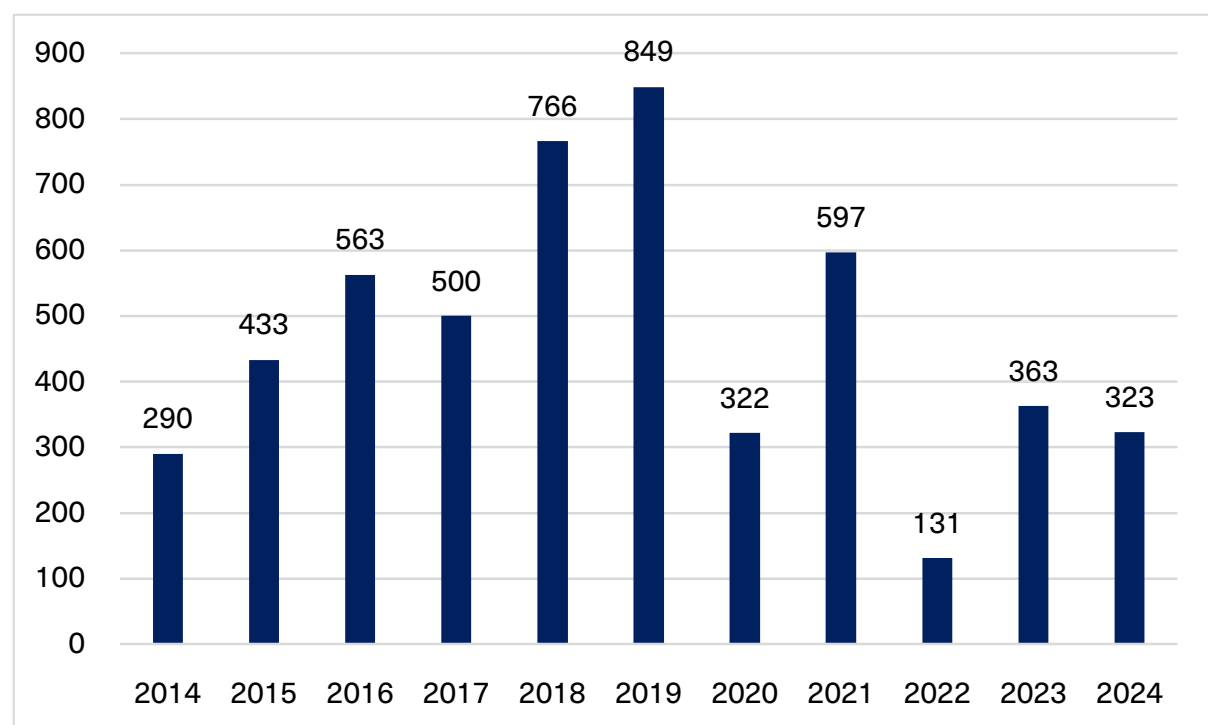
In 2017, the State Agency of Water Resources [began](#) registration of surface water objects to find out how many such objects are there in Ukraine. Next year, the government introduced a

new water monitoring procedure, which would be implemented by the Ministry of Environmental Protection, the State Agency of Water Resources, the Ukrainian Geological Service, and the State Emergency Service. They will check a range of chemical factors of water, the presence and development of flora and fauna, evaluate risks to the existence and use of water objects, and suggest risk mitigation measures.

Land raiding

Decentralization, specifically the delegation of powers from state registrars (a lengthy and costly process) to notaries, led to unexpected consequences — a surge in land raiding. Another key factor enabling land raiding was the existence of two separate registries for land ownership rights: the State GeoCadastrre and the Real Estate Rights Register (RERR). Until 2013, land lease agreements were registered in the State GeoCadastrre, but since 2013 they have been registered in RERR. However, "old" lease agreements were not transferred to the RERR, making double leasing of the same plots possible.

Figure 10.3. Number of raiders' attacks



Source: Opendatabot (1, 2)

To address the issue, the government introduced several changes to the registration process. Namely, it stated that property rights to land acquired before 2013 could be registered if relevant records exist in the State GeoCadastrre. It also obliged registrars to verify the authenticity of a land plot cadastral number in the Cadastre during the registration of property rights. Anti-raiding task forces were established in the regions, which produced some results.

that state registration of a land plot would be canceled if a court deemed it illegal or if the applicant failed to register their ownership rights in the State GeoCadastre within one year. Additionally, the law introduced automatic data exchange between the State GeoCadastre and the Real Estate Rights Register (RERR) and required the Ministry of Justice to digitize and upload paper-based records into the RERR. Mandatory registration of land transaction prices was also introduced, an important step toward creating a transparent agricultural land market.

In early 2019, Parliament passed a [law](#) to protect landowners from raiding. The law stipulated

Despite some successes (e.g., in 2024, the Anti-Raiding Office [returned](#) 3,500 hectares of land to farmers), the problem [remains](#).

Sale, transfer, and lease of land

In March 2015, Parliament [simplified](#) the procedure for the free transfer of state or municipal land to citizens. This law was necessary because State Land Agency officials often delayed the process for years, nudging citizens to pay bribes.

In 2016, Parliament [reduced](#) the list of exceptions that allowed certain entities (educational institutions, state enterprises, markets, and individuals whose land was expropriated for public needs) to receive state or municipal land without auctions. This exception had sometimes been exploited by dishonest actors — they would receive land for free or cheaply and then lease it to agricultural enterprises.

In the same year (2016), Parliament [defined](#) the legal status of land plots whose owners had passed away. These plots were transferred to the ownership of the respective communities. The law also required the publication of court cases related to declaring an inheritance as escheated. Lawsuits for such declarations could be filed by (1) local authorities, (2) creditors of the deceased, and (3) users of neighboring plots in the case of agricultural land.

Since January 1, 2019, Parliament [introduced](#) a mechanism for transferring collective ownership (former kolkhoz) land to municipal ownership ensuring tenant rights protection. The law addressed several issues for which there was no legal clarity. Thus, field roads within a land massif must be leased to the largest tenant but other users must retain access to them; a land user controlling 75% of a massif may "reassign" other tenants from one plot within the massif to another; sublease terms must not be worse than those of the original lease agreement.

Improving land quality

One of the consequences of the absence of a land market was that land users (primarily tenants) were not interested in making long-term investments in land plots, such as installing

irrigation systems or fertilizing the soil. They also had little incentive to grow perennial crops, such as fruit orchards, berries, etc., because the owner could terminate the lease agreement, and the tenant **would not reap** the profit from their investments.

The government attempted to address these issues as much as possible without the land market. In 2016, it **set** a minimum lease term of 10 years for agricultural land plots with irrigation systems (the standard minimum lease term was 7 years). In 2017, the government **required** lease agreements to document soil quality characteristics and mandated that tenants compensate landowners if the soil quality deteriorated during the lease period.

Reforms in 2019-2024

In the **2019** White Book of Reforms, we provided the following recommendations for land market development:

- 1) Opening the land market (done).
- 2) Addressing issues with the State GeoCadastre, namely:
 - Providing open access to land plot information while ensuring personal data protection (a public cadastral map and national geospatial data infrastructure exist, but access to them is restricted under martial law);
 - Transferring state-owned land that is not managed by state-owned enterprises to municipal ownership since “no-one’s” land is a potential source of corruption (done);
 - Privatizing state institutions and enterprises involved in land monitoring (or outsourcing these services to private companies); transferring the functions of land monitoring accreditation, land valuation, and land auctions from the State GeoCadastre to professional associations (not done);
 - Allowing local governments to initiate land inventory (currently, owners avoid this to minimize tax obligations); transferring land plots with unknown owners to local government management (done);
 - Allowing certified geodetic engineers (in addition to cadastral registrars) to input data into the Cadastre (an experimental program is ongoing until 2026).
- 3) Ending free land privatization, as land is a limited resource, and free privatization encourages corruption (not done, but under martial law, free privatization is only available to owners of buildings located on the plot).
- 4) Making land market value rather than normative value the land tax base (not done).

The most important change introduced by the new government and parliament was the [adoption](#) of the land market law in 2020, which Ukraine had been waiting for 20 years. The law introduced certain restrictions — land plots up to 100 hectares could only be acquired by Ukrainian citizens (and starting January 1, 2024, legal entities owned by Ukrainian citizens are able to purchase up to 10,000 hectares of land). The sale of state and communal land is prohibited. The issue of allowing foreigners to buy land in Ukraine will be decided at a referendum.

Since the land market launch was planned for July 2021, the government and Parliament spent 2020 adopting regulations necessary for its operation.

The most important of these was the [law](#) establishing a unified geospatial data system in line with the EU INSPIRE directive. This system allows users to access data on natural resources and objects located within specific land plots. It is managed by the State GeoCadastré. However, since the full-scale invasion began, access to the [system](#) has been restricted.

In 2020, the parliament adopted a law on forest [inventory](#), under which data about Ukrainian forests were to be entered into the State GeoCadastré (the inventory procedure is [specified](#), but it will be carried out two years after the martial law is lifted). At the same time, the Cabinet of Ministers [approved](#) the rules for the maintenance and preservation of tree belts: landowners, tenants, and users of land plots must preserve tree belts and cannot cut them down without permission. That same year, the lease of water objects together with land plots was [allowed](#) (tenants are obliged to maintain water objects and hydraulic structures in proper condition) and simultaneous transfer of property rights to the land plot and real estate located on that land was [approved](#) (excluding apartments in multi-apartment buildings and state and municipal land).

In June 2020, the government [launched](#) an experiment introducing the principle of extraterritoriality for state land registration. This means that any state cadastral registrar, randomly assigned by the State GeoCadastré system, can register land plots. Later, this system became permanent.

Right before the launching of the land market, in June 2021, Parliament passed a [law](#) requiring that the sale and lease of state and municipal land be conducted through electronic auctions of Prozorro.Sales.

Today, [land market](#) data is publicly available according to the public land relations monitoring [procedure](#), which the government approved in 2023. The system provides data on the number of plots sold, their prices, etc. This data [shows](#) that in spring 2022, the land market stopped due to the closure of registries. In the summer of 2022, transactions resumed, particularly in regions farther from the front line, and in 2024, land prices were [rising](#). Thus, despite the war, land remains an attractive asset.

One of Ukraine's significant problems was the shadow use of state-owned lands. Some state-owned enterprises leased these lands at minimal prices sharing the profits with tenants, or even [transferred](#) lands to private ownership. For example, the Ukrainian Academy of Agrarian Sciences was [involved](#) in such practices.

To address this issue, in 2024, the government pooled state lands that had not been transferred to municipal ownership, including those owned by state enterprises, and educational and scientific institutions, into the "[Land Bank](#)." This platform allows renting land plots for 14 or 25 years through Prozorro.Sales. The "Land Bank" is managed by the "Agrarian Investment [Fund](#)," a newly established state-owned [enterprise](#). The government plans to transform this SOE into a joint-stock company or LLC with 100% state ownership to introduce proper corporate governance there.

Melioration

Since the irrigated land area had shrunk to a [quarter](#) of its 1990 level, in 2022, Parliament passed a [law](#) permitting the establishment of water user organizations to facilitate the irrigation of agricultural land (under the law, the irrigation infrastructure was [transferred](#) from the State Water Agency to the management of the State Fisheries Agency). This allows farmers to share the costs of irrigation system construction and benefit from economies of scale. However, Ukrainian farmers have already started experimenting with drought-resistant crops that are not typical for Ukraine, such as [cotton](#).

In January 2024, the government approved a new [regulation](#) on the use of water fund lands. Under this regulation, one can construct hydraulic and fortification structures, carry out dredging and riverbed clearing, lay communications infrastructure, and extract minerals, except for sand, pebbles, and gravel, from the beds of small and mountain rivers. All other economic activities are prohibited to preserve the natural state of water objects.

Land management during the full-scale invasion

On February 24, 2022, Ukraine [closed](#) several registries, including the State GeoCadastré, to protect sensitive data. In May 2022, the GeoCadastré resumed limited operations. Land lease auctions were suspended until November 2022, when Parliament [reinstated](#) the pre-war land lease procedures and introduced several changes to land relations. It allowed permanent land users to purchase their plots with installment payments, permitted the free privatization of land plots where private buildings and structures are located, and allowed the construction of biomethane production facilities on agricultural land (given the availability of raw materials on farms). It also enabled certified engineers to input data into the cartographic-geodetic fund (part of the national geospatial data infrastructure) online, currently as a pilot project.

Landowners were required to formalize ownership rights to their land plots by January 1, 2025 (otherwise, the plots would be transferred to municipal ownership). However, at the end of

2024, this deadline was [extended](#) until 2028. The parliament also obliged district and oblast administrations to transfer lands located in their respective districts and oblasts to the municipal ownership of local communities (a previous law on such transfers was adopted in 2018 - see Chapter 2).

What Next?

Agriculture is one of the most heavily regulated sectors of the European economy. On the one hand, strict [regulations](#) dictate which fertilizers and plant protection products [may be used](#). On the other hand, European farmers receive substantial subsidies, often for leaving land *uncultivated*, as the EU limits production to prevent price falls. The EU [spends](#) tens of billions of euros annually on these subsidies. Therefore, the EU may want to revise its Common Agricultural Policy, although such changes would be difficult, given how effectively European farmers lobby for their interests.

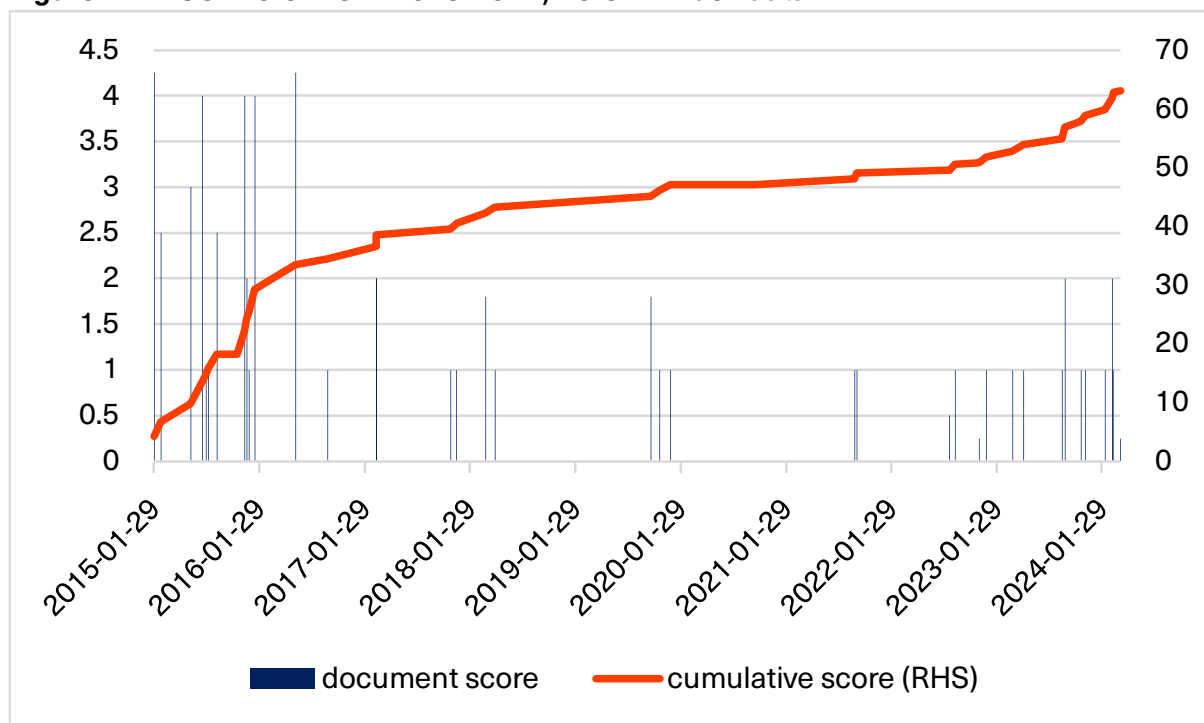
European integration will pose a major challenge for Ukrainian farmers. The Ukraine Facility plan provides just a few conditions for the agricultural sector (the most complicated would be the deployment of an automated land monitoring system). However, adopting EU standards for land quality and farming products could be challenging for producers, and securing access to EU markets will be a challenge for the government.

Yet, today the most pressing challenge for farmers is Russia's aggression, particularly the landmine contamination of agricultural fields. The government has recently approved a demining [strategy](#), for implementation of which Ukraine will receive [EUR 150 million](#) by 2028 within the Ukraine Facility framework. Although this funding is clearly insufficient, Ukraine's drone manufacturers [may](#) help develop efficient solutions for landmine clearance.

11/PRIVATIZATION AND SOE REFORMS

One of the earliest pieces of advice given to post-Soviet countries after the dissolution of the USSR was to implement privatization of state-owned enterprises (SOEs). Indeed, [research](#) shows that privatized enterprises are more efficient than state-owned ones, especially if the buyer is a foreign company. However, privatization was [not very successful](#) in Ukraine, which [reduced](#) public support for such reforms. Reforms of enterprises remaining under state ownership proceeded even more slowly and continue to face significant resistance today.

Figure 11.1. SOE reforms in 2015-2024, Reform Index data

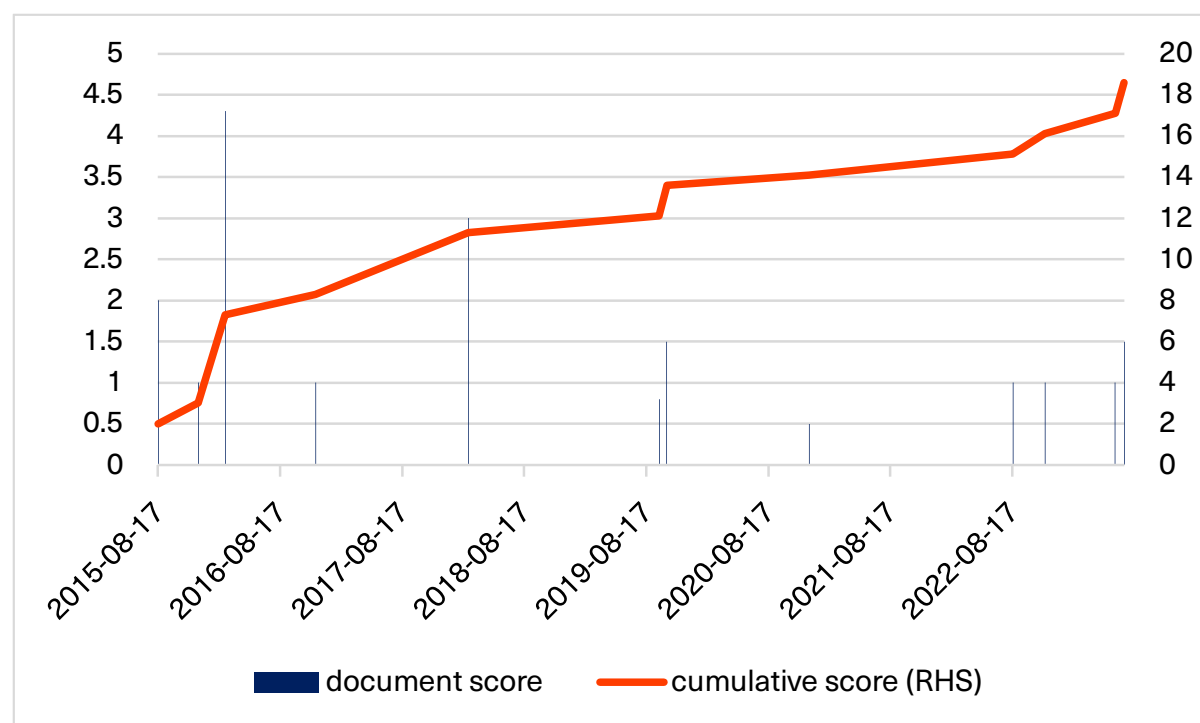


Note: cumulative score is the sum of event scores. Event scores are derived from surveys of the [Reform Index](#) experts

Unlike other Eastern European countries such as Poland, which allowed the bankruptcy of state-owned enterprises in the early 1990s while supporting people who lost their jobs, Ukrainian authorities continued to support unprofitable enterprises, both state-owned and privatized. For example, in the mid-1990s, the National Bank of Ukraine issued direct loans to some enterprises. In the early 2000s, the government introduced a "special regime" for the metallurgy industry effectively removing taxes on it, and it spent over 20 years propping up

domestic auto manufacturing by imposing high tariffs on imported cars. In their turn, enterprises in difficult situations would place their workers on unpaid leave rather than laying them off. This harmed not only enterprises but also workers, who had no incentives to retrain and actively seek other employment. It is therefore unsurprising that in such a distorted market environment, state-owned enterprises — both before and after privatization — became sources of rent (often corruption-related).

Figure 11.2. Privatization reforms in 2015-2024, Reform Index data



Note: cumulative score is the sum of event scores. Event scores are derived from surveys of the [Reform Index](#) experts

The government that came to power in 2014 sought to limit this rent to minimize the state's losses from poor management of state-owned enterprises and to level the playing field so that all enterprises would compete on equal terms. Unfortunately, reforms in this area were only partially successful due to significant opposition from vested interests, which continues to this day. For example, all IMF programs since 2015 have included commitments to privatize several large enterprises. The Ukrainian government came closest to fulfilling these commitments in 2021 when it attempted to [sell](#) the "Bilshovyk" machine-building plant. However, resistance of insiders prevented the privatization process from being fully transparent and fair. For the same reason, the privatization of the United Mining and Chemical Company and the Odesa Portside Plant had been [delayed](#) for many years.

Neither the current IMF program nor the Ukraine Facility [include](#) commitments of large-scale privatization, given the uncertainty caused by the war and weak investment demand (although the European Commission recommends that Ukraine intensify its privatization efforts in its

2023 [assessment](#)). However, the government must conduct a new “triage” of state-owned enterprises, sorting them into those that should remain under state ownership versus those that can be sold. 15 largest enterprises from the first group will need to install proper corporate governance, while enterprises that do not have strategic significance for the state will eventually be privatized.

As evident from Figures 11.1 and 11.2, many significant reforms took place in 2014-2016, followed by a relative lull until 2023-2024 when the government adopted several more reforms. The government implemented more reforms related to SOE management than to privatization but with the launch of the Prozorro.Sales electronic system, which enabled small-scale privatization, reforms in this area can be considered a success.

Privatization and reforms of state-owned enterprises in Ukraine from 2014 to 2019

One of the first SOE reforms that [received](#) a high score from Reform Index experts was the amendment of the law on joint-stock companies which eliminated the possibility for minority shareholders to de-facto control an enterprise that is more than 50% state-owned (a notable case was Ukrantfa company in which the state had 60% ownership but which was totally controlled by the Privat Group that owned the rest of its shares).

In addition to the [law](#) on corporate governance of state-owned enterprises, the government adopted a number of measures to introduce competitive selection of SOE supervisory board members (see Reform Index issues #[16](#), [23](#), [27](#), [56](#), and [81](#)), [increased](#) salaries of the top management of state-owned enterprises by 20 times (thus enabling recruitment of specialists from the market), conducted [audits](#) of key SOEs and [simplified](#) the SOE liquidation process. To enhance transparency, the government published reports on the activities and financial results of the 100 largest state-owned companies, but since 2019 this activity was discontinued. Instead, the government [launched](#) a data analysis portal, "Prozvit," for government-owned entities. The portal is currently closed, while data on the share of the public sector in the economy (such as the [Monitoring](#) of State-Owned Enterprises Management) is not being updated. Reports from some state-owned companies can be found on Ukraine's open data portal ([data.gov.ua](#)) or [obtained](#) upon request. In our view, publishing financial reports by companies (excluding sensitive information) would encourage stronger managerial performance.

A key case of SOE reform was the restructuring of the largest state-owned company, NJSC [Naftogaz](#). The reform was aligned with broader energy sector reforms (see Chapter 7). In 2014, Naftogaz losses totaled about [5.4% of Ukraine's GDP](#) (the company had been at perpetual risk of bankruptcy since its establishment in [1998](#)). By 2016, Naftogaz was recording profits of [UAH 26.5 billion](#) and remained profitable until 2022 (excluding the 2020 economic crisis). In 2023, it became profitable again.

Apart from changes in corporate governance, a key factor of Naftogaz success was the government effort to bring household energy tariffs to market levels. This mostly meant raising tariffs, which was unpopular, and thus no government has completed this reform. In 2019-2020, the government completed Naftogaz reform in line with EU principles — the gas transportation branch of Naftogaz became a [standalone](#) state-owned enterprise, which would provide services to everyone on equal terms.

In 2017, the government implemented a [triage](#) of state-owned enterprises, identifying over 3,400 of them, though most were very small or non-operational. The next step was to determine which of these enterprises are strategic and should remain under state ownership and which could be privatized. The Cabinet of Ministers or other managing agencies were supposed to develop ownership policies for the remaining strategic enterprises (the Ministry of Economy developed a general SOE ownership [policy](#), but it was overly broad and unenforced). While ownership policies were created for many enterprises, most of them did not address the key issue of why a particular enterprise should remain state-owned (i.e., why the state could not procure the relevant goods or services on the market).

For the State Property Fund of Ukraine (SPFU) to be able to sell certain enterprises, two conditions must be met. First, these companies must be transferred to the Fund from the government agencies managing them. Second, the privatization procedures must be sufficiently simple and transparent so that external investors, not just insiders, could participate in the privatization process.

The transfer of enterprises to the State Property Fund is necessary not only for privatization but also for centralizing state ownership function. In the 1990s, OECD countries [began](#) transitioning from a decentralized model, under which companies are managed by separate ministries, to a centralized one, where they are managed by a single ministry or public agency. The main flaw of the decentralized model is that ministries have conflict of interest when they both develop policies for a specific sector and manage enterprises operating in that sector. Ukraine is still undecided whether the central SOE managing body should be the SPFU or a specially created fund or a holding company. The advantage of the latter would be its political independence, though this could become a problem if this entity is "captured". Perhaps for this reason many ministries have not yet transferred their subordinate enterprises under the SPFU control (the [data.gov.ua](#) website provides financial reports of some SOEs subordinate to ministries).

Over the past decade, privatization procedures have shifted towards greater simplicity and transparency. For example, a [2016 law](#) removed a requirement for the preliminary sale of 10-15% of enterprise shares on the market (which was problematic in Ukraine's very small stock market and could deter potential investors). Also, it allowed for the involvement of internationally recognized advisors in privatization of large companies to boost confidence in the process. In [2018](#), privatization was further simplified. Instead of six asset groups, only two

were introduced: "large" (with asset value of UAH 250 million or more) and "small." The law stipulated that "large" privatization must involve reputable advisors, while "small" privatization can be conducted via Prozorro.Sales electronic platform, which allows anyone to participate in an auction and to monitor the results. This enhances transparency and trust in the process. Perhaps the most famous example of "small" privatization was the sale of the [Dnipro](#) Hotel in 2020. With a starting price of UAH 81 million, it was sold for UAH 1.1 billion.

Over the span of five years (2018-2023), more than 5,000 enterprises were [sold](#) through the Prozorro.Sales system for a total of [UAH 14 billion](#) (of which 9.8 billion went to the state budget and 3.8 billion to local budgets). This amount is twice the initial value of the assets put up for sale (UAH 6.3 billion). Most importantly, state and local authorities divested themselves of assets they were unable to manage properly. Hopefully, the new owners of these assets will be able to generate profits and respective tax revenues.

2019-2024: further reforms

The new government that came to power in 2019 [canceled](#) the list of assets that could not be privatized and privatized a number of small enterprises (including alcohol refineries). However, it was unable to initiate large-scale privatization. Moreover, later it turned out that the now ex-head of the State Property Fund was [corrupt](#).

In 2022, the Parliament [prohibited](#) large privatization but at the same time [simplified](#) the privatization process by allowing for the privatization of enterprises whose assets are under seizure or encumbrance and the transfer of all permits and licences to the new owners without the need for prior audits, inventories, or valuations. The new owner is required to pay for the asset before signing the purchase agreement. This approach aims to speed up the privatization process while removing the risk of nonpayment or delayed payment for the assets. When privatization resumed in the second half of 2022, it generated over UAH 2.4 billion for the state budget. In 2023, Ukraine [sold](#) the Ust-Dunaisk seaport for UAH 201 million. The port was initially prepared for sale in 2021, but the auction procedure was delayed due to a backlog of legal cases and asset seizures. The privatization was unblocked due to the legislative changes adopted in 2022.

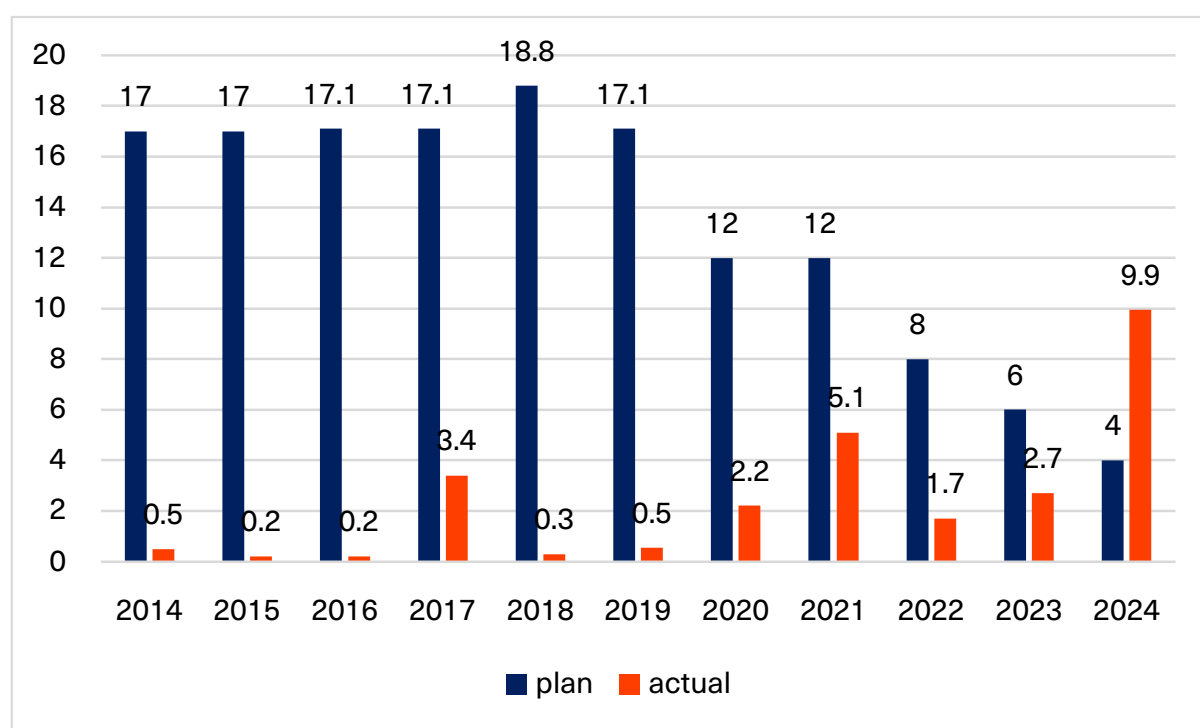
In 2023, Parliament passed two [laws allowing](#) for large-scale privatization via the Prozorro.Sales platform. The first of these laws also changed the organizational structure and functions of the State Property Fund by granting the SPFU head more powers (including the power to independently appoint their deputies), centralizing the Fund's management system, and transferring the authority to submit candidates for the head of the Fund for Parliamentary approval from the President to the Cabinet of Ministers. Additionally, the SPFU will work with sanctioned assets and is required to launch a unified register of state-owned assets.

In 2024, Ukraine received twice higher privatization revenues than planned (Figure 11.3). This was due to the [increase](#) in small privatization, but primarily because of the privatization of the "Ukraine" hotel and the United Mining and Chemical Company.

After Russia's full-scale invasion, the number of state-owned enterprises increased due to the nationalization of [several assets](#) that belonged to Russians or Russian collaborators. The largest of these are Alfa Bank (now Sense Bank), regional energy distribution companies (oblenergos), [Motor Sich](#) (machine-building plant), and Ukrnafta (oil trader). Some of these assets were transferred under the management of the Ministry of Defense. Eventually, these need to be transferred to the SPFU for privatization or the establishment of corporate governance.

At the end of 2019, Parliament passed a new [law](#) "On the Lease of State and Communal Property," introducing leasing through electronic auctions. This made the rental market more transparent. Later, the procedure for leasing through electronic auctions was [extended](#) to the property of state-owned [companies](#).

Figure 11.3. Privatization revenues since 2014



Source: Treasury reports, openbudget.gov.ua

An important development in this area was the new version of the law "[On Concession](#)," which clarified and [streamlined](#) the procedures for transferring state enterprises into concessions. In 2021, the Ministry of Infrastructure transferred the seaports of Kherson and Olvia into concession and was preparing other agreements. However, the full-scale invasion halted this process.

There has been some regression in the area of corporate governance. For instance, in 2019, the Cabinet of Ministers [dismissed](#) the former head of Naftogaz in a not entirely legal manner. And in 2020, it imposed a still-active [moratorium](#) on the bankruptcy of budgetary institutions.

Meanwhile, Parliament passed [a law](#) on corporate governance of state-owned enterprises in accordance with OECD principles. The law leaves with the government the responsibility for high-level management of state companies (such as developing ownership policies, dividend policies, etc.), transfers the main strategic management powers to supervisory boards, and enhances their independence. The law aims to prevent arbitrary dismissals of state enterprise managers, as happened with the former Naftogaz head. Hopefully the law will be implemented properly.

What next?

Most of the time the Ukrainian government has been overly optimistic about expected privatization revenues (Figure 11.3). War, weak property rights protection, complex privatization procedures, and resistance from vested interests have diminished investor interest in Ukrainian assets. Full-scale war largely increased the risk of investing in Ukraine.

Three policy conclusions can be drawn from this. First, the government should reduce the risk factors under its control by implementing judicial reform, making privatization procedures as simple and transparent as possible, and halting unjustified attacks on businesses. Second, it is necessary to promote the idea of war risk insurance among Ukraine's international partners more actively. Existing initiatives in this area are fragmented and have received very little funding so far. Third, during privatization, the goal should be not maximizing one-time budget revenues but improvement of the efficiency of enterprise management. During "large-scale" privatization, preference should be given to international companies that can integrate Ukrainian enterprises into their value chains.

Overall, the Ukrainian government must demonstrate its adherence to the path toward EU membership. At a minimum, this means fulfilling its commitments under the Ukraine Facility and the IMF Program on time and without coercion while avoiding merely formal (or even corruption-inducing) changes instead of substantive ones, as happened with the [law](#) on the Economic Security Bureau, for example. Regarding state-owned enterprises, the commitment implies conducting a new triage in line with updated state ownership policy. Based on the results, the government should begin to privatize enterprises that can be privatized and corporatize the remaining ones according to the [new law](#).

Proper implementation of the adopted legislation — conducting "large" privatization through ProZorro.Sales and implementation of the law on corporate governance of state-owned enterprises — is expected to lead to improved management quality, which in turn should increase the efficiency of state-owned enterprises.

12/LABOUR MARKET AND SOCIAL POLICY

The labour market and social protection system are closely interconnected. For example, pensions are primarily funded by a Unified Social Contribution (USC) paid by those who are employed. At the same time, individuals who have lost their jobs, as well as those unable to work, rely on state support.

Until recently, social support mainly took only two forms — privileges (benefits) and payments (social services existed at the local level but were chronically underfunded). This kind of support does not encourage people to join the labour market but aligns with their paternalistic expectations. Moreover, such forms of social support are politically attractive: until recently, every Parliament tried to introduce additional privileges for certain categories of people — miners, police officers, families with children, Chornobyl victims, etc. This allowed MPs to gain some "electoral points" but at the same time distorted the system and created significant problems for the future since canceling any benefit or payment (even if it no longer makes practical sense) is extremely difficult. Furthermore, as demonstrated by the recent [scandal](#) involving "prosecutors with [fake] disabilities," a system based on benefits and payments creates incentives for corruption.

The government that came to power after the Revolution of Dignity in 2014 had to simultaneously address longstanding and new issues. An old problem was the existence of a "zoo" of social benefits and payments, as described above, without a unified registry of recipients nor an understanding of whether these recipients are truly in need and how much these privileges cost taxpayers. This problem was exacerbated by a new challenge — the need to support internally displaced persons (IDPs), those wounded and families of those who were killed during the Revolution of Dignity and in the Anti-Terrorist Operation (ATO, this is how Ukraine's resistance to Russian aggression was named in 2014-2017, in April 2018 it was renamed into United Forces Operation), while the state treasury was practically empty. In 2015, the government cancelled a number of benefits and subsidies and introduced energy subsidies to compensate for rising tariffs; however, it failed to take radical steps to resolve the problem due to the unpopularity of such measures. The transition to a modern customized model of social support [began](#) only in 2023.

Another long lasting issue is the existence of de-facto two labour markets — the official market (the public sector and some large companies) and the semi- or unofficial market

(everyone else). In the official sector, employees are highly protected from dismissal and enterprises pay the Unified Social Contribution for them (the USC rate was reduced from 43-49% to 22% in 2015). In the unofficial sector, workers often work under short-term contracts or as sole proprietors (in which case they pay the minimal USC and income tax at a lower rate). Unfortunately, this problem remains unresolved, although the government has taken several steps to modernize labour market legislation (Figure 12.2). In 2019-2020, the government considered implementing a model similar to Denmark's, in which companies can easily lay off employees while the unemployment support system provides financial aid and training for the dismissed. Such a model would make the labour market more dynamic and promote employment, but it was never adopted into law.

Since the beginning of the full-scale invasion, the problem of structural unemployment has significantly worsened. A high unemployment rate (around 14% in 2024 compared to 9% in 2021) coexists with a labour shortage (in November 2024, 64% of companies reported a shortage of workers), as the education and skills of the unemployed do not match the needs of employers. Therefore, implementation of the described above "flexicurity" system with a focus on training and retraining is becoming increasingly urgent. Given the high level of uncertainty due to the war, such a system would allow businesses to adapt more quickly to changing economic conditions while officially employing workers and paying the required taxes. At the same time, it could help bring into the labour force those who are currently out of it, especially women and older people.

Reforms in 2014-2019

Labour Market

As mentioned above, in early 2015, the government halved the USC rate in hopes of reducing unofficial employment. However, since public trust in the government did not automatically increase, the expected formalization of labour relations did not occur, and USC revenues significantly decreased. The government tried to recover some of the lost revenue by raising the minimum wage and strengthening the powers of the labour inspection to detect undeclared workers. Meanwhile, businesses mainly used the "spare" funds resulting from the tax cut to increase salaries.

For a long time, a significant portion of the workforce (10-12%, or 1.5-2 million people at a time) worked abroad. On the one hand, remittances from migrants created a substantial influx of foreign currency into the country (e.g., USD 15 billion or 7.5% of GDP in 2021). On the other hand, many of them eventually became detached from their families and Ukraine. Between 2015 and 2019, the government made several steps to protect the rights of labour migrants: it allowed them to participate in the social insurance system and thus be eligible for pensions and restricted the activities of intermediaries providing employment services abroad to remove dishonest players from the market. At the same time, the government began

simplifying the process for foreigners to obtain work permits and equalizing their rights with those of Ukrainian workers. These actions are necessary not only to bring Ukraine closer to the EU but also to reduce the labour shortage.

In 2017, the government approved criteria for granting state support for employee professional training — businesses could be reimbursed for up to 50% of such expenses from the state. Thus, enterprises were encouraged to retrain workers themselves rather than rely on state-provided training.

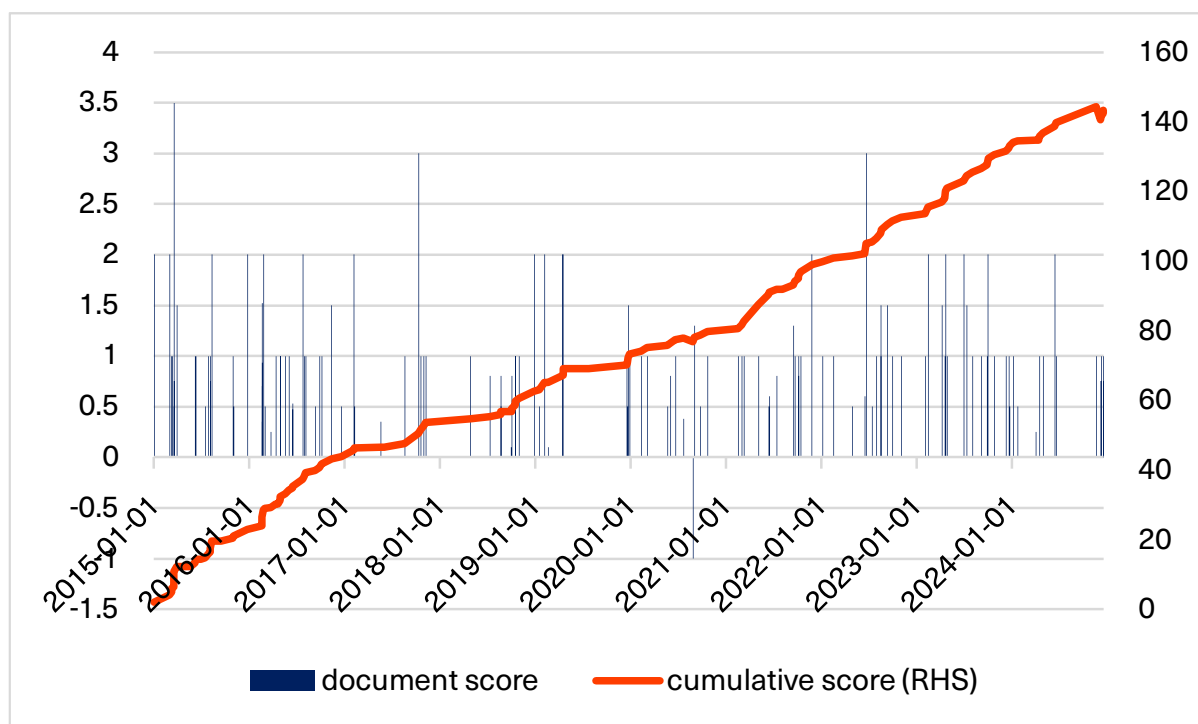
Social support

At the beginning of 2015, the government took extraordinary measures to rectify the highly challenging budget situation. It limited the salaries of employees in public agencies and state-owned enterprises, canceled some privileges, including for many victims of the Chornobyl disaster, put on hold pension payments to employees of tax, customs, and regulatory agencies in 2015, and capped pensions for working pensioners (pensions for working scientists were reinstated in a few months). Additionally, income tax on pensions of working pensioners was introduced (this tax was later canceled for World War II veterans and individuals with pensions below UAH 11,000).

At the end of 2015, the government passed another law to reduce expenditures, which established a cap on pensions — 10 times the subsistence minimum for non-working individuals (a subsistence minimum is an amount established by state budget laws, it serves as a base for some social payments and wages of some categories of public employees. Different subsistence minimums are established for working, non-working individuals, and children), canceled the right to early retirement for education, healthcare, and social workers, and transferred the financing of several types of privileges to local budgets. Certain categories of citizens, such as former judges, continue to receive significantly higher pensions under special laws.

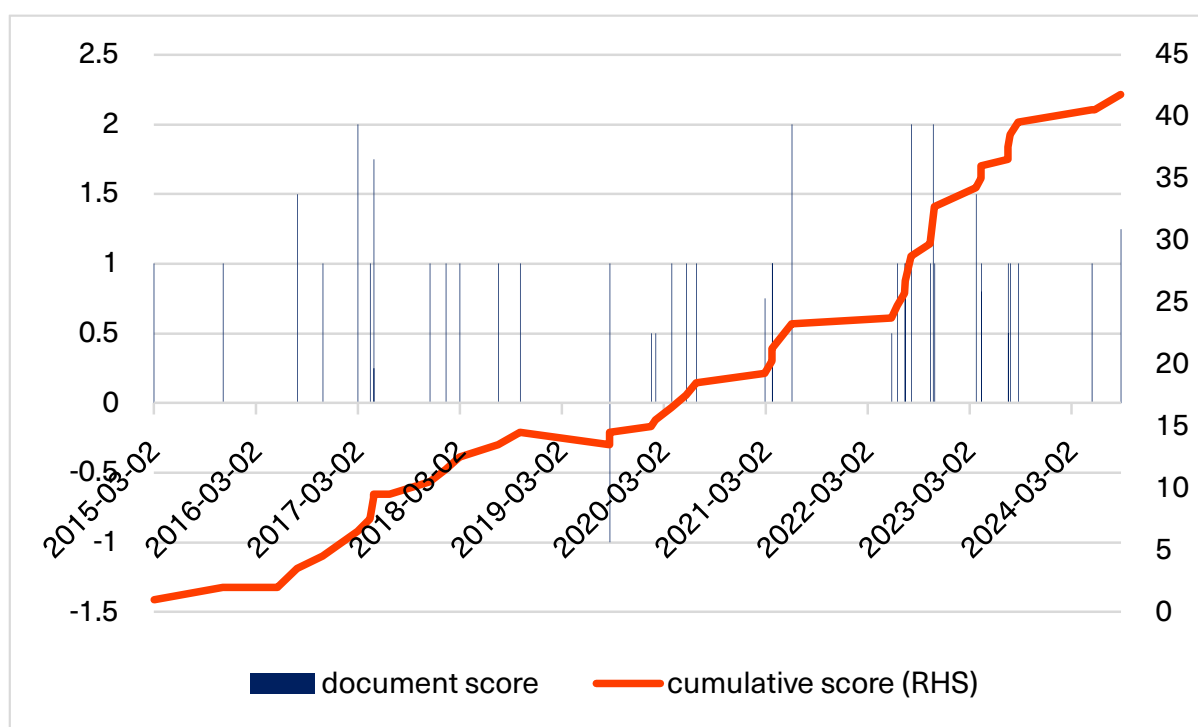
On the other hand, to offset the significant (sometimes tenfold) increase in energy tariffs, the government introduced subsidies that households could obtain very easily. These measures helped prevent social unrest (despite some politicians' rhetoric of a "tariff genocide"). At the same time, overall spending on energy subsidies significantly declined, since low tariffs effectively subsidized *all* the households, including the richest ones.

Figure 12.1. Reforms of the social protection system in 2015-2024, Reform Index data



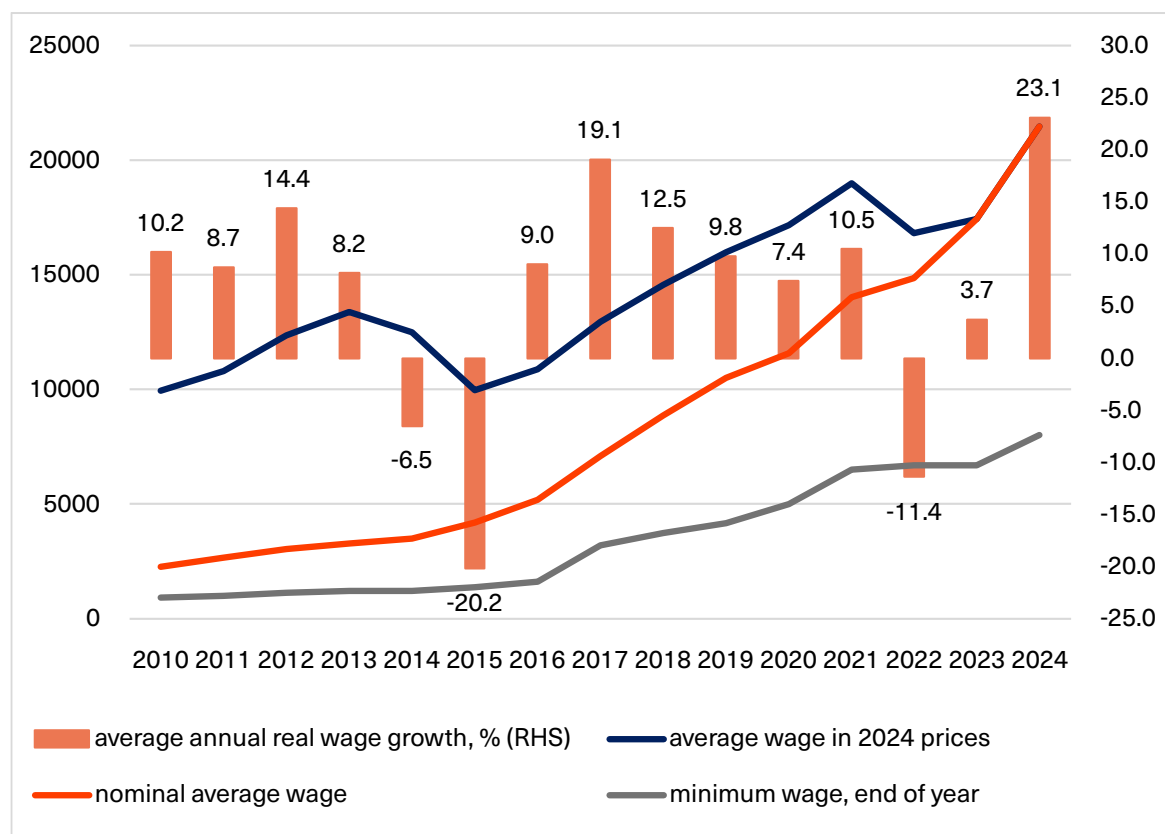
Note: The cumulative score is the sum of event scores, event scores are derived from surveys of [Reform Index](#) experts

Figure 12.2. Labour market reforms in 2015-2024, Reform Index data



Note: The cumulative score is the sum of event scores, event scores are derived from surveys of [Reform Index](#) experts

Figure 12.3. Nominal, minimum, and real wages in 2010-2024



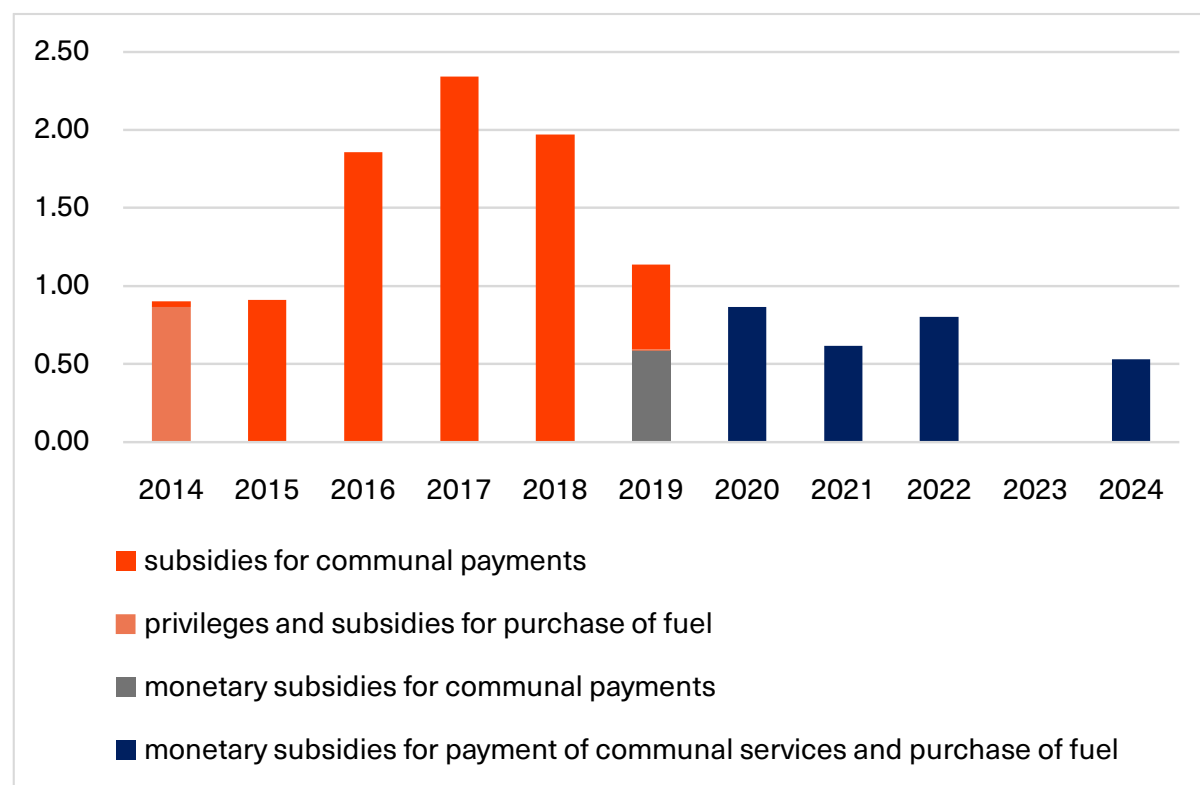
Data: State Statistics Service, NBU

At first, subsidies were paid directly to energy producing or heating companies, covering the difference between the cost of these services and the bills which households paid. This of course did not encourage energy savings: energy suppliers had incentives to overstate consumption volumes while households did not have incentives to save energy. Therefore, the government gradually **reduced** the "normative" energy consumption levels used to calculate subsidies and **narrowed** the eligibility criteria for households (e.g., by excluding those who own large houses or apartments, expensive cars, or work unofficially). As a result, between 2017 and 2019, the number of subsidy recipients and corresponding expenses was **nearly halved**. Later, energy **subsidies** and utility payment **privileges** were **monetized** so that people would have incentives to save energy and use the "leftover" subsidies **as they like**. In this case, monetization was a positive change. However, sometimes it can be inappropriate — for instance, the **monetization** of the "baby package" (a box with necessities for a baby provided to new mothers by the state). Due to public dissatisfaction, the packages were quickly **reinstated**, although the option to receive the equivalent amount of cash remains.

With reforms of other types of social protection, the government has been moving in two directions. On the one hand, it expanded the list of categories eligible for social support and the types of assistance available. On the other hand, it aimed to improve the tracking of social

assistance recipients and reduce unproductive expenditures (e.g., the government stopped reimbursing local budgets for free public transportation of certain categories of people).

Figure 12.4. Expenditures on subsidies, % of GDP



Source: Treasury reports, State Statistics Service

With the onset of the Russo-Ukrainian war, two new major categories of people in need of support emerged — internally displaced persons (IDPs) and military service members, veterans, and their families. After the full-scale invasion, the number of IDPs increased from approximately 1.5 million in 2021 to **4.9 million** by early 2024. In 2024, there were **1.3 million** veterans in Ukraine. After the war, the number of veterans and their family members is projected to grow to **5-6 million** people, which is 12-15% of the population as of early 2022. Therefore, the transition to more effective forms of social support, rather than subsidies or payments, is essential.

In 2015, employers were required to **preserve** jobs and average salaries for service members, while a two-year reimbursement of the USC was **introduced** for employers hiring Anti-Terrorist Operation veterans. Military personnel were **exempted** from paying interest on individual housing construction loans in rural areas, and reservists injured during the ATO or families of those killed were **granted** the same pensions as regular army service members. Additionally, Parliament **legalized** volunteer activities and **delegated** to local governments more responsibility over the distribution of humanitarian aid.

Between 2015 and 2019, several measures were implemented to support children, including the state's [obligation](#) to evacuate children from combat zones, the [provision](#) of housing for internally displaced orphans, and [allowances](#) for individuals (including parents) caring for children with disabilities. Furthermore, the government [increased](#) the number of child welfare service workers and [allowed](#) for the removal of children from unsafe family situations.

In 2016, the Cabinet of Ministers launched a [pilot](#) electronic registry for [social benefit](#) recipients (previous attempts to create such a system were ongoing for nearly a decade, with millions of donor dollars spent. However, the system was never fully implemented due to a lack of political will and administrative capacity). Additionally, the government introduced a system to [register](#) internally displaced persons and [ensure](#) that benefits were provided only to those who relocated to government-controlled areas. Later, a [Unified](#) Database of IDPs was created.

In 2017, the government [approved](#) regulations on citizen verification in the Unified Demographic Register, obtaining data from the register, and other types of interactions with it. The register was created in 2012 and theoretically is supposed to contain information on all Ukrainian citizens. It is being filled in gradually, with data added as citizens obtain documents from the state, such as international passports and ID cards. As of 2023, the register contained records of [23 million](#) people.

In 2019, the government introduced [electronic](#) sick leave certificates to improve the tracking of funds spent from the Social Insurance Fund, which finances sick leaves.

Pension reform

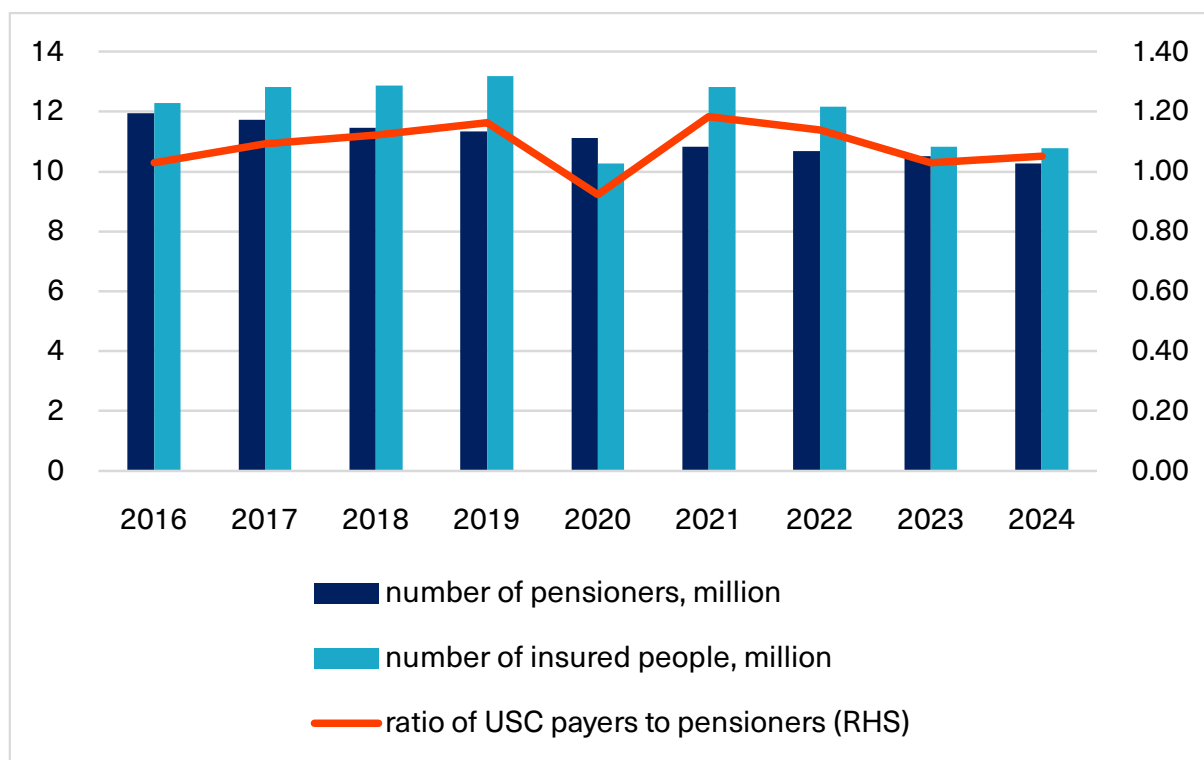
Due to the low birth rate, Ukraine's population is aging — the number of working-age people is decreasing while the share of retirees is increasing. For nearly a decade, one worker has supported approximately one pensioner (Figure 12.5). As the number of active workers declines, and because some employees evade paying the USC, the Pension Fund's own revenues are shrinking. Since 2005, state budget transfers to the Pension Fund have accounted for [about one third](#) of its revenues. Therefore, in the long run, the current pay-as-you-go pension system will not be able to ensure adequate payments to retirees.

As early as 2004, Parliament adopted a pension [reform](#) introducing a three-pillar pension system consisting of the (1) pay-as-you-go (solidarity) system, (2) mandatorily [funded](#) (accumulative) system, and (3) voluntarily funded system. Since then, several dozen private pension [funds](#) (the third pillar) have emerged, but the second pillar has [yet to be implemented](#). Several challenges have hindered its launch.

First, there is a lack of funds to finance the Pension Fund during the transition period when part of the USC revenues would be redirected from the solidarity system to individual accounts (the alternative would be a significant increase in the USC rate). Second,

persistently rather high inflation would erode pension savings over time. Third, the underdevelopment of the stock market in Ukraine and the resulting lack of financial instruments (other than government bonds) for long-term investments pose a significant problem. Of course, the third challenge can be seen as a “chicken and egg” problem — demand for long-term investments could stimulate the development of relevant financial instruments. However, fundamental conditions such as a trusted judicial system and property rights protection are necessary for the stock market growth. These conditions are still lacking in Ukraine, and overall institutional trust remains [low](#). Moreover, when pension reform was considered in 2017, the government and Parliament [failed to](#) agree on a management model for mandatory savings (e.g. a one centralized fund or a number of funds, restrictions on investment assets etc.). While they are still [willing](#) to introduce the second pillar, it remains unclear how it will actually function.

Figure 12.5. Number of pensioners and USC contributors as of January 1st of the respective year



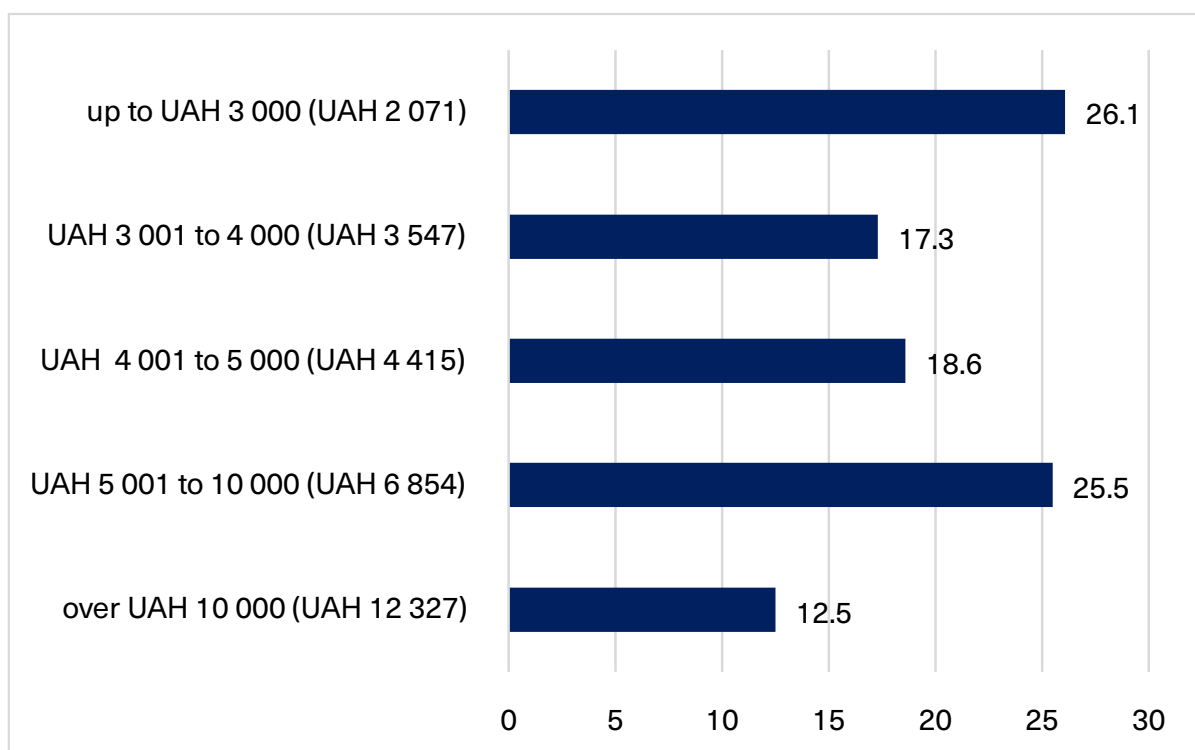
Source: Pension Fund reports. Insured persons include employees for whom the USC is paid by the employer, as well as sole proprietors and other individuals who pay the USC for themselves

Since pensioners make up about a third of the population and actively participate in elections, politicians always have the incentive to introduce “[pre-election](#)” pension increases for all retirees or for some categories of pensioners. Clearly, such “gifts” negatively impact the financial sustainability of the Pension Fund.

Another long standing "taboo" for Ukrainian authorities has been raising the retirement age. It was only in 2011 that the retirement age for women began to gradually increase from 55 to 60 years (retirement age for men is 60 years). In 2016, the Cabinet of Ministers significantly **reduced** the list of professions eligible for early retirement, notably removing managerial positions from the list. Also, individual entrepreneurs were **allowed** to include their years on the simplified taxation system into their tenure, even in the absence of an official employment record book. This change enabled self-employed people to qualify for a tenure-based pension.

A fairly comprehensive pension **reform** was introduced in 2017. However, even then the authorities formally refrained from raising the retirement age. Instead, they established a **minimum** number of working years required to qualify for a tenure-based pension (those who worked less receive a social pension instead). The same law canceled privileged pensions for civil servants, MPs, judges, prosecutors, and scientists. Later, these benefits were **reinstated** for civil servants and scientists. At the same time, the judicial reform introduced high salaries and pensions for judges as a necessary (though not sufficient) condition to ensure their integrity and independence.

Figure 12.6. Distribution of pensioners by pension sum in the first half of 2024, % of total number



Source: Pension Fund [Report](#). Note: Average pensions for the respective ranges are indicated in parentheses; for comparison, the average salary in the summer of 2024 was approximately UAH 20,000

The formula for calculating pensions was revised too. In addition to an individual's salary and tenure, the formula now includes the national average wage. Under this system, an increase in the average wage automatically leads to pension recalculations. This change was aimed at

reducing the gap payment between long-time retirees and those who have recently retired. However, due to the complex demographic situation and the shadow labour market, most pensions still do not provide a decent standard of living (Figure 12.6).

Reforms in 2019-2024

Labour Market Policies

During this period, legislative changes in the labour market followed three main avenues: the incorporation of new forms of employment into legislation (such as remote [work](#), flexible working hours, and [freelancing](#)), encouraged by the pandemic; alignment of the Ukrainian labour market with European standards; and strengthening employee rights protection.

Freelancers were [granted](#) social and labour guarantees, including the ability to sign contracts with employers specifying core working hours and days, minimum and maximum working hours, and guaranteed lower and upper wage limits. They were also given the freedom to sign contracts with multiple employers, the right to sick leave and vacation, the right to request a standard employment contract, and, notably, the ability to count their freelance work towards official employment tenure.

In the field of employee rights protection, the government [introduced](#) an electronic employment record system, followed by a risk-based [approach](#) to workplace inspections. Parliament [prohibited](#) discrimination on the job and during the recruitment process, as well as workplace [mobbing](#), granting affected employees the ability to defend their rights in court.

To align with EU standards, the government [harmonized](#) the national qualifications framework with the European one and developed a procedure for [recognizing](#) qualifications obtained in the EU. The National Qualifications [Agency](#) is responsible for this process. Accredited qualification centers, which can be established by vocational education institutions, the State Employment Service, and enterprises, will verify the outcomes of informal (self-directed) and non-formal (course-based) learning. Additionally, employers were granted the right to assign qualification grades to employees in accordance with professional standards developed by employers, government agencies, scientific institutions, civil society organizations, etc.

To align with the EU single market, the government [simplified](#) employment procedures for foreign workers by lifting the requirement for foreign specialists to be paid a minimum salary of 50 times the minimum wage. At the same time, the price of work permits for foreigners was increased from 2-6 to 3-10 times the subsistence minimum, depending on the permit duration. The funds collected for permits will be used to pay unemployment benefits to Ukrainian citizens. Work permits for international students studying in Ukraine will be free. The immigration process for highly qualified foreign professionals was [simplified](#) too.

During the full-scale invasion, unemployment increased significantly as many businesses were forced to shut down or scale back their operations, at least temporarily. To promote employment, especially among youth, the government [introduced](#) such measures as offering employers up to 12 months of USC reimbursement for hiring young workers or those who had been unemployed for a long time. Unemployed individuals were given the opportunity to obtain [vouchers](#) for training at educational institutions of their choice, with eligibility extended to military members, the wounded, and people with disabilities. Furthermore, the government [canceled](#) employment quotas for certain categories, such as people with disabilities, as businesses often preferred to pay fines rather than comply with quota requirements. Instead, employers can now receive [compensation](#) for making workplaces accessible to employees with disabilities (1,300 employers benefited from this support during the first 10 months of 2024). Some categories of unemployed people will receive comprehensive social services, including employment assistance as a part of their support.

In mid-2022, the government [allowed](#) businesses to fire employees if the enterprise was unable to continue operations or if no contact with the employee had been established for four months (in early 2025, nearly [63 thousand](#) people were registered as missing in Ukraine).

To enhance the economic integration of internally displaced persons, the government introduced a support program for businesses that hire IDPs. Under this program, employers receive payments of UAH 8,000 (equal to the minimum wage) per employed IDP for three months, and for IDPs with disabilities the payments extend to six months. According to the [Ministry of Economy](#), during the first 10 months of 2024, the state disbursed UAH 270 million under this program for the employment of 13,400 internally displaced persons. In 2023, payments for the same number of employed IDPs amounted to UAH 181 million because the payment amount was lower — UAH 7,100 per employee.

As seen in Figures 12.7 and 12.8, despite the high unemployment rate, the number of applicants per job vacancy has significantly decreased. Indeed, companies are increasingly reporting difficulties in finding personnel. The reasons for this include migration, mobilization, and the growing issue of structural unemployment, whereas the skills of potential employees do not match those required by employers. Another contributing factor is the reluctance of some men to take official jobs to avoid mobilization. These factors, along with the reduction in the duration and amount of unemployment benefits, explains the decline in the number of registered unemployed (Table 12.1, last row). Table 12.1 shows that the number of education vouchers issued over the past two years has increased significantly, which is an effective tool for addressing structural unemployment.

Supporting businesses during wartime

To support businesses located in active combat zones, the government launched a relocation program that provided assistance to entrepreneurs in moving their enterprises and

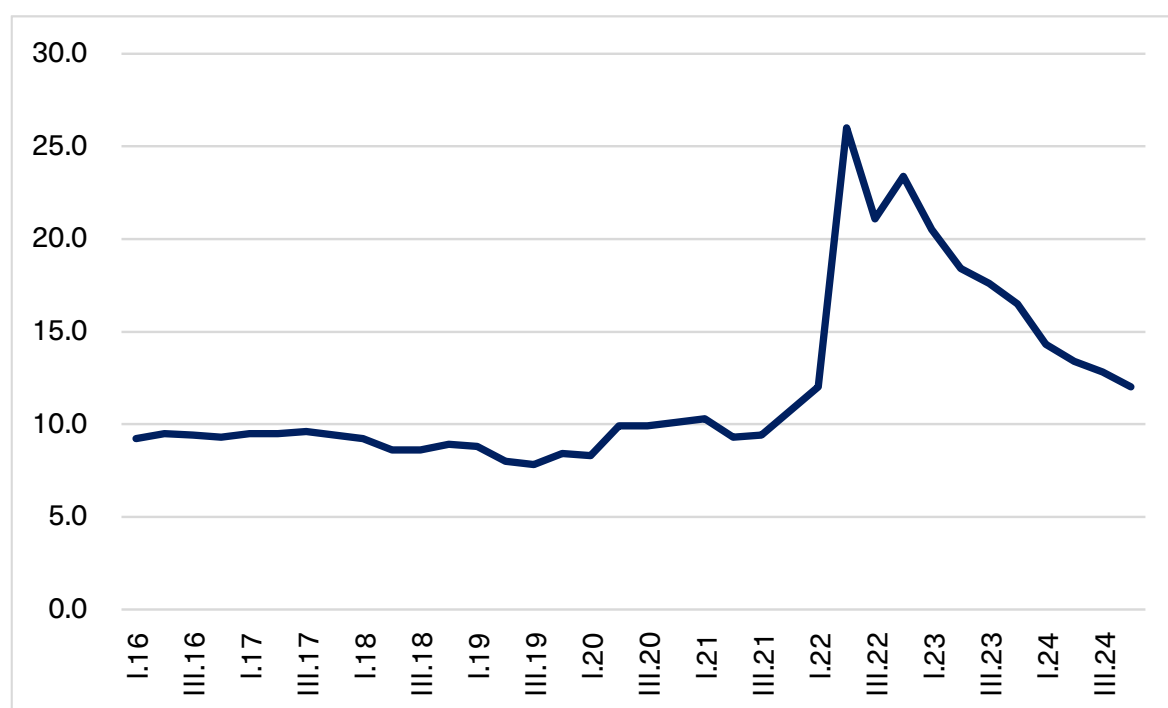
equipment to relatively safer regions. The Ministry of Economy [helped](#) businesses find suitable locations for their production facilities, facilitated the resettlement of employees, and assisted in recruiting new staff. Of the total number of relocated [enterprises](#), 11% moved abroad, while 73% continue to operate in Ukraine.

Another key measure to support war-affected businesses was [expanding](#) the "5-7-9%" subsidized loan program. Under this program, companies that lost their production facilities due to the war can receive loans of up to UAH 60 million at a 9% interest rate for a period of five years. Initially launched in 2020 to support small businesses' investments in new capacities or technologies, the program was expanded during the full-scale invasion to include almost all types of enterprises. As a result, the program lost its original focus and became [too costly](#) for the state. The current program with the IMF foresees returning the "5-7-9%" program to its original parameters.

In addition, the government provides entrepreneurs with grants under the "eWork" program. Currently, Ukrainians can receive financial assistance for business development through [six grant programs](#).

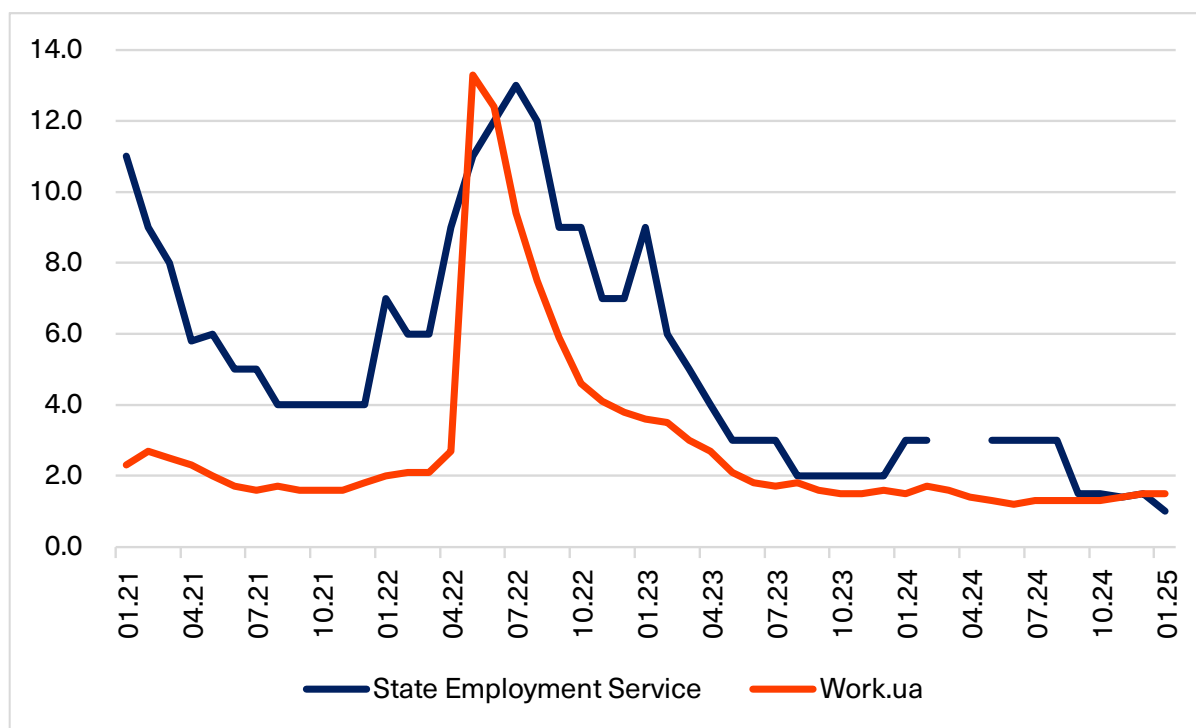
Over the past two years, a notable trend has been the influx of women into traditionally male-dominated professions. Women are undergoing vocational training and starting careers, for example, as long-haul truck drivers or metro train operators. Moreover, the state implements [programs](#) to support female entrepreneurship by providing grants to help women start and grow their own businesses (these programs primarily rely on donor funding).

Figure 12.7. Unemployment rate according to ILO methodology, %



Source: NBU Inflation Report

Figure 12.8. Number of applicants per job vacancy



Source: NBU Inflation Report

Table 12.1. Selected performance indicators of the state employment service (SES) activities

	2019	2020	2021	2022	2023	2024
Got a job with the help of SES, thousand	388.2	384.5	404.8	248.8	160.1	249.6
Obtained professional training, thousand	138.6	93.4	88.3	46.6	32.9	41.4
Received an education voucher, individuals	1 307	742	396	183	18 052	22 981
Participated in public works, thousand	199.9	99.7	66.6	27.8	24.6	32.1
Received unemployment benefits, thousand	829.7	1 118.6	1 079.8	788.7	323.6	n/a
Number of people with a status of an unemployed, end of period, thousand	338.2	459.2	295.0	186.5	96.1	94.2

Source: State Employment Service

More about social policy measures and labour market changes in 2022-2023 in [our review](#). Suggestions for addressing both existing and emerging labour market challenges can be found in the CEPR [report on Ukraine's reconstruction](#)

Social support

In the social support sphere, the primary avenue for ongoing reforms is the transition from a [chaotic](#) system of various benefits and payments to the provision of comprehensive social assistance to households to help them move out of the vulnerable category. Once the reform is completed, a social worker assigned to each household will provide tailored assistance based on their specific needs, such as document issues, employment, training, etc.

To implement this system, the government is taking two key steps: first, digitizing administration of social support, and second, expanding the range of entities authorized to provide social services.

Thus, in December 2019, Parliament passed a framework [law](#) on verifying social benefits. It defined the authorities responsible for verification, distributed responsibilities among government bodies, and established procedures for electronic data exchange between them. At the same time, the government [created](#) the State Social Service (now the National Social [Service](#) of Ukraine), tasked with coordinating all social service providers and ensuring they deliver services according to established standards.

In October 2023, the government [launched](#) the Unified Information System for the Social Sphere (UISSS), facilitating coordination between government agencies and social service providers. In the fall of 2024, the Ministry of Social Policy social [portal](#) became operational. The portal provides information on available social services and allows users to submit applications for social assistance or report individuals or families in need. Local social support offices will review these applications, and citizens will be able to track the status of their requests through their electronic accounts.

Today, IDPs can receive [assistance](#) through the UISSS at their current place of residence. Besides, the UISSS provides a comprehensive range of [services](#) for prospective adoptive parents, including initial consultations and candidate registration. In January 2022, the government introduced an electronic veteran's [ID](#), which is equivalent to the paper version (now it is [the main](#) document confirming veteran status). Starting in [2025](#), an active military member status will also be provided through the electronic system.

At the beginning of 2020, the government [expanded](#) the list of social service providers beyond budgetary institutions to include individuals, legal entities, and self-employed. These providers must meet the required professional qualifications and comply with service delivery standards. Over the past four years, the government has developed a payment [framework](#) for social services, allowing the state or local authorities to procure services from providers offering the best conditions. Individuals who provide social care on a non-professional basis (such as family caregivers) are also [eligible](#) to receive state compensation for their services. If they verify their qualifications, their monthly compensation can increase to [UAH 10,000](#).

The government has taken several steps to improve access to social services. These include [allowing](#) the provision of social services through Administrative Service Centers, [enabling](#) online residence registration so that relocated people could access social and administrative services where they currently live, and introducing [remote](#) identification for residents of temporarily occupied territories to receive pensions and social benefits. Furthermore, homeless individuals were [given](#) the opportunity to register their place of residence at social institutions to facilitate their access to public services.

During [2023-2024](#), the government launched several pilot projects to provide customized social services. These include social adaptation services for individuals staying in shelters, the "Family Assistant" program for families facing challenging circumstances, support services for members of the military and their families, and psychological assistance for those in need. In 2023, the government also made it [possible](#) for individuals injured in the workplace to receive social services funded by the state.

In July 2021, the government [established](#) the Ukrainian Veterans [Foundation](#), which helps veterans find additional education and employment and provides other support, including grants for starting their own businesses. In early February 2022, veteran sports were officially [recognized](#) as a new branch of sports.

With the onset of the full-scale war, the government naturally has focused more on supporting wounded military, families of fallen soldiers, and the reintegration of veterans. Families of fallen military personnel receive a lump-sum payment of [UAH 15 million](#), while families of deceased [volunteers](#) receive 500 times the subsistence minimum (equivalent to UAH 1.46 million in 2024). [Volunteers](#) who have acquired [disabilities](#) due to their service are entitled to compensation ranging from 150 to 250 times the subsistence minimum.

Gradually, in response to appeals from military personnel, the government [adjusted](#) payments to those who implement combat missions, to wounded soldiers, and those missing in action or taken captive. The latter have been [granted](#) the right to compensation, as well as medical, rehabilitation, and other assistance from the state, conditional on a decision by the [commission](#) responsible for determining cases of deprivation of personal freedom. Additionally, the government [resolved](#) the issue of recognition of combatant status for civilian volunteers and [granted](#) veterans the right to social and professional adaptation services to facilitate their transition back to civilian life.

Foreign citizens who fight for Ukraine are [eligible](#) for Ukrainian citizenship, with the possibility of postponing the language and Constitution exams for up to two years after the end of martial law.

To address the realities of war, particularly in locating abducted or missing persons, the government established a [registry](#) of deported persons, including children. Additionally, the criteria for recognizing a child as deprived of parental care were [expanded](#) — children can

now receive this status if their parents are in captivity or missing, and they will lose this status if their parents return.

To more effectively search for missing military personnel and to improve the investigation of crimes, the parliament adopted the [law](#) "On the State Registration of Human Genomic Information" (such information will be stored in a closed registry owned by the Ministry of Internal Affairs. Individuals will be able to voluntarily add their information to the registry, while the information of those connected to crimes will be mandatory).

Recently Parliament [decided](#) to create registries of deported children as well as of damage (including moral damage) done to Ukrainians because of the war.

Since the beginning of the full-scale war, the government has implemented support programs for individuals who lost their income or property due to the war. In spring-2022, this assistance was provided indiscriminately under the eSupport program implemented instead of the previously planned UAH 1,000 incentive for COVID-19 vaccination: the government [offered](#) UAH 6,500 to employees and entrepreneurs in regions affected by active hostilities. By the end of the program in July 2022, nearly 5 million people had received assistance, totaling [UAH 31 billion](#). However, a later audit revealed that more than 25,000 individuals received fraudulent payments, as they were employees of budget-funded institutions.

The government has simplified the process of receiving social assistance. Initially, unemployed individuals and IDPs were given the opportunity to register via the Diia app. Later, the eAssistance program was launched — a digital platform that allows those in need to receive assistance from international organizations such as the Red Cross, UNDP, and UNICEF. As of December 2024, over 10 million applications had been submitted through the eAssistance system, prompting the government to temporarily suspend the acceptance of new applications.

To promote gender equality, the government [introduced](#) policies allowing fathers and other relatives to take parental leave on equal terms with mothers (previously mothers were able only to “transfer” their leave to fathers or other relatives).

The state and local authorities provide housing for IDPs who are unable to purchase or rent housing. Priority [categories](#) for housing support include families of military personnel engaged in combat, IDPs who have been displaced for the second time since 2014, those whose homes have become uninhabitable due to Russian aggression, and individuals who are already residents of the community providing the housing.

Additionally, IDPs can receive financial assistance from the government to cover their living expenses. [According to](#) the Ministry of Social Policy, in 2022, financial aid for housing was provided to 2.3 million IDPs, amounting to UAH 52.8 billion, while in 2023, the number increased to 2.5 million people, with total payments reaching UAH 73.3 billion. To reduce state

expenditures, from 2023, the government gradually introduces restrictions on eligibility for assistance. Individuals who have made large purchases (such as an apartment or a car), hold significant amounts in bank deposits, do not work or register with the employment service, or have spent an extended period abroad are no longer eligible for payments.

In August 2022, the government launched the eOselya subsidized [mortgages](#) program. Eligible applicants include war veterans, their family members, active service members, individuals with disabilities resulting from the war, and families of fallen soldiers. Nearly all mortgage loans issued during the full-scale invasion have been through this subsidized program. From the program's inception until the end of November 2024, [4,500 loans](#) were issued, totaling UAH 24.3 billion.

Since 2023, the government has implemented the eRecovery program, which provides financial assistance to repair damaged housing or offers certificates to purchase new housing to replace destroyed homes. As of late September 2024, [nearly 70 thousand](#) people have benefited from the program.

See our [article](#) for a detailed overview of how the state supports people affected by the war

Since 2022, Ukraine has joined several international agreements aimed at improving the protection of human rights and civil protection for its citizens. Most notably, Ukraine ratified the Istanbul [Convention](#), an effort that had been pending for 11 years. Under the convention, Ukraine is required to criminalize domestic, economic, psychological, and other forms of violence and strengthen protection mechanisms for victims of abuse.

Additionally, Ukraine [aligned](#) its legislation with the Geneva Convention on Civil Protection and [became](#) a full participant in the EU Civil Protection Mechanism. This membership allows Ukraine to collaborate with the EU for protection of civilians and disaster risk management, improving coordination and response during emergencies. The agreement will facilitate the mobilization of assistance to Ukraine within the EU Civil Protection Mechanism framework. Furthermore, the government introduced new civil protection [regulations](#), requiring businesses to provide their employees and visitors, such as hospital patients and university students, with personal protective equipment.

The government has placed greater emphasis on supporting people with disabilities. New reconstruction [standards](#) mandate accessibility, energy efficiency of buildings and existence of shelters there. However, the focus is not only on rebuilding physical infrastructure damaged during the war but also on ensuring that public services are accessible to individuals with hearing, vision, speech, or other impairments. In order to promote inclusivity, Ukraine [joined](#) the Marrakesh Treaty, which facilitates access to text for visually impaired individuals. Additionally, all goods purchased with public funds, which may be used by people with disabilities, including transport vehicles, must meet accessibility requirements. This measure will enhance the inclusivity of public transportation.

In December 2023, the government launched the [Diia.Accessibility](#) portal, which provides information on state services, job opportunities, and social assistance to people with disabilities. The Diia.DigitalEducation platform is also accessible to people with disabilities.

To counteract potential abuses, at the end of 2023, the government [introduced](#) new rules for the import of humanitarian aid, requiring such aid to be registered in an electronic system. Later, Parliament [simplified](#) the process for bringing in humanitarian aid: besides registered charitable foundations or NGOs, foreign charitable organizations, non-profit state and municipal institutions, local authorities, and social service providers can now also import humanitarian aid. The same law allowed goods purchased by philanthropists abroad (and not just those received from donors free of charge) to be recognized as humanitarian aid. This simplified the process of bringing in essential goods.

The "[prosecutors with disabilities](#)" scandal catalyzed the reform of the Medical and Social Expert Commissions (MSECs), which determine the disability status and the associated benefits or payments which individuals are entitled to. In December 2024, Parliament passed a [law](#) to liquidate MSECs and adopt the International Classification of Functioning, Disability, and Health. This means that expert medical teams will assess an individual's functional abilities and prescribe appropriate treatment or rehabilitation. The process will be managed by an electronic system. In many cases, direct interaction between doctors and patients will no longer be necessary, which will reduce opportunities for corruption.

At the end of 2024, the government, at the president's initiative, launched the "[eSupport](#)" program, more commonly known as "Zelensky's Thousand" (an unconditional payment of UAH 1000 to people who live in Ukraine). As of December 11, 2024, [6.3 million](#) citizens had applied for the program. However, this initiative is widely viewed as a populist measure and contradicts the broader trend towards targeted social support.

Pension system

There have been no significant changes in the pension system from 2019 to 2024, except for digitalization. In 2020, the [Pension Fund](#) introduced [automatic](#) pension assignment, and from 2021, the [electronic](#) employment records system is replacing paper-based records. This allows every employee to check their tenure record at any time and, eventually, calculate their pension automatically.

In 2022, Parliament [simplified](#) the process for citizens to voluntarily join the pay-as-you-go system. Individuals can now voluntarily make additional USC payments for themselves or for their relatives, while businesses can contribute on behalf of their employees. These individuals will be eligible for higher pensions in the future.

In 2023, the Social Insurance Fund was [merged](#) with the Pension Fund to improve the efficiency of fund administration.

What next?

Ukraine's already challenging demographic situation has significantly worsened after the full-scale invasion due to the death and injury of a large number of people, emigration (primarily of working-age individuals) and millions under occupation. This has further exacerbated labour market imbalances, thus today high unemployment coexists with a labour shortage.

Today, the number of families and individuals in need of social assistance in Ukraine has grown substantially. These include those who have lost their homes and/or sources of income, families of fallen and captured soldiers, internally displaced persons, veterans, and others. At the same time, available resources for social support have shrunk, with most funding now coming from international partners. As a result, there is an urgent need to significantly enhance the efficiency of social assistance — an issue that has been discussed for many years.

The government has started taking steps in this direction. For it to stay on course, the [Ukraine Facility](#) program has a set of conditions that must be met to receive financial support from the EU. In the social protection sphere, besides the transition to a comprehensive household social support model, the key conditions include:

- facilitating the integration of veterans into civilian life;
- establishing a centralized system that contains information about people with disabilities and automatically offers them appropriate support;
- promoting the deinstitutionalization of children, elderly citizens, and individuals with disabilities;
- reducing discrimination and violence.

To address labour market challenges, it will be necessary to increase labour force participation, which, even before the full-scale invasion, in Ukraine was lower than in EU countries. Achieving this goal will require not only comprehensive training programs and revision of labour legislation but also development of childcare infrastructure to encourage greater labour force participation of women. It is also crucial to adapt public spaces and workplaces to ensure that people with disabilities and elderly individuals can move freely within cities and villages and participate in the workforce.

Additionally, Ukraine will need to:

- ensure equal labour market rights for Ukrainian citizens and foreign nationals and take steps to join the EURES system, which supports the EU single labour market;
- adopt a new modern law on vocational education and training;
- continue implementing the higher education development [strategy](#), including introducing the "money follows the student" funding model and consolidating

- educational institutions;
- invest in the development of science and innovation by introducing competitive elements in project funding.

Today, the return of Ukrainian refugees is a major concern for both society and the government. According to surveys, many refugees plan to return after the war. However, it is unlikely that Ukraine's demographic challenges can be addressed without attracting migrants. Once [reconstruction](#) begins, Ukraine may experience an influx of migrants from poorer countries, e.g. from Asia or Africa, and the government must be prepared for their integration. Integration programs should address the learning of Ukrainian language and laws, labour market inclusion, and mingling migrants with the local population to prevent the formation of ghettos. The development of such policies should start now, drawing on both positive and negative experiences of EU countries.

13/REFORMS IN EDUCATION AND SCIENCE

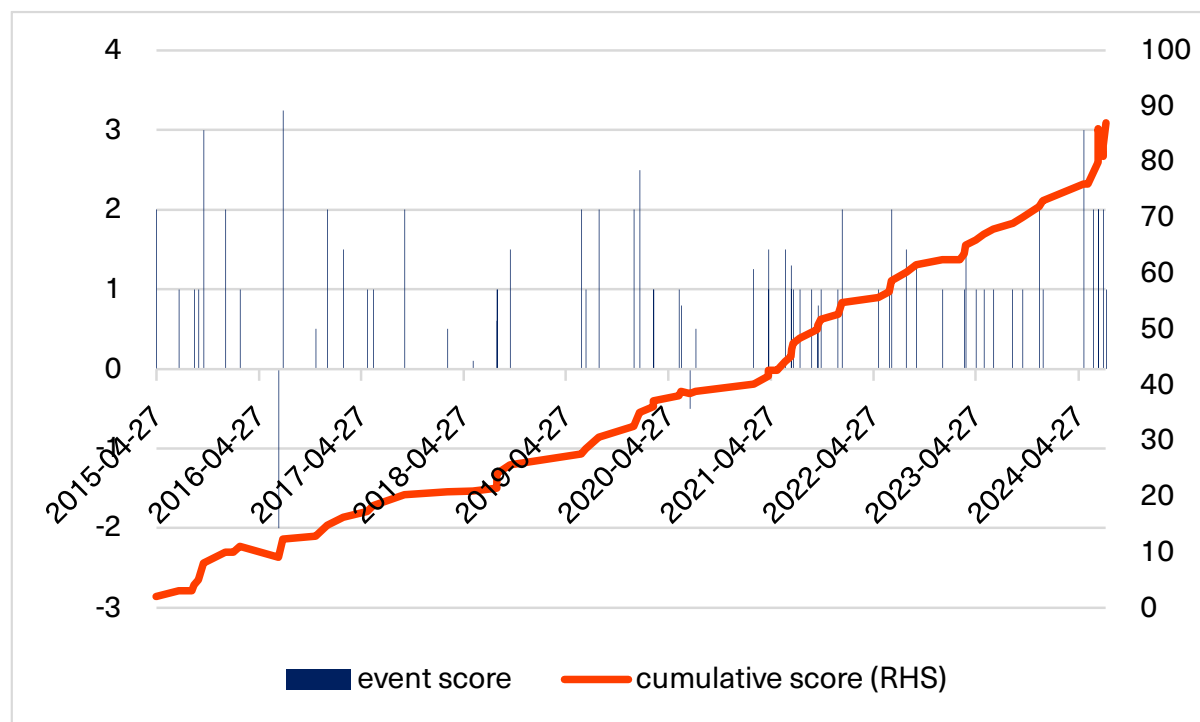
Since the restoration of Ukraine's independence in 1991, the country's education system has undergone significant changes. Previously, secondary school only extended to the eleventh grade, but there have been two attempts to transition to a 12-year system of education. The first was in 2002, but the reform was rolled back in 2010. Starting in 2017, students enrolled in the New Ukrainian School program will study for 12 years. Since 2000, Ukrainian schools switched from a five-point to a twelve-point grading scale, which greatly reduced the number of students who had to repeat a year of study. Another major change was the introduction of External Independent Testing (EIT) to administer final exams in 2006; the results of these exams have been used for university admissions since 2008. This reform helped reduce admission-related corruption in education.

Higher education institutions have also significantly changed. In 2005, Ukraine joined the Bologna Process and thus modified the student assessment system and divided higher education into bachelor's (4 years) and master's (5.5 or 6 years) degrees (instead of the 5-year specialist degree from the Soviet era). Since 2014, universities have gained more autonomy in developing curricula and determining forms of education. In 2019, the government began financing universities based on the quality of education rather than the number of students, while the Ministry of Education and Science recently introduced educational grants to enhance the "the money follows the student" principle. This step is expected to increase competition among higher education institutions and encourage them to improve the quality of education.

External shocks have negatively impacted the quality of education in Ukraine. In 2020, COVID-19 lockdowns forced a shift to online learning, adversely affecting the quality of education and the socialization of students. This negative trend of remote learning was further exacerbated by Russia's full-scale invasion in 2022. As a result, many Ukrainian students have been unable to return to full-time in-person learning for almost five years, which has negatively affected their academic performance. According to the [PISA-2022](#) results, Ukrainian students tested

lower on mathematical, reading, and scientific literacy than the OECD average, and lower than in the PISA-2018.

Figure 13.1. Reforms in education and science in 2015-2024, Reform Index data



Note: cumulative score is the sum of event scores. Event scores are derived from surveys of the [Reform Index](#) experts

Despite the government's attempts to reform the education system since 1991, the most significant and comprehensive reforms began after the Revolution of Dignity. Let's take a closer look at these reforms.

Reforms of 2014-2019

Secondary Education

Inequality between rural and urban schools is a significant problem in Ukraine's education system, highlighted by the substantial [differences](#) in learning outcomes between them. Small rural schools typically suffer from a lack of teachers, equipment, and opportunities for socialization, which negatively affects the quality of education. According to the [PISA-2018](#) study, 15-year-old students in large cities have significantly higher academic competencies than their peers from small schools, with similar results reported in the PISA-2022 study. This is also [visible](#) in the poorer EIT results of rural high school graduates.

To provide children in rural areas with access to quality education, the government began [creating](#) a network of hub schools with at least 200 students, to which students from smaller

schools can be transferred. This approach ensures adequate socialization of children and provides schools with the necessary staff and material and technical resources. Moreover, it allows for lower per-student costs. The money saved can then be used to purchase school buses, computers, or textbooks and increase teachers' salaries. Simultaneously, the government [stopped](#) funding schools with fewer than 25 students, encouraging communities to transfer students to hub schools. Local authorities can choose to maintain small schools at their own expense or to keep only primary schools as branches of a hub school.

In March 2017, there were [178](#) hub schools in Ukraine; by early 2021, their number had increased to [1,033](#), and in January 2023, to [1,599](#) (of which 446 operated offline, 376 online only, and the rest in a hybrid mode). As shown in Figure 13.2, the share of small schools has declined.

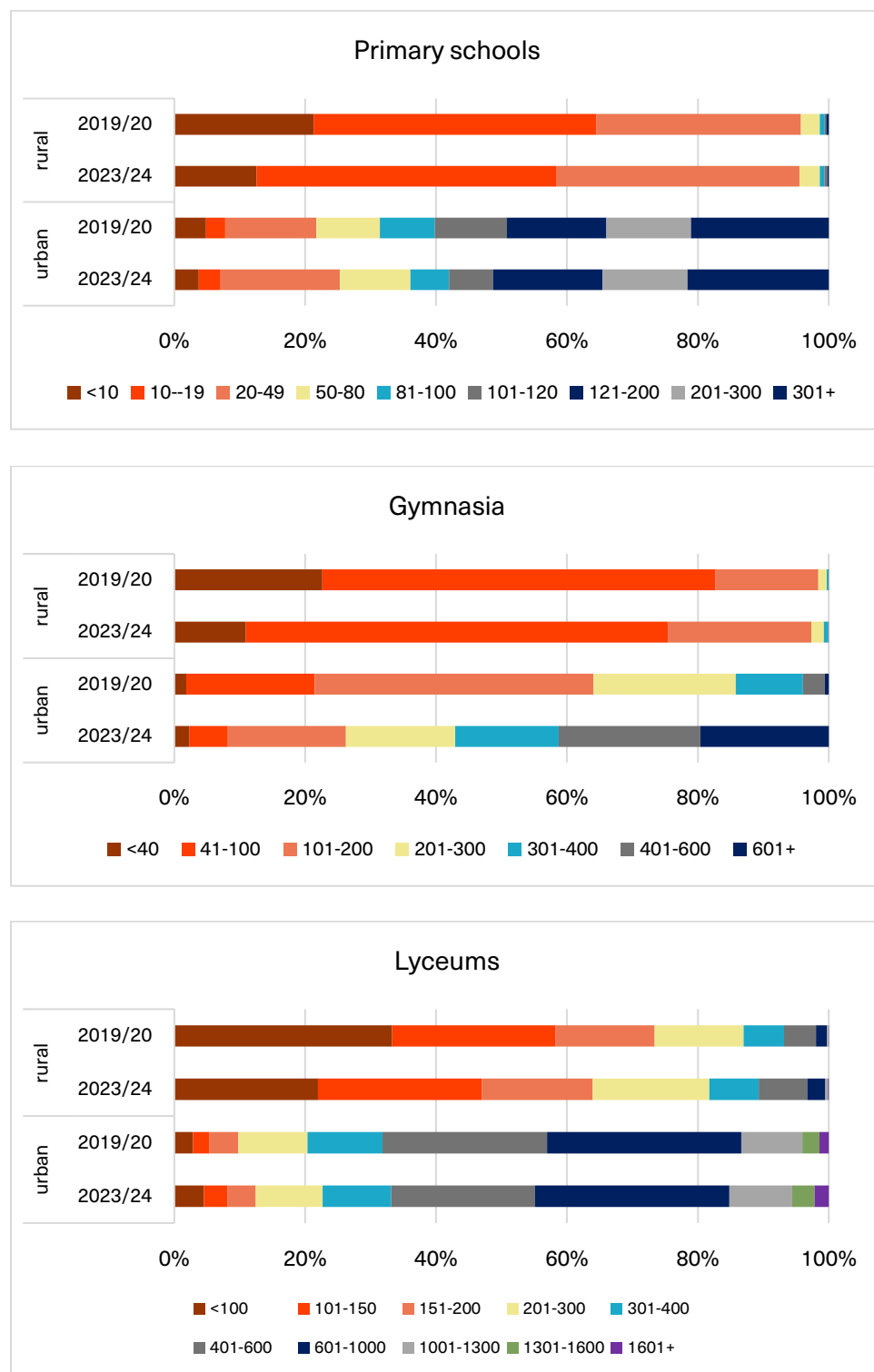
A major reform that modernized the content of educational activities in all secondary schools was the [introduction](#) of the New Ukrainian School (NUS). The reform is being gradually deployed to educational institutions: in the 2017/18 academic year, the first grades of 100 pilot schools adopted the new system; starting in the 2018/19 academic year, all first graders began their studies under NUS, and in 2024, the original cohort of NUS students entered the seventh grade. The main [idea](#) behind NUS is a shift towards competency-based learning, as well as the development of creative abilities and social skills. It modified the educational format so that instead of merely listening to the teacher, students predominantly engage in practical tasks, discussions, and group work.

NUS standards imply the [development](#) of inclusive education. Previously, children with special needs either studied in specialized schools or were homeschooled. After the reform, all secondary schools began providing the necessary conditions for children with special needs to learn alongside their peers. By the end of 2023, the number of inclusive classes (groups of about 20-40 children) in schools exceeded 29,000 (Figure 13.3), which accounts for about 21% of all classes. Over 40,000 students with special educational needs were studying in these classes, accounting for about 80% of all students with special needs.

NUS standards also involve a new approach to student assessment: now, the teacher evaluates the student's learning process, not just testing outcomes. Instead of traditional report cards, primary school students receive a certificate of achievement, with grades only known by students, their parents, and the teacher. This confidentiality aims to reduce unhealthy competition among students and prevent bullying.

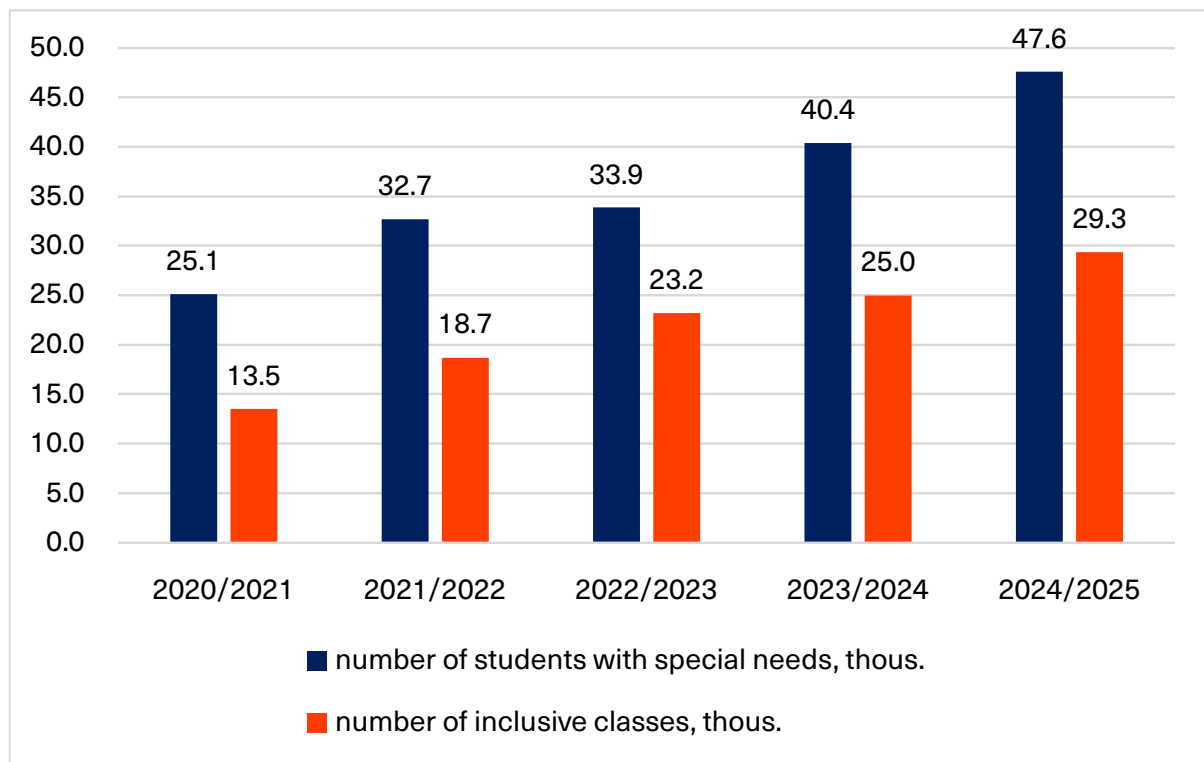
Several years after the reversal of educational reform in 2010, schooling was again extended to a 12-year system to increase student opportunities for professional development. The first cohort of NUS students will study in separate institutions called lyceums from grades 10 to 12 and are expected to graduate in 2029. Currently, the vast majority of lyceums include not only upper grades but also middle and primary grades (see Figure 13.4).

Figure 13.2. Distribution of different level schools by number of students at the start of the academic year (the number of students is shown on the horizontal axis)



Source: Institute of Educational Analytics (1, 2). Note: For the 2019/20 academic year, the data show I-II level institutions instead of gymnasiums and I-III level institutions instead of lyceums. Currently, both gymnasiums and lyceums may include classes from grades 1 to 11 and may even have preschool departments. However, starting in 2027, gymnasiums will only cover grades 5-9, while lyceums will cover grades 10-12

Figure 13.3. Number of students with special education needs and of inclusive classes at the beginning of the academic year, thousand



Source: [Ministry of Education and Science](#)

The NUS envisions changes in approaches to the education of teachers. To ensure that teachers' competencies align with the new secondary education standards, the government provided more opportunities for their professional development. A previous requirement to attend centralized qualification courses every five years has been [replaced](#) with the opportunity for teachers to freely choose their professional development courses. Overall, a teacher must study for 150 hours over five years, with at least 10% of the total hours focused on enhancing skills in psychological support and at least 10% on inclusive education.

The procedures for appointing heads of educational institutions have also changed. In 2015, transparent competitions for positions of school principals were [introduced](#) to improve school management quality.

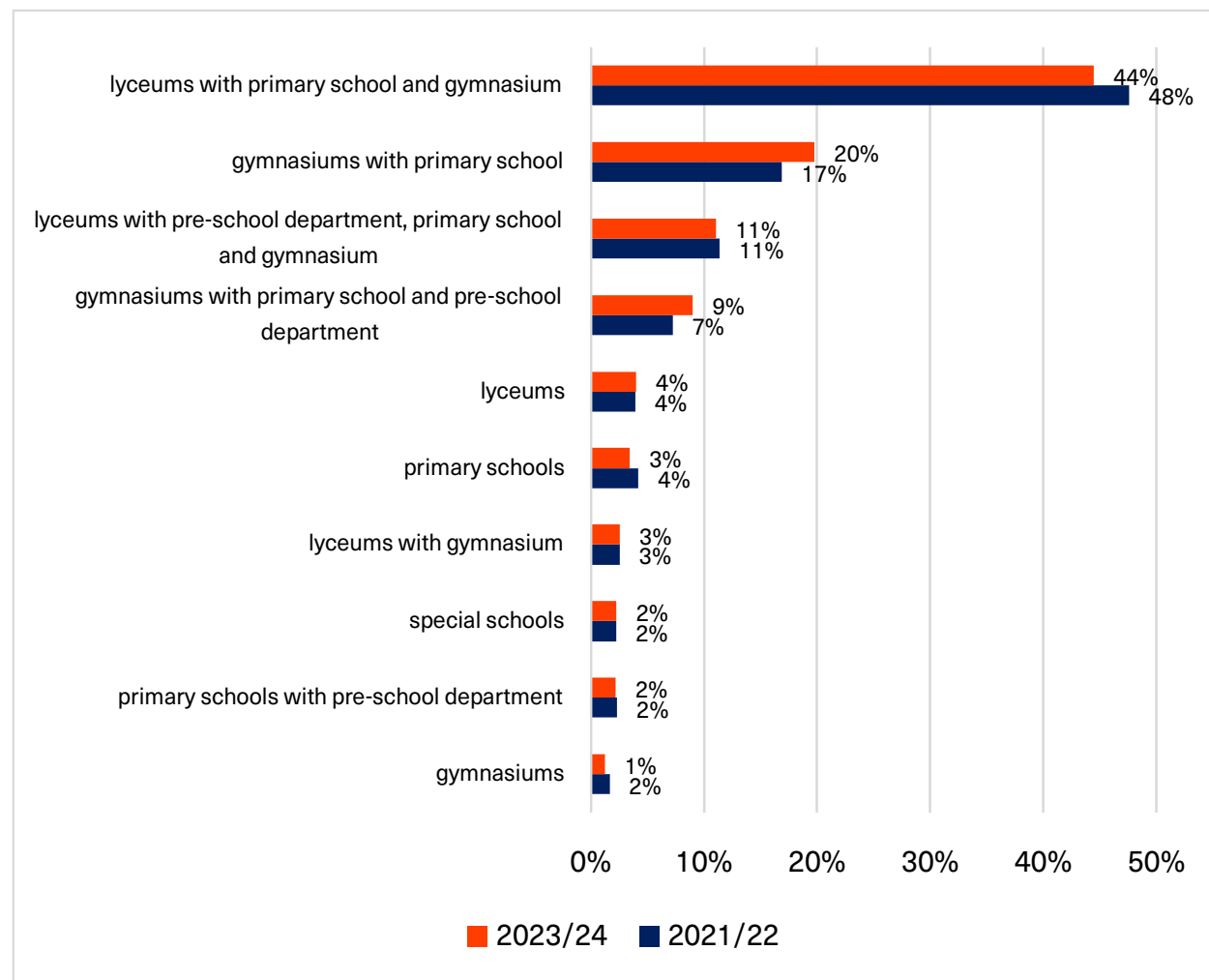
Vocational Education

The reform of vocational education and training (VET) [began](#) in 2016. At that time, the government implemented a patchwork of changes to improve management approaches in vocational education institutions to increase their financial independence and appeal to students. However, this did not lead to an increase in the number of applications to VET institutions (Figure 13.5).

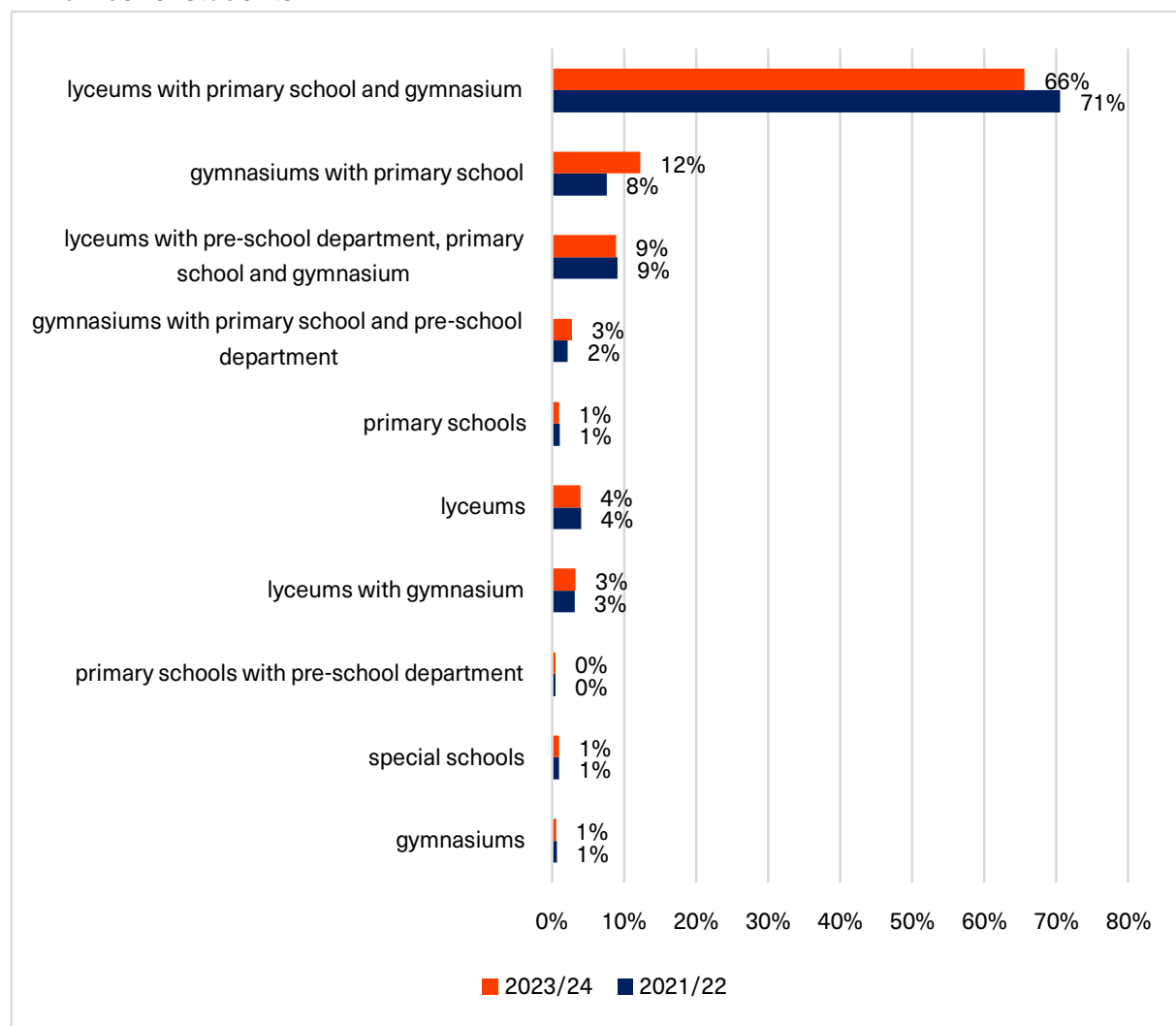
It was not until the summer of 2019 that Parliament passed the [law](#) on professional pre-higher education to comprehensively address problems in this sector. The law introduced corporate governance in vocational institutions, requiring the establishment of supervisory boards to oversee their expenditures and operations. The heads of these institutions will be appointed based on voting by their staff and hold their positions for no longer than a five-year term.

Figure 13.4. Distribution of secondary educational institutions by type, %

A. Number of institutions



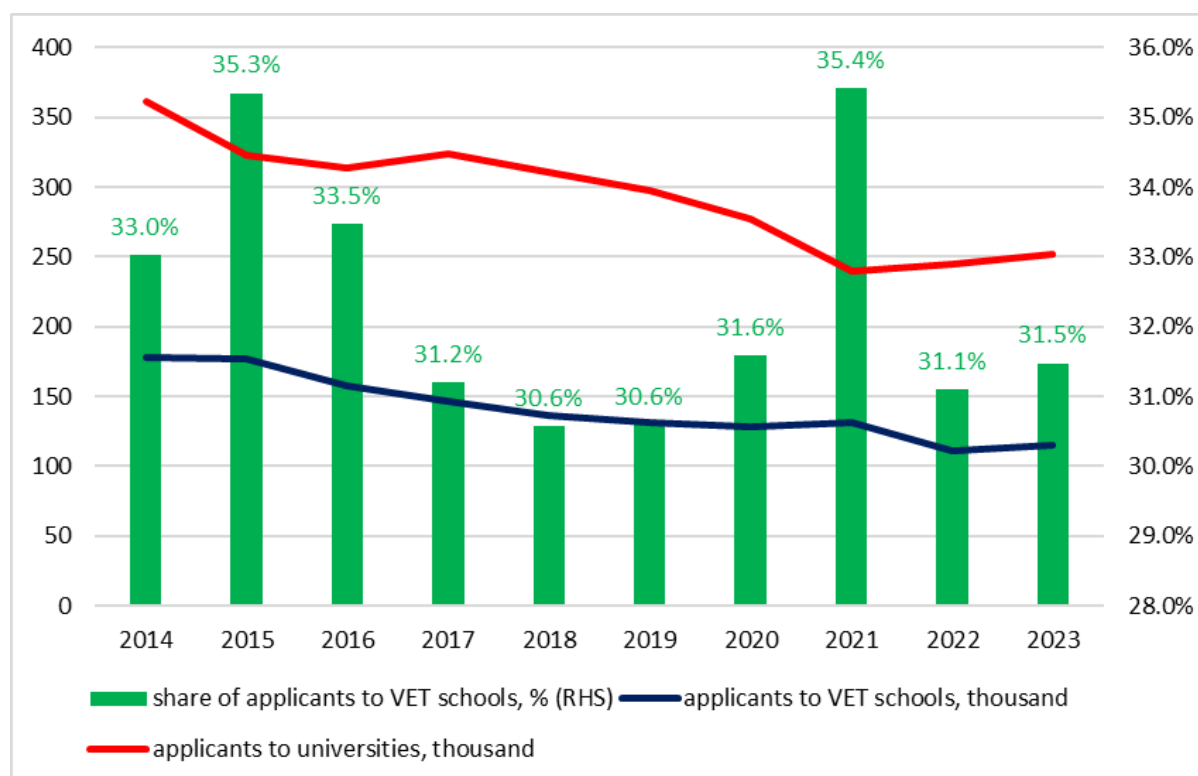
B. Number of students



Source: State Statistics Service

Rules for funding these institutions also changed: state subventions will only cover the provision of general secondary education and training in certain specialties. Vocational institutions will be able to attract additional funding through grants or revenues from providing paid educational services. As a result, vocational institutions are now open to adults (including for fee-paid programs), not just recent school graduates. Adults will be able to upgrade their skills in their current profession, acquire new skills, or completely change their field of work.

Figure 13.5. Number of applicants to vocational and higher education institutions and the share of VET applicants, %



Source: State Statistics Service

Higher Education

The main goal for higher education reform is to increase the independence and financial sustainability of higher education institutions (HEIs) so that they can provide quality educational services. To achieve this, a new law "[On Higher Education](#)" was adopted in 2014, introducing several innovations in this field. HEIs gained greater academic and organizational autonomy, allowing universities to independently determine their development plans, the content of educational programs, and matters of internal organization.

The 2014 law introduced a new approach to distributing public-funded places (i.e. the number of students financed by the state budget) among HEIs: more public-funded places are allocated to universities that receive more applications and admit students with higher EIT scores. The scholarship system also changed. Previously, all students who successfully passed their exams were eligible for scholarships, but since 2016, only students with the top 45% GPA are eligible. The state also provides social scholarships for students from vulnerable groups. Thus, the 2014 reform introduced elements of competition for both universities and students, which is expected to improve the quality of education.

Given the previous culture of dishonest admissions (e.g., bribes or cheating at exams), the higher education reform also addressed transparency in the admissions process. Since 2008,

EIT results have been a mandatory requirement for university admission, reducing corruption in entrance exams and ensuring an equal playing field for applicants. The independent testing system had to be modified due to the full-scale invasion, and applicants now digitally take the National Multi-subject Test (NMT) on three subjects. Although the structure of the exam and the number of questions have changed, the fair and competitive selection of future students has been preserved.

Since the EIT proved successful for admission to BA programs, this practice was extended to master's programs. Mirroring the structure of the EIT, the Unified Professional Entrance Exam (UPEE) was introduced for admission to MA programs in law, social sciences, humanities, journalism, and international relations.

Since 2014, the government has continued to reform the bachelor's admission process by [developing](#) an electronic admission system. Applicants can now participate in the competitive selection process at multiple universities by submitting their documents through an electronic applicant portal (before that, they could only submit paper documents to the admission commission). This has increased the options available to prospective students, improved their chances for admission and financing of their education by the state. The applicant portal is supported by the Unified State Electronic Database on Education (USEDE), which stores all EIT results and admission campaign outcomes since 2014. This database enables researchers and policymakers to evaluate the impact of interventions and adjust policies accordingly.

A different [admission](#) procedure was in place for students from temporarily occupied territories (TOTs). In 2016, the Ukrainian government introduced [quotas and benefits](#) for TOT applicants to enter Ukrainian higher education institutions, providing them with opportunities to complete their schooling remotely. Applicants from Crimea could apply to designated institutions through a simplified procedure via educational centers. These institutions had a special quota-2 allowing those who had not taken the EIT to enroll based on the results of an internal university exam. Children from the temporarily occupied territories of the Donetsk and Luhansk regions could only enroll under a simplified procedure in universities in the Donetsk and Luhansk regions or relocated educational institutions. Unlike Crimean applicants, they did not have a separate quota and participated in the general competition. This approach is in line with the de-occupation strategy aimed at integrating youth from occupied territories into the Ukrainian context.

The National Agency for Quality Assurance in Higher Education ([NAQA](#)) was established in 2015 to enhance transparency and reduce corruption. It took over the regulatory and oversight functions of the Ministry of Education and Science, replacing the Higher Attestation Commission and the State Accreditation Commission. NAQA was created as an external, impartial body overseeing higher education, with the authority to accredit educational programs and ensure compliance with education standards. Members of the Agency are

selected through an open competition including employers, students, educators, and researchers, adhering to the principle of representation.

Science

In 2015, Parliament passed a new law "[On Science](#)" to reform Ukraine's research and innovation sector. Among other things, the law created the National Research [Foundation](#), which began funding scientific projects on a competitive basis. The Scientific Committee for coordination of science and innovation policies established in 2017 acts as the Foundation's Supervisory Board and advises the government on scientific policies. Since 2017, directors of scientific/ research institutions are elected [competitively](#).

Updated legislation has enabled the fight against academic dishonesty. In 2016, the government [established](#) the National Repository of Academic Texts, significantly simplifying the process of checking dissertations and other publications for plagiarism.

After 2019

Preschool Education

Since the launch of the New Ukrainian School (NUS), the government has increased its focus on the preschool education system. PISA study results have shown that children attending preschool institutions achieve better learning and development outcomes. Therefore, to ensure high-quality secondary education, it is necessary to update the formats and content of preschool education so that children are better prepared for the school. One priority of educational reform is to create a system for every child to receive a high-quality, modern preschool education that considers their individual needs.

Until 2024, the government implemented a patchwork of changes aimed at improving preschool education, such as introducing an electronic enrollment queue and easing requirements for daycare facilities and staff. A comprehensive change came with the adoption of the [new law](#) on preschool education in June 2024. This law guarantees every child access to preschool education in municipal institutions, mandates that kindergartens be inclusive for children with disabilities, and formalizes some existing forms of preschool education, such as preschooler development centers. Additionally, the [law](#) on the use of the English language in Ukraine mandates that English be taught in kindergartens starting in 2026.

However, implementing these changes will require additional funding — from increasing salaries for educators to constructing new childcare facilities — as the shortage of kindergartens remains a major issue in cities (Figure 13.6).

Secondary Education

The new government and Parliament, which began their work in the fall of 2019, continued the NUS reform. In 2020, a new [law on secondary education](#) was adopted, reinforcing previous efforts to ensure equal access to quality education that is geographically accessible, inclusive, and provides non-competitive enrollment in primary school. Legislators included the possibility of forming individual educational trajectories to ensure effective approaches for every student. This means that students will be able to select certain subjects and educational formats, and manage the amount of time required to master the material according to their abilities and needs. This approach will help ensure a proper education for students with special needs, those studying at home, or those undergoing medical treatment. Currently, individual educational trajectories are not available in every school, but once the NUS reform is fully implemented, this option will be available to everyone.

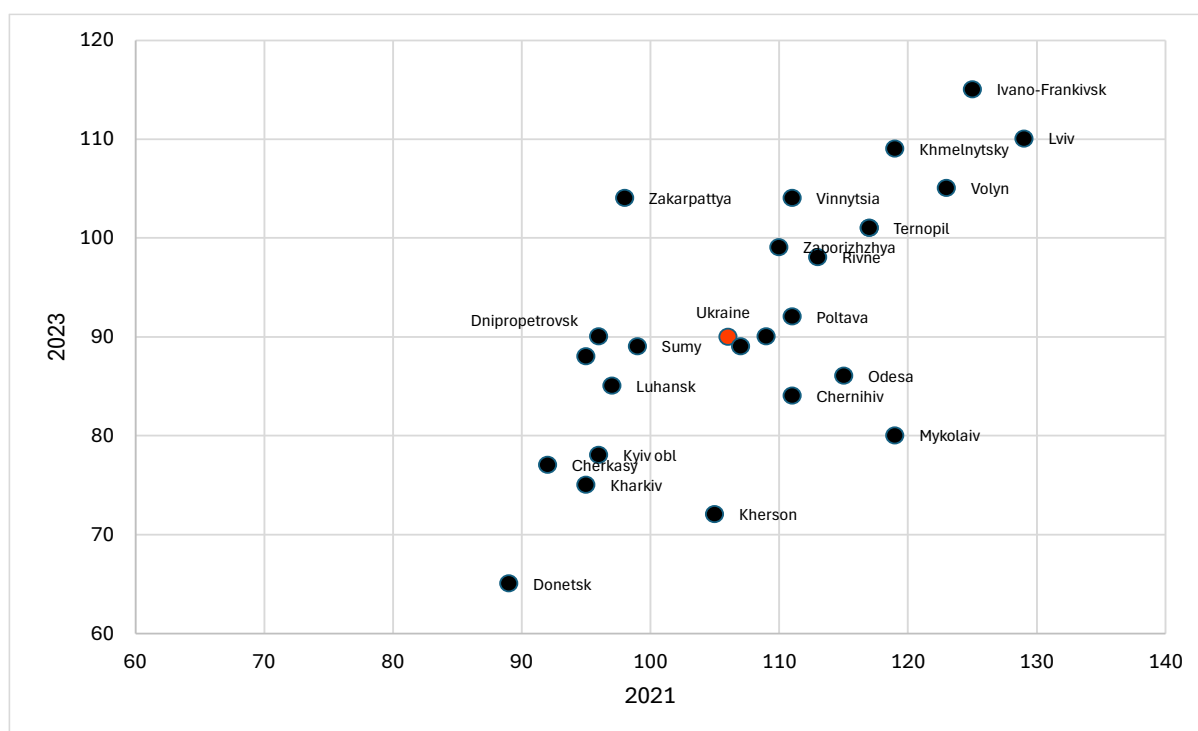
The new law establishes a three-tier structure for secondary education: primary school (grades 1-4), basic secondary school (grades 5-9), and specialized secondary school (grades 10-12). The latter will have a status of either an academic or a professional lyceum. In upper secondary school, students will be able to choose either to continue their studies in an academic lyceum and focus on subjects needed for university admission, or enroll into a technical lyceum where they will train for a profession while completing their secondary education. Regardless of the path they choose, students will retain the right to apply to higher education institutions in the future.

Despite the [notable](#) successes of the NUS at the primary school level so far, the full implementation of the reform is under threat due to external challenges. First, the COVID-19 pandemic forced schools to switch to remote learning, slowing down the reform's implementation due to unequal access to technology, varying levels of digital skills among students and teachers, and difficulties in organizing the learning process. The situation worsened following the [full-scale invasion](#), which led to the destruction of school infrastructure ([one in seven schools](#) in Ukraine have been damaged by Russia) and resulted in large-scale displacement and emigration of students and teachers.

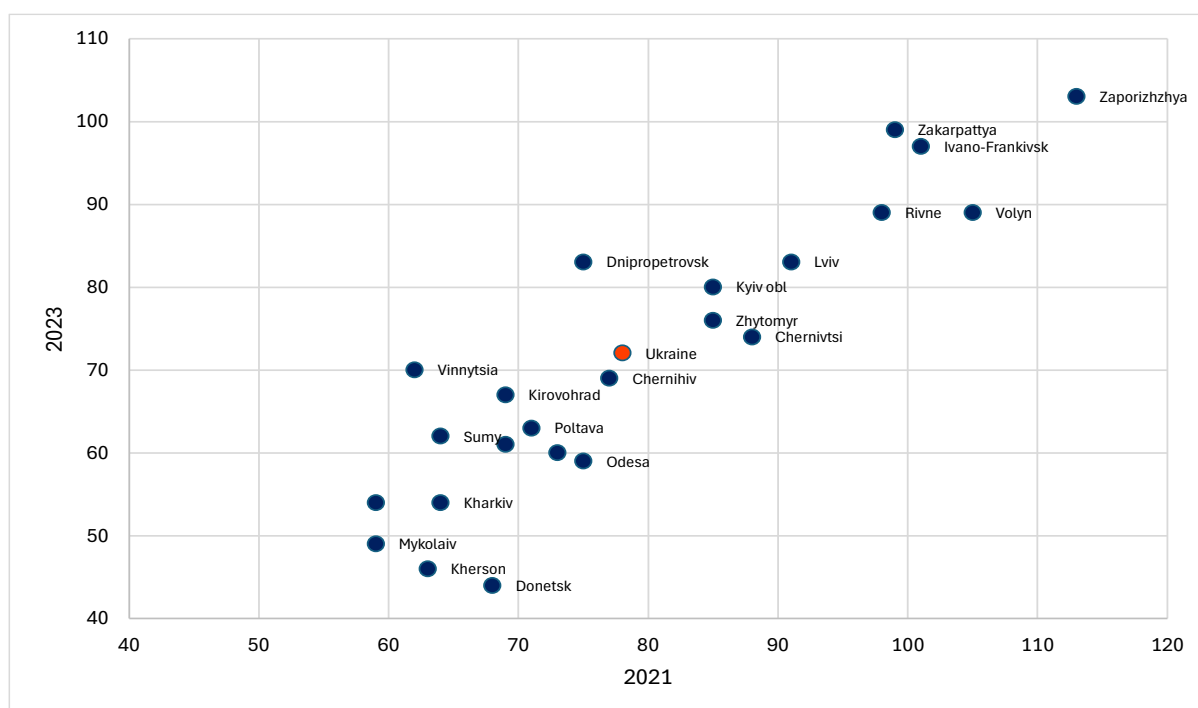
Under these conditions, ensuring equal access to quality schooling for children has become a challenge for the entire education system. In 2022, the government canceled targeted educational subventions, resulting in the NUS losing adequate funding, teachers being unable to improve their qualifications, and textbooks not meeting the new standards. In September 2023, the government [restored](#) funding and initiated a "reboot" of the NUS reform, renewing hope for its full implementation.

Figure 13.6. Number of children per 100 places in daycare facilities, by region (oblast)

A. Urban areas



B. Rural areas



Source: State Statistics Service of Ukraine. Note: In graph B, the Luhansk region (with 147 children per 100 places in 2023) is not shown

Vocational Education

Even before the full-scale invasion in 2022, the Ukrainian labour market was experiencing a shortage of specialists, particularly blue-collar workers. Today, the gap between workers' skills and employers' needs has widened. Therefore, it is necessary to accelerate the reform of vocational education and adult learning.

The vocational education sector is still governed by the 1998 [law](#) (with amendments). Thus, Parliament must comprehensively update the legislation on vocational education (a new draft law was [presented](#) by the Ministry of Education and Science in April 2024). The legislation on the adult education system must be adopted as well (the relevant [draft law](#) has only passed the first reading).

Some steps in this direction have already been taken: in 2021, the government [approved](#) a new competency-based standard for vocational education; in 2022, it [allowed](#) students to receive vocational education free of charge for a second time; and in 2023, it [expanded](#) educational benefits for those released from Russian captivity and their children, veterans, and unemployed individuals. The last two categories will receive educational vouchers, while the first will receive subsidized loans or grants.

As early as 2019, the National Qualifications [Agency](#) began [harmonizing](#) the Ukrainian [Qualifications Framework](#) for lifelong learning with the European framework. Qualification centers at vocational education institutions [will be able](#) to validate qualifications acquired abroad or through non-formal (certificate programs, training workshops, courses with tutor support without state license) and informal (self-organized learning) education. This approach means that individuals do not need to spend time re-studying for the sake of a diploma if their current level of qualification enables them to perform required tasks on the job.

To adapt educational programs to labour market conditions and reduce unemployment, the government approved the [concept](#) of dual education in 2019 and launched pilot projects in this area. Dual education helps build connections between students and employers during their studies. Under this approach, 25% to 50% of vocational education credits are earned directly at the workplace.

[According to](#) the Ministry of Education and Science, as of early January 2023, 27% of vocational education institutions operated under the dual education system, teaching over 10,000 students (5% of their total number). Students working at enterprises are [paid](#) according to a tripartite agreement between the employer, the student, and the educational institution. Half of the earned income goes toward developing the institution's material and technical resources.

In 2023, the Ministry of Education and Science approved the framework [regulation](#) on dual education, which defines the participants in the process and outlines the distribution of responsibilities among them. However, employers remain [skeptical](#) of this form of education, preferring to hire adult employees who have completed their education rather than students still acquiring their qualifications. Although organizing the learning process requires effort from both educational institutions and employers, this form of cooperation offers a potential solution to the shortage of workers. In our view, educational institutions should intensify their engagement with businesses, clarifying the mechanism and benefits of such cooperation.

Higher Education

In parallel with the reform of secondary and vocational education, the government has continued the reform of higher education. Significant changes in this area focused on improving the systems of management and funding for HEIs.

The approach of funding universities based on the number of students does not incentivize the improvement of education quality. Under such a system, HEIs are reluctant to expel underperforming students, which lowers the average quality of graduates (in 2019, 40% of employers [reported](#) significant skill gaps among employees that hindered achievement of business goals). The government [introduced](#) formula-based funding for HEIs in December 2019 to address this issue. This formula of budget funds allocation includes not only the number of students but also the size of the university, its scientific and international performance, and the employment of its graduates.

Formula-based funding [eliminates](#) the requirement for a fixed ratio between the number of lecturers and students, granting institutions more autonomy in using funds (e.g., enabling the reallocation of resources between research and teaching). This approach aims to encourage HEIs to focus more on the quality of education and incentivize smaller universities to [merge](#) with larger ones. Merged universities can offer students a wider range of study programs, [create](#) interdisciplinary programs, and save on administrative costs.

In 2022, with the onset of the full-scale war, the government reverted to funding HEIs based on the number of students, probably due to an overall budget deficit. The Ministry of Education and Science [reinstated](#) the formula-based approach in 2024.

In 2020, the government [raised](#) tuition fees for students who pay for themselves in HEIs to cover the actual cost of education, as universities were previously subsidizing these students using state budget funds. This change allowed educational institutions to allocate more funds towards updating material and technical resources and increasing professors' salaries. However, this change was reversed in 2022. Moreover, with the start of the full-scale war, many fee-paying students lost the ability to pay for their education. Initially, payments were deferred or academic leaves were granted, and eventually, students living in combat zones

were allowed to study for state-budget funds. In 2024, the government launched a program [allowing](#) fee-paying students with high grades to receive state grants for their education.

In 2020, Parliament updated the [law](#) "On Higher Education" [introducing](#) key performance indicators (KPIs) for university rectors. The procedure for electing rectors was also [improved](#) by introducing a second round and a candidate vetting procedure. The law simplified licensing requirements for "unregulated" professions and made them more stringent for regulated ones (such as lawyers, doctors, engineers or military — 28 out of over 100 specialties). Regulated professions imply greater responsibility, justifying stricter requirements for the education and training of these specialists.

In line with this logic, the government tried to raise the quality of medical education. Since 2017, only those who score at least 150 out of 200 on the EIT can participate in the competition for admission to medical specialties. Additionally, attempts were made to introduce international external exams such as the IFOM for graduates of medical institutions, as the Ukrainian exams for medical students (KROK) likely were [not entirely fair](#). However, after a pilot test in 2019, this reform was discontinued.

One of the reform priorities is aligning with European standards and approaches to the organization of higher education. To this end, in 2021, the Ministry of Education and Science [updated](#) the system of academic degrees and procedures for awarding them according to European models. Now, Ukraine awards a single Doctor of Philosophy or Doctor of Arts degree instead of the former Candidate and Doctor of Sciences degrees. The Doctor of Philosophy degree is awarded based on the successful public defense of a dissertation, while the Doctor of Arts is awarded based on the public defense of a creative art project. Furthermore, an academic degree cannot be awarded if plagiarism is found in the dissertation. To combat academic dishonesty among researchers more effectively, the law stipulates that penalties for plagiarism in a defended work can also be imposed on the supervisor, the specialized academic council, official opponents, and the higher education institution or organization where the defense took place.

In 2023, lawmakers once again amended the law on NAQA to [align](#) it with European practices. They introduced an appeals procedure for decisions made by the Agency and established oversight of universities' implementation of recommendations made during the accreditation process. Additionally, the government [increased](#) the transparency of the state certification process for higher education institutions and research organizations. The new procedure is expected to encourage these institutions to improve the quality of their scientific work.

In 2024, at the EU request, Ukraine [expanded](#) opportunities for education in national minority languages, provided they are EU languages. Private higher education institutions may offer instruction in these languages, but Ukrainian must also be taught as a separate course.

The same year, the [law on individual](#) educational trajectories was adopted. First, it simplifies the recognition of learning outcomes gained through academic mobility programs and informal or non-formal education. Second, it allows students to independently determine the duration and cost of their education: they may complete a bachelor's program more quickly or slowly than the standard 4 years (this option will be available after the martial law is lifted). Students will also be able to enroll in interdisciplinary programs to study a universal curriculum in the first year rather than having to select a specialization (major) right away. These approaches give students more freedom and align Ukrainian education with international practices.

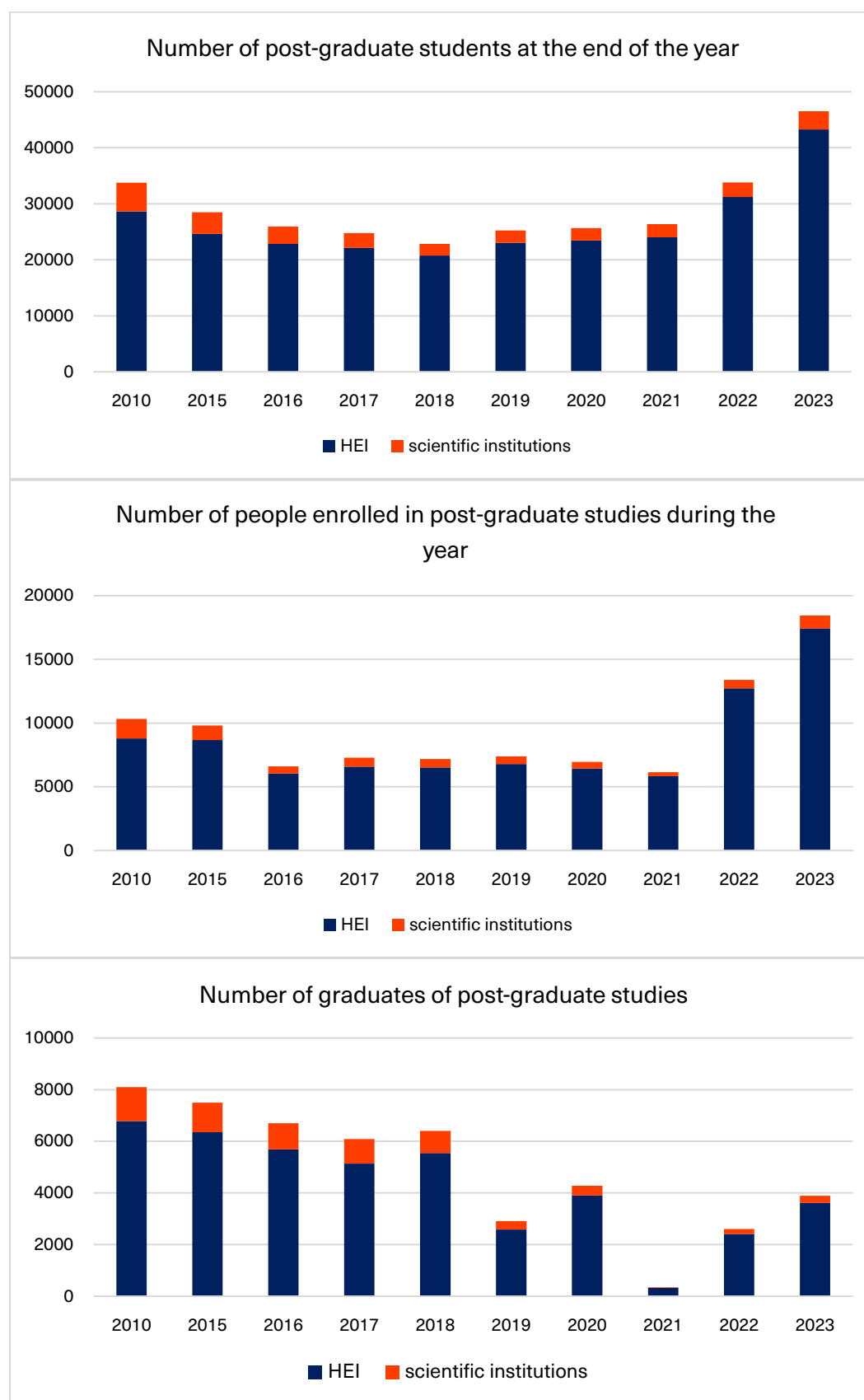
The full-scale war had a significant impact on higher education. In addition to changes in funding approaches, the Ministry of Education and Science had to replace the EIT with the National Multi-subject Test conducted online. For master's programs, the Unified Professional Entrance Exam (UPEE) and the foreign language test were replaced with the Master's Test of Educational Competence and the Master's Comprehensive Test. However, today universities have returned to the pre-2022 test format for MA programs.

[In 2024](#), independent testing became mandatory for admission to graduate programs, aiming to close a loophole used to avoid military mobilization (Figure 13.7 suggests that some individuals are using doctoral studies for this purpose). Today, prospective PhD candidates must pass the Unified Entrance Exam (UEE) and the General Educational Competence Test (GECT), with a minimum GECT score 160 out of 200. Only those who meet this minimum score are allowed to take internal exams at HEIs. Under the new rules, only those studying full-time in state-funded programs will be eligible for deferment from military service. The government aims to close loopholes for draft dodgers, but this measure also infringes on the right to education for individuals willing to study at their own expense.

In 2020, the government updated the admission procedure for applicants from temporarily occupied territories (TOT). All universities were required to [introduce](#) quotas for these applicants to be admitted without an EIT score. To facilitate admission through a simplified procedure, all universities had to establish "Crimea-Ukraine" and "Donbas-Ukraine" educational centers. Experts from the Reform Index rated this law negatively, as it [creates](#) opportunities for corruption and could lower overall standards for applicants. A better solution would be to enroll children from TOT in state-funded preparatory courses to help them pass the EIT (or NMT) and apply under the general conditions.

Currently, Ukrainians who received education in the occupied territories [can](#) confirm their level of knowledge through certification. At the higher education level, no more than 75% of total ECTS (European Credit Transfer System) credits earned can be confirmed. Education from TOTs will not be recognized for a number of professions specified by the government.

Figure 13.7. Post-graduate Students in Ukraine



Source: State Statistics Service

Science

Reforms in science aim to encourage Ukrainian scientists to collaborate with their European counterparts. In 2019, the National Scientific Information System ([URIS](#)) was introduced, containing profiles of institutions and individual researchers, their scientific achievements, research opportunities etc. URIS helps Ukrainian scientists establish contacts with international colleagues more effectively.

Ukrainian researchers successfully participate in the “[Horizon Europe](#)” program, [an office](#) of which opened in 2023 at the National Research Foundation. Under the Horizon 2020 program, which preceded Horizon Europe, 323 Ukrainians [participated](#) in 230 research projects with a total funding of EUR 45.5 million. In 2022, Ukraine secured EUR 13 million in grants under the Horizon Europe program, and this amount increased to EUR 20.3 million in 2023. In addition to research grants, the European Commission introduced several scholarship programs for Ukrainian scientists, such as [EURIZON](#).

In June 2022, the Ministry of Education and Science [established](#) the legislative framework for the creation of centers for the shared use of scientific equipment. These centers will allow scientists to conduct research regardless of whether their institution owns the necessary equipment. At the end of 2022, the government approved the National Open Science [Plan](#), which aims to enhance scientific exchanges and promote science among the Ukrainian population.

What Next?

The full-scale war has exacerbated existing problems in the education system, some of which were also caused by the COVID-19 pandemic. Therefore, education reforms should be accelerated while maintaining the chosen direction of strengthening competition, increasing integrity and enhancing quality in the education system.

Unfortunately, the education inequality problem was exacerbated by the pandemic and the war. Children who are in a remote learning format (at the start of the 2023/24 academic year, [707,000](#) children, or 18% of the total, studied online as compared to [0.3%](#) at the beginning of the 2020/21 academic year) or don't have an opportunity to study without interruptions (e.g. during the pandemic not all the schools were able to introduce remote studies, and now classes are interrupted by air raid alerts and blackouts) on average demonstrate poorer educational outcomes. In response to these challenges, governments and schools could offer additional learning opportunities, such as summer schools, expand home-based learning options, and more actively implement individual educational trajectories.

It is important to involve children who have relocated abroad or stay in occupied territories into the Ukrainian educational context. If these children want to enter Ukrainian higher

education institutions, they should be allowed to take the EIT (NMT) on the same terms as everyone. Children from vulnerable categories, instead of preferential treatment during admission (i.e., allowing them to enter universities with low grades), should be offered preparatory (compensatory) courses because children who have not mastered the school curriculum are unlikely to be able to study effectively at the higher education level.

To improve the quality of higher education, on one hand, it is important to strengthen the application of the "money follows the student" principle (for example, providing education [grants](#) based on EIT/NMT results instead of budget-financed places at universities). On the other hand, opportunities for universities to attract additional funds should be expanded. Transforming universities into state or municipal enterprises, similar to healthcare institutions, would help increase their financial autonomy and hence their ability to attract grants. These changes would stimulate competition among universities and encourage them to improve the quality of education and research.

Both [scientific](#) and educational institutions would benefit from closer cooperation with the real sector — private and public enterprises, including defense companies, different level government agencies etc. This could be organized through student internships, dual education, and adult education programs in higher and vocational education institutions. This cooperation would also help modernize curricula.

For more detailed proposals on educational reform, please refer to the [report](#) “Rebuilding Ukraine: Principles and Policies”

14/HEALTHCARE REFORMS

Changes in the Ukrainian healthcare system implemented over the past decade are overwhelming. Ukraine has transferred from the Soviet-era Semashko system to the more efficient system typical in many EU countries.

The [Semashko system](#) was designed in the early 20th century, aimed to defeat infectious diseases. This goal required a large number of hospital beds in order to isolate patients from healthy people to prevent the spread of infection. Since the 1960s, however, non-transmittable diseases have become a major problem. Moreover, between 1991 and 2014 Ukraine's population declined by about 10 million. Therefore, many hospitals became underutilized. Underutilized hospitals are not only inefficient (since one still needs to pay fixed costs), they also provide inferior services since doctors there do not have enough practice. Therefore, reducing the number of hospitals in Ukraine could contribute to higher quality medical services with the same financial resources.

At the same time, Ukrainians are burdened with out-of-pocket fees of [about a half](#) of total healthcare spending (one of the highest proportions in Europe), pushing [7% of citizens](#) into poverty. General stagnation in policy reform was attributed to insufficient political will, rampant corruption among healthcare providers, and price-fixing collusion between pharmaceutical [corporations](#).

The major goal of healthcare reform was using Ukraine's limited resources efficiently. Achieving this goal required several steps: switching from input-based funding of healthcare institutions to financing services according to "money follows the patient" principle; putting more emphasis on prevention which is cheaper than treatment; making drugs and medical supplies more affordable for patients.

Pilot projects introducing family doctors as a point of entry into the healthcare system were started as early as 2010 with the support of the World Bank. The first significant change in healthcare financing was the replacement of centralized financing of schools and hospitals by educational and medical subventions in 2015 (see Chapter 2 for details). This allowed local governments some freedom in hospital management, e.g. they could increase doctors' salaries or buy medical equipment.

However, the most substantial [changes](#) to the healthcare system, i.e. financing of healthcare services rather than medical facilities, were made in 2017. This shift of healthcare funding model introduced some competition to the sector: if a hospital or a doctor receives money for services rather than a fixed pay, they have incentives to provide better services in order to attract patients. VoxUkraine [interviews](#) with medical facility managers showed that they mostly were able to explore the opportunities provided by the healthcare reform: they purchase new equipment to provide a wider spectrum of services, fundraise, and try to increase salaries of qualified doctors. Share of patients who provide unofficial payments to doctors considerably [declined](#), and there is anecdotal evidence that family doctors pay more attention to their patients, for example, checking whether they take their medicines for chronic conditions.

Healthcare reforms paid off already in 2020: COVID vaccines were effectively distributed via the primary care network. And the autonomy of healthcare facilities [played](#) a major role in their resilience in the first months of the full-scale invasion. Facility managers could make decisions on the evacuation of doctors and patients, receiving humanitarian aid etc. (under the previous system, they would be obliged to wait for directions from the Ministry of Health).

A comprehensive healthcare reform includes several interlinked blocks:

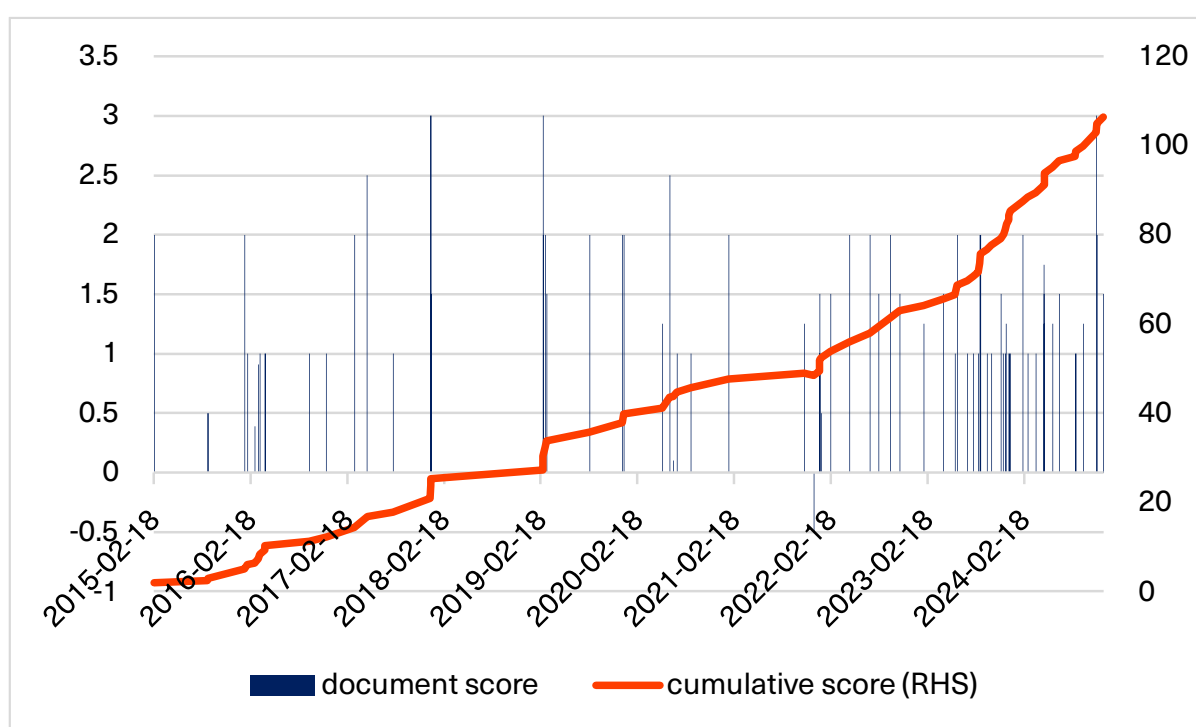
- 1) **payment per service with a central purchaser of healthcare services** (National Healthcare Service — NHSU). This required redefining the scope of healthcare benefits for people by introducing the Program of medical guarantees (the list of healthcare services covered by the state) instead of the open-ended government commitment to "free healthcare" inherited from the Soviet system. At the primary care level doctors receive fixed payments per patient. Thus, family doctors who signed more declarations with patients could receive much higher salaries than before and were incentivised to implement their duties more responsibly. They also became the gatekeepers for the secondary care (i.e. patients don't pay for secondary care if they were referred by a family doctor). At the secondary care level, the introduction of payment per service is much more complicated because it is hard to calculate the true cost of a service or a treated case. Ukraine started the introduction of diagnostically-related groups (DRGs) but this work was interrupted by the full-scale invasion;
- 2) **introduction of eHealth** — an electronic system that contains all the information on patients and services provided so that the NHSU could make respective payments. Private digital platforms and Diia provide interface for using the eHealth system;
- 3) **introduction of hospital districts** (optimization of hospital network). The idea is that a district covers at least 200 thousand people; a district hospital treats complicated cases and thus has more advanced equipment and better specialists, while lower-level (rayon) hospitals can be reprofiled into primary care facilities, hospices or social

institutions. This reform was only partially implemented; de-facto the hospital system remains intact;

- 4) **financial autonomy of medical institutions.** They changed their status from budgetary institutions to state- or community-owned enterprises and thus obtained more opportunities to fundraise and to offer fee-paid services;
- 5) **providing drugs to patients with chronic conditions** (diabetes, asthma, cardiovascular diseases) **for free or for a fraction of price** so that their condition is controlled and their health does not deteriorate. This was implemented via the “Affordable Medicines” program;
- 6) **better medical education:** allowing only applicants who got at least 150 out of 200 points on external after-school testing to enter medical universities; improved post-graduate and lifetime education. Today, medical school graduates are placed in hospitals for internships based on their exam results rather than their negotiations with hospitals. Moreover, money for internships goes to hospitals rather than universities, which provides incentives for hospitals to train these new doctors well.

Overall, healthcare reform was about the introduction of positive incentives for medical staff, managers of healthcare facilities, educational institutions, and patients. Due to strong resistance from the healthcare system, not all of the planned changes were implemented; moreover, since 2019, the government rolled back some of the reforms. For example, it limited the autonomy of medical facilities by introducing minimum salaries for healthcare workers. Nevertheless, the positive effect of reforms on healthcare is evident.

Figure 14.1. Reforms in healthcare in 2015-2024, Reform Index data



Note: cumulative grade is the sum of event grades. Event grades are derived from surveys of [Reform Index](#) experts

Reforms in 2014-2019

Apart from the comprehensive healthcare reform discussed below, the government implemented two other important reforms in 2015. First, it reformed medical procurement (see Chapter 5). Second, it **liquidated** the State Service on counteracting HIV/AIDS and **created** instead the Public Health **Center** responsible for counteracting all infectious diseases, including COVID. The Center is also responsible for collecting healthcare statistics.

Introducing output-based payments

The main principles of healthcare reform were laid out in the five-year National Health Reform **Strategy** for Ukraine published in 2015. The strategy described the main ideas of the reform: strengthening primary care, creation of a central purchasing agency, autonomy of healthcare facilities, and development of human capital. The reform implemented in 2017 was largely based on these ideas.

In 2016, the government deregulated a number of issues in healthcare. For example, it **allowed** *all* healthcare institutions to provide health checks for drivers (previously, only specially defined institutions could do this, and artificially restricted supply drove up prices for this service). Second, it **simplified** licence conditions for banks of umbilical cord blood and other human cells (e.g. abandoned the requirement that such banks should have a minimum area of 500 sq.m), which allowed many more companies to enter this market.

Third, it **simplified** entry into the healthcare market, for example, allowing individual entrepreneurs to open healthcare facilities, even if those entrepreneurs don't have a medical education (in this case they hire doctors). At the same time, the government obliged healthcare providers to use either Ukrainian or international clinical protocols approved by the Ministry of Health and in case of accidents provide emergency care for patients free of charge. Fourth, it **allowed** healthcare institutions to provide fee-paid remote healthcare services (this was the first step in developing telemedicine).

Fifth, the Ministry of Health **ordered** hospitals to develop plans to **reduce** the number of hospital beds from 78 to 60 per 10,000 people (the EU at that time had 52.8 beds per 10,000 people). The ministry issued this order because Parliament opposed the implementation of the full-scale healthcare reform.

Finally, in 2017 the relevant laws were adopted with some compromises. For example, the law which **allowed** more autonomy for healthcare facilities (through their transformation into state- and municipal-owned enterprises) also prescribed that state-owned and communal healthcare facilities should not be closed or privatized (they can be only reprofiled, e.g. into hospices).

The law on [healthcare](#) reform revolutionized financing of health services: it introduced the program of medical guarantees (PMG) administered by the National Healthcare Service (NHSU) [created](#) in 2018. NHSU is the central purchaser of services. It signs contracts with healthcare facilities and controls the quality of services which they provide, develops prices for PMG, and runs the electronic healthcare system [eHealth](#) that links patients with [doctors](#) and the NHSU. PMG that covers all types of healthcare services was implemented gradually: for [primary care](#) in 2017 and for other types of care from 2020 (as of 2019, over 80% of Ukrainians signed declarations with family doctors). The law also foresaw spending at least 5% of GDP on healthcare. This norm was never implemented, as well as many similar norms prescribed by other laws.

In 2019, the government [reformed](#) emergency care in order to increase the share of patients who survive. People who work in emergency brigades had to obtain at least a BA degree in paramedicine (previously they could be nurses or medical assistants without higher education), and the drivers had to pass some medical training as well. The requalification of emergency brigades should have been completed by the end of 2025, but due to the Russian invasion it will probably be completed later. However, today, emergency care at the frontlines develops very fast, often in the form of volunteer initiatives.

Table 14.1. Some indicators of Ukrainian healthcare system

	2014	2021	2023
Number of hospitals	1312	1135	1022
Number of hospital beds	277 793	228 120	215 308
Hospital beds per 10,000 people	78.5	55.6	52.5*
Primary care centers/polyclinics	1 834	1 994	1 944
Paramedic and midwifery stations	13 295	8 708	6 977
Number of doctors	159 969	143 887	133 237
Number of nurses	346 191	261 255	229 368

Source: Ministry of Health data. Note: * *This number is calculated using the Ukrainian population in early 2022. Now the population is lower (though the number is not published), so the number of beds per 10,000 people is probably higher, however, the demand is higher too. The number of hospitals is still too large: experts that implemented healthcare reform [suggest](#) that 500 hospitals would suffice for Ukraine. Note that between 2014 and 2021 Ukrainian population, according to official statistics, declined from 45 million to 41 million, and the population in government-controlled areas at the end of 2021 was about 37 million. Thus, the number of doctors and nurses per person did not decline that much.*

Better access to medicines

Since 2014, the government has made a number of steps to improve access of people to drugs. This goal is aligned with the focus on [prevention](#) because if people get drugs for their chronic conditions on time, the probability that their chronic condition becomes acute is lower, and thus total healthcare cost is lower too. Another goal of this reform was reducing corruption in drug procurement. It was primarily for this reason that the government first transferred procurement of drugs to international organizations and then to the centralized healthcare procurement agency (see Chapter 5 for details).

In 2016, the government [introduced](#) the reimbursement system for insulin: patients obtain insulin in drug stores, and then the Ministry of Health reimburses them. This reform eliminated [31,000](#) fake patients (i.e. some doctors received insulin for distribution to patients and then sold it in the shadow market). That same year, Parliament [simplified](#) imports of generic drugs, and during the next few years the government simplified imports of many other drugs to Ukraine (for example, drugs licenced in the EU, US, Canada, and Japan can be imported without a Ukrainian licence — see Chapter 6).

In 2017, the government launched the “Affordable Medicines” program where it partially or fully compensated the cost of a number of drugs that treat chronic conditions such as asthma, diabetes, and hypertension (in 2018, the program included about [250 drugs](#)). That same year the government [introduced](#) price caps for public procurement of drugs: it set the maximum markup of distributors at 10% and markup of drug stores at 15%. In 2019, these caps were [canceled](#).

In 2019, the “Affordable Medicines” program was [transferred](#) to the National Health Service. Electronic prescriptions issued via the eHealth system allow patients to purchase subsidized drugs in any pharmacy that signed a contract with NHSU (at the end of 2019, about a third of all pharmacies signed these contracts; at the end of 2023, the government [obliged](#) all pharmacies in hospitals to join the system, and since 2025, [all the pharmacies](#) have to join). Already in 2019, [some results](#) of the “Affordable Medicines” program were visible: there were 6% less emergency calls for asthma and 6.5% more patients with diabetes whose blood sugar levels were normal.

In addition, the [National](#) Essential Medicines List adhering to the WHO Model List of Essential Medicines was [introduced](#) to fill periodic [prescriptions](#) and needs. Healthcare providers regularly maintain stocks of medicines on the National Essential Medicines List.

In 2019 the Ministry of Health opened a [Service Center](#) which cooperates directly with drug researchers and manufacturers to facilitate the development to availability pathway. The center provides “one-stop-shop” services to pharmaceutical companies that would like to register drugs or implement clinical research in Ukraine.

Reforms in 2019-2024

During the last five years, the healthcare reforms introduced earlier were developed despite the difficulties that the healthcare system faced during COVID pandemics and the full-scale war. The second stage of healthcare reform [started](#) in April 2020 as planned, and in 2022 Ukraine [switched](#) from the 'Soviet' three-level healthcare taxonomy to a European one (i.e. primary, specialized, emergency care, rehabilitation and palliative care).

Next we discuss organizational issues, access to drugs, and the response of the system to the new challenges, i.e. developing emergency care and rehabilitation of people who were wounded or otherwise suffered because of the war.

Organizational issues

At the end of 2019, Parliament simplified [the rules](#) for transplantation. The new law removed many bureaucratic barriers: it allowed doctors to invite other specialists to determine whether a patient's brain is dead, and canceled transplantation licences for hospitals where organs are extracted (organ harvesting surgeons don't need to be trained in organ transplantation either). A special transplant coordination centre to administer a unified information system for transplantation was established. The system helps match donors with recipients. In 2022, the government [made](#) transplantations free for patients and set the rules for providing donor's consent for transplantation.

In 2020, lawmakers sought to address an often overlooked aspect of public health: [palliative care](#). The Ministry of Health began forming multidisciplinary teams in newly established palliative care centers incorporating social workers, legal specialists, psychologists, etc. depending on patients' needs. Palliative care can be provided by private and public institutions, to give patients and their families a choice.

In July 2020, the Ministry of Health defined the [procedure](#) for the creation of [hospital districts](#). However, their actual creation became possible only after the administrative reform was completed and rayons merged (see Chapter 2). The new law on hospital districts [adopted](#) in 2022 [introduces](#) three levels of hospitals: general, cluster, and super-cluster. This system corresponds to the current "rayon / city / oblast" hospitals. However, if the government wants, for example, to make larger clusters or to define hospital districts separately from oblast administrative borders, it will be able to do so.

A negative aspect of the law on hospital districts is that it granted the government legal power to set minimum wages for medical staff — something that it did in [January 2022](#). Introducing minimum wages can undermine one of the core principles of the reform — that better staff should get better remuneration.

At the end of 2021, state-owned medical facilities were [allowed](#) to transform into state-owned non-profit enterprises in the same way as communal facilities were transformed into communal enterprises during 2017-2021. And at the end of 2023, the government [obliged](#) specialized hospitals to create supervisory boards that should include no less than 50% of civil society representatives. Theoretically, this should improve governance in hospitals, but actual outcomes in each case may be different.

The same law [extended](#) the coverage of the electronic healthcare system to all healthcare [facilities](#), public or private. Additional resources were allocated to eHealth to include into it such features as monitoring of public health, biological supply management (blood components), and budgetary invoicing. From July 2024, patients can access the eHealth system and their healthcare data via their electronic [cabinets](#) in the Diia app.

Since October 2023, the National Health Service has been implementing automatic [monitoring](#) of healthcare facilities to ensure quality of services. Automatic monitoring implies data analysis and identification of risks, while actual monitoring includes inspection of documents and on-site visits. Medical facilities will be able to appeal the results of inspections.

At the end of 2024, healthcare facilities and individual entrepreneurs were [allowed](#) to sign three-year contracts with the NHSU.

Impact of war on healthcare

Impact of war on healthcare provision has been significant because Russia routinely bombs hospitals (e.g. the main [childrens' hospital](#) in summer 2024) as a part of its terror tactic. Since February 2022, Russia has destroyed more than 200 medical facilities and damaged over 1600 of them, mostly in the [eastern and central](#) regions of Ukraine. Some facilities had to evacuate or merge with others.

To provide healthcare facilities with a stable stream of money, since February 25, 2022, the government abandoned pay per service and started paying facilities 1/12 of their 2021 budget per month. In summer 2022, this mode of financing remained only for hospitals near the frontlines or in temporarily occupied territories (during 2022, the government financed facilities in the occupied territories because some doctors did not evacuate in order to stay with their patients).

In 2022, the government added two new service packages to the program of medical guarantees: [support](#) for people with mental problems at the primary care level and [rehabilitation](#) at hospitals. For people who need rehabilitation, the government [simplified](#) the process for obtaining necessary equipment such as wheelchairs or crutches. It also streamlined the procedures for getting primary healthcare or drug prescriptions: since there

are almost 5 million internally displaced people (IDPs) in Ukraine, Ukrainians were allowed to visit the nearest family doctor without signing a declaration with them.

In 2023-2024, the government continued to address challenges caused to Ukrainian healthcare by war. First, it authorized [blood imports](#) for transfusions and [simplified](#) administrative procedures for blood donations with the help of electronic system eBlood (previously, in July 2020, Parliament [decided](#) that blood and blood products could be exported only if there is enough blood to provide for Ukrainians). The eBlood system allows monitoring the stock of blood available for transfusion and demand for it.

Second, the government launched subsidized collection and storage of [germ cells](#) for Ukraine's defenders and set the rules for [biobanks](#) — institutions that would collect and store samples of tissues, blood, and DNA for healthcare research and identification of defenders who were killed or missing. The government decree prescribes protection of patients' rights and rules for access of research institutions to biological information.

Third, the government made a few steps to develop [telemedicine infrastructure](#) which should [improve](#) access of Ukrainians to healthcare services. Now, telemedicine can be used for [rehabilitation services](#) and [emergency healthcare support](#). Emergency brigades will be able to have [remote](#) consultations to help them stabilize or treat a patient. This will be especially useful for areas close to the frontlines.

Also in 2023, the government [created](#) the structure of catastrophe healthcare to address war-induced healthcare challenges based on experiences gained since 2022. There will be six types of emergency brigades that provide help according to the needs and types of catastrophes. These brigades plan to obtain WHO certifications in order to help other countries in the future.

Several changes implemented in 2023 are related to the rehabilitation of wounded people. For example, multidisciplinary rehabilitation teams will need to [include](#) psychologists and [social workers](#), and rehabilitation facilities will need to develop individualized rehabilitation plans for each patient. Furthermore, rehabilitation specialists who are not medical workers, such as physiotherapists, ergotherapists, prosthetists and others, as well as specialized rehabilitation facilities, will be able to obtain licences, which should help deshadow the sector. Multidisciplinary rehabilitation teams will be able to [decide](#) whether a person needs a prosthesis (previously, such decisions were made only by quite bureaucratic and rather corrupt medical-social expert commissions). In most cases, the prosthesis and subsequent service of prosthesis will be financed by the government.

In March 2024 Parliament adopted the law on the [organization](#) of healthcare provision for Ukrainian Armed Forces. According to the law, the Ministry of Defense together with the Ministry of Health will approve and enforce clinical protocols and standards of healthcare provision and medical products to align with NATO standards.

In the fall of 2024, after scandals with corruption in Medical and Social Expert Commissions (MSECs) and upon recommendations from the National Agency on Corruption Prevention (NACP) [study](#), the government liquidated MSECs and generally [shifted](#) the [paradigm](#) of their operations. Now, instead of defining the level of disability, expert teams will evaluate the functionality of a person. This approach allows for better identification of a patient's needs and the level of support necessary for their return to an active life. Expert teams can be formed in any of the 300 specialized hospitals, depending on the patient's needs. Patients will have the right to record meetings with expert teams and appeal their decisions. Thanks to digitalization, the process will become faster and much more transparent: family doctors will be able to refer patients to expert teams through the electronic system, and in some cases, meetings of the expert teams can be held online.

Education of healthcare workers

Since January 1st 2024, healthcare facility managers began offering [continuous professional education](#) to healthcare [workers](#). The main changes are related to mandatory professional development of nurses and rehabilitation professionals and introduction of the electronic system for continuous professional development.

At the same time, the government [launched](#) an experimental project to train rehabilitation specialists via dual education. The aim of the project is to prepare better qualified healthcare specialists with practical skills that enable them to join rehabilitation departments of hospitals. Practical lessons will take about 45-60% of study time. Today, four universities participate in the experiment, and if successful after two years, it will be scaled up to the entire country.

In mid-2024, the Ministry of Health started [introducing](#) medical residency. This is a stage of postgraduate medical education which follows internship, during which doctors acquire highly specialized professional competencies necessary for independent practice. The first resident doctors will graduate in 2027. This step integrates Ukrainian medical education with the European educational and healthcare space.

Access to drugs and other medical substances

At the end of 2021, Parliament [streamlined](#) state registration of medicines, vaccines, and other substances during emergency states or lockdowns. The new procedure states that in case of emergency, a medicine can be registered without a complete set of data about its effectiveness and safety if (1) there is data on successful preclinical or clinical trials implemented under supervision of relevant government agencies; (2) known benefits of the drug are higher than known risks or side effects; (3) there is no alternative treatment.

In early 2021, the government [allowed](#) managed entry agreements in the pharmaceutical market. Under this framework, the government will be able to buy expensive medications for

rare or orphan diseases via confidential agreements with producers. This mechanism is used in a number of EU countries.

In April 2022, the government set [conditions](#) under which Ukrainians with complex diseases could obtain experimental drugs. Patients can be provided with non-registered drugs if at least the first phase of clinical trials for these drugs was completed in the US, European Economic Area, Australia, Canada, Japan, Israel, the UK, or Switzerland, and if there is enough evidence on benefits and risks of a drug.

In October 2022, Parliament prohibited the [sale of drugs](#) without prescriptions. The prohibition is being introduced gradually — starting with psychotropic drugs (including [medical cannabis](#)) and antibiotics. It will come into full effect in three months after martial law is lifted. Its implementation will be controlled via electronic prescriptions which are gradually replacing paper ones. That same year Parliament adopted a comprehensive law [on medicines](#) that describes the “pathway” of medicines from development labs to consumers: it aligns Ukrainian regulation of drug production, registration, and sales with EU norms. The law will come into effect 30 months after the martial law is lifted.

In May 2024, the government [changed](#) the procedure for the inclusion of medicines into the National List of Medicines: drugs can be included on the list without additional expertise if they are on the WHO Model List of Essential Medicines and their active ingredients are registered in Ukraine and produced by at least four firms. The National List of Medicines includes drugs with proven effectiveness which the government can reimburse. This will improve access to drugs.

Prevention

In September 2022, the framework law on the public [health](#) system was adopted. This law continues the public health reform efforts and introduces regional departments of the Public Health Center created in 2015.

In January 2022, Parliament [prohibited](#) e-cigarette advertising and ordered an increase of health warnings on tobacco packs from 50% to 65% of the pack area. These changes are in line with the [national plan](#) on the reduction of non-infectious diseases.

In January 2023, Parliament [adjusted](#) procedures for the diagnostics and treatment of HIV/AIDS to align with international standards and WHO recommendations. The new law follows the global goal “95-95-95” (by 2030, 95% of people living with HIV should know their diagnosis, 95% of them should receive treatment, and 95% of these individuals should have an undetectable viral load).

In August 2023, Parliament adopted a law on counteracting [tuberculosis](#) in Ukraine. The law states that the NHSU should buy anti-TB medicines and distribute them among providers of

healthcare services. The law also establishes a three-level system of TB-testing labs with the Central Reference Laboratory providing external quality control. The law prohibits pharmacies from selling TB drugs without prescriptions.

At the end of 2023, Parliament adopted the [law](#) on early detection of diseases. Healthcare facilities will be able to sign contracts with the NHSU for the provision of early intervention services, i.e. testing children under 4 years of age for genetic or rare diseases and early treatment. This program was introduced because treating diseases at an early age may prevent future disabilities. Medical institutions already provide neonatal screening which can identify 21 rare genetic diseases within the first 72 hours of a baby's life. Since the launch of the expanded neonatal screening program, about 250 confirmed orphan diseases have been detected, including 24 cases of spinal muscular atrophy.

Further reforms

In the past decade, fundamental reforms, constantly spurred by international guidance and support, have modernized the Ukrainian healthcare system far past its Soviet-era roots. Once [characterized](#) by rampant corruption and unreliable care, the Ministry of Health has made [concerted efforts](#) to increase patient satisfaction, targeting end-user costs and general practitioner reliability.

However, unresolved issues such as out-of-pocket payments and excessive hospital networks remain. The war has created additional challenges for the healthcare system — increased need for rehabilitation services, shortage of doctors, destruction of facilities — that need to be addressed. Therefore, today it is even more important to efficiently use the limited resources which Ukraine can allocate to healthcare. The strategy of healthcare reform [until 2030](#) identifies the following priorities:

- better governance in the sphere: increasing NHSU capacity, introducing supervisory boards in medical facilities, developing professional self-governance of healthcare workers;
- reduction of out-of-pocket payments and the incidence of catastrophic healthcare expenditures;
- professional development of healthcare workers;
- participation of people and communities: to a large extent, public health depends on the environment, from clean air and water to proper organization of road traffic. Therefore, it requires the concerted efforts of the government and people.

These strategic priorities largely correspond with the recommendations provided in the book on the [reconstruction](#) of Ukraine, namely:

- clearly defining the program of medical guarantees so that both patients and healthcare providers knew what is covered and what is not;
- developing the NHSU capacity, introduction of KPIs for both the NHSU and medical facilities;
- digitalization of healthcare and development of telemedicine;
- **empowering nurses**: they can perform a lot of functions currently performed by doctors, especially in smaller or remote communities;
- improved education for doctors both at medical universities and after graduation;
- introduction of individual licences for doctors and nurses so that they have more voice in facility management;
- development of a master plan of the hospital network with a clear division of functions between different types of hospitals. This should be done together with regional authorities since they are responsible for transportation networks.

In response to the war challenges, Ukraine will continue to develop rehabilitation and mental health services.

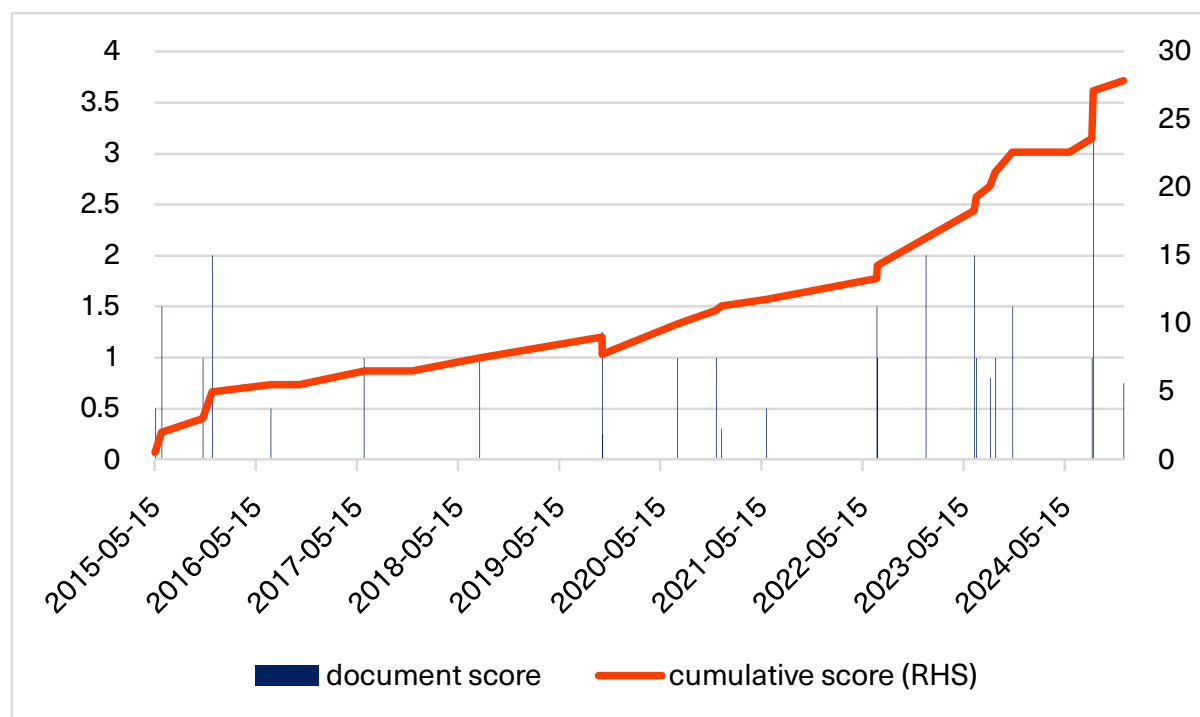
15/REFORMS IN CULTURE AND MEDIA

Unfortunately, it was only after the full-scale Russian invasion that Ukrainian society realized the importance of culture and the authorities began implementing additional policies to separate the Ukrainian cultural and media space from the Russian one. Earlier policies (such as Ukrainian language quotas on radio and TV) faced significant resistance from pro-Russian political forces and market players. However, public funding for culture [remains](#) low. Now there are obvious constraints on this funding, but in the past, the cultural sector was financed according to the "leftover principle" because of the generally careless attitude to culture and identity. Indeed, in the absence of state support, it was more profitable to produce TV series, record songs, import books etc. in Russian rather than Ukrainian because the Russian language market is much larger than Ukrainian.

The most significant changes in the cultural sphere have been the laws on decommunization, the gradual restriction of the use of the Russian language and Russian-language products in the media and public sphere, and the switch to a new model of cultural funding (including the creation of the Ukrainian Cultural Foundation).

The mass media market in Ukraine has been and remains distorted because owners and managers of the majority of media don't treat them as businesses. Many large media outlets distribute their product for free and maintain low advertising prices because their primary source of revenue comes from oligarchs. This makes it difficult for independent media outlets to secure sufficient funding from advertisers or readers. The new Law "On Media" discussed below was supposed to change the situation, but currently, the largest media asset — television — is monopolized by the state. Meanwhile, audiences are increasingly migrating to social networks, making the future of the media market uncertain. If market players and the state manage to instill in consumers a culture of respect for intellectual property rights and an understanding of the need to pay for content, there is hope for improvement.

Figure 15.1. Reforms in culture and media sphere in 2015-2024, Reform Index data



Note: The cumulative score is the sum of event scores. Event scores are derived from surveys of [Reform Index](#) experts.

2014-2019

One of the first steps in cultural policy reform was the adoption of several laws aimed at decommunization and decolonization in 2015. These are laws on [condemning totalitarian regimes](#), [commemorating](#) the victory over Nazism, [honoring](#) the memory of those who fought for Ukraine's independence, and providing the public [access](#) to [archives](#).

These laws provided the legal basis for renaming streets which had been named after imperial figures, dismantling monuments to them, and banning totalitarian symbols (e.g., flags and emblems of the USSR, Ukrainian SSR, other communist countries, and Nazi Germany). However, in many cities and villages, active decommunization only began in the spring of 2022, as local authorities had previously sabotaged the implementation of these laws with the support of some national-level politicians.

No less important, though less publicized, was the opening of Ukraine Security Service (SBU) [archives](#) from the period of Soviet occupation in line with these laws. Although some archives had been destroyed or taken to Moscow by Soviet authorities in 1991, these archives remain an invaluable source of information for historians from Ukraine and other countries.

Another important process was the state support for the Ukrainian language in all spheres of life. After an unsuccessful attempt in 2014 to repeal the "Kivalov-Kolesnichenko [law](#)," which

de-facto pushed Ukrainian language out of the public space, the government gradually implemented measures to promote Ukrainian language. In 2016, "language quotas" were introduced, which mandated that at least 35% of radio content and 50% of television broadcasting be in Ukrainian, with a gradual increase to 60%. In 2017, the quotas were raised to 75% for national and 60% for local television channels. In 2019, Parliament passed a law supporting the functioning of Ukrainian as the state language, which gradually introduced the mandatory use of the language in different domains. In 2020, the government appointed a language ombudsman and established its secretariat.

Many politicians and opinion leaders opposed both the language quotas and certain provisions of the new language law, particularly the introduction of Ukrainian as the "default" language in the services sphere. Their arguments often focused on "market-based" logic, i.e., that demand for Ukrainian-language content would naturally generate supply (and thus there is no need to support Ukrainian content). However, given the much larger size of the Russian market and Russia's aggressive promotion of its cultural products, "free competition" could lead to the gradual displacement of the Ukrainian language. Unfortunately, as we discuss below, many necessary steps to protect Ukrainian cultural space were made only starting in 2022.

In 2014, the Ukrainian State Film Agency (Derzhkino) began banning Russian films that contain propaganda or that were created by people who support Russia's war against Ukraine, and the National Council for Television and Radio Broadcasting followed suit by prohibiting Russian TV programs, series, and other content. Unfortunately, many TV series and programs produced in Ukraine effectively promoted Russian narratives, immersing Ukrainians in a common cultural space with Russia.

In 2018, the Ukrainian Cultural Foundation (UCF) was established, launching grant funding for cultural projects with a focus on results rather than the process. This implied supporting the creation of specific cultural products such as books, films, exhibitions, music albums, etc. The Foundation's website provides details on all supported projects, including the amount of funding and the results achieved. This represents a significant shift from the "traditional" model of cultural funding, which allocated funds to cultural institutions regardless of the quality or relevance of their output. However, as we discuss below, the Foundation's work faced many challenges.

In 2017, the Parliament extended tax exemptions for film distribution until January 1, 2021, including an exemption for Ukrainian films and foreign films dubbed in Ukrainian from the value-added tax (VAT). Later, these exemptions were extended until 2025 and probably will be extended further.

The first significant changes in the media sphere were implemented in 2015 when the Parliament passed two laws aimed at facilitating journalists' work: one granting access to

Parliamentary committees and another [increasing](#) liability for counteracting journalists' work. Despite these measures, the National Union of Journalists continued to [record](#) dozens of attacks on journalists annually, while government officials used many excuses, among them the pandemic and the war, to restrict access to information.

2019-2024

In 2019, the new Parliament [granted](#) local councils the authority to support film production in their regions, and the government introduced [several](#) additional changes to support filmmakers. It channeled state support for film production through Derzhkino rather than the UCF and allowed it to reimburse a quarter of the expenses of foreign filmmakers shooting in Ukraine. Previously, both foreign and Ukrainian producers were eligible for reimbursement, so this change disadvantaged domestic producers. However, state funding for film production has gradually decreased over the past five years (Figure 15.2), which could soon lead to a considerable [reduction](#) in Ukrainian film production.

At the end of 2019, Ukraine joined EURIMAGES, the European fund for the co-production and distribution of films, making it easier for Ukrainian filmmakers to find international partners.

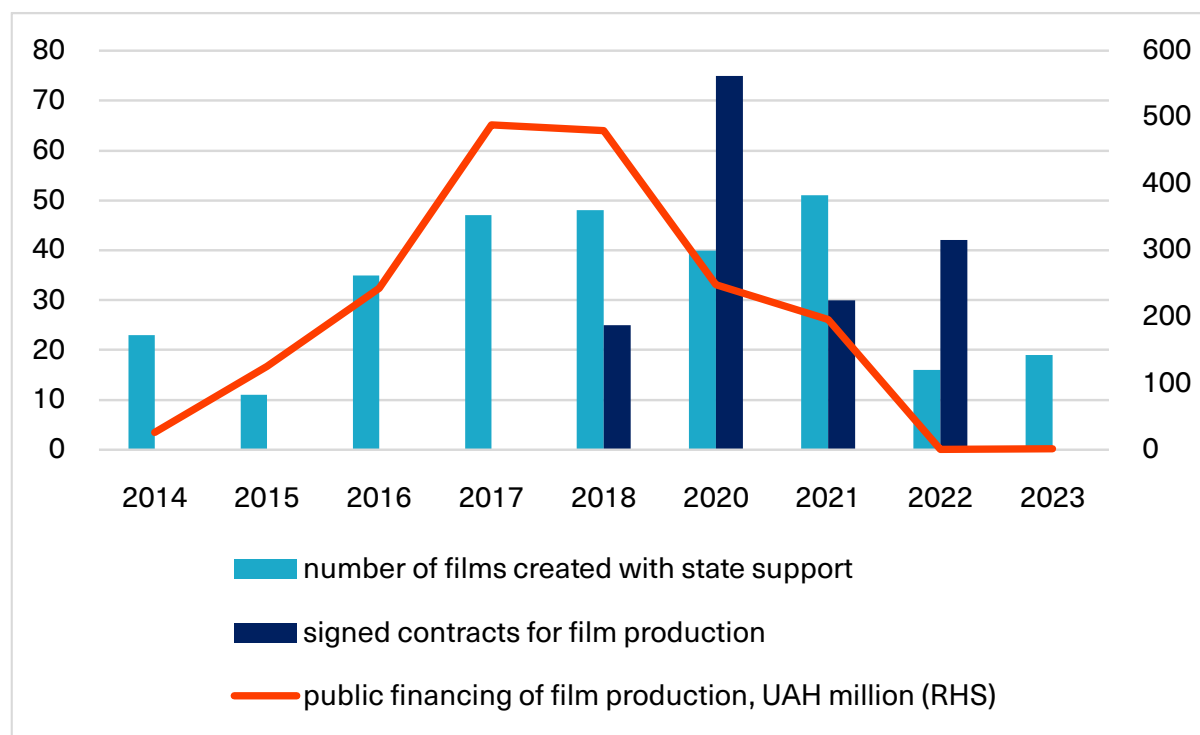
In 2021, the government introduced the concepts of "[cultural service](#)" and "basic set of cultural services" and at the same time [transferred](#) cultural institutions from districts to communities within the decentralization framework. The government hopes that "arm's length" cultural institutions will be funded by the communities. However, not all of them are able to do this, and rural communities are especially unlikely to cope with this challenge. In accordance with this law, in 2024, the Ministry of Culture, with the support of international organizations, [launched](#) a pilot project in the Vinnytsia and Kyiv regions to create a Register of the Basic Network of Cultural Institutions. The register will allow to see which regions or communities have enough cultural institutions and which require state support for provision of basic cultural services.

The COVID-19 pandemic was a severe blow to culture, as many cultural institutions and events imply large gatherings of people. In response to it, in the summer of 2020, the government decided to [support](#) the creative industries by allowing the UCF to provide not only project-based but also institutional support to organizations in these sectors. This law also expanded state support for book publishing, including translations, writing, and book distribution. In December of the same year, the government approved a [list](#) of paid services that cultural institutions could provide, and Parliament [granted](#) tax benefits to creative industries to improve the financial situation of cultural institutions.

Unfortunately, despite these positive initiatives, the government began to undermine institutions that had proven their effectiveness and ability to function in novel ways. A striking example is the situation with the Ukrainian Cultural Foundation and the Dovzhenko Center. In

2021, the first head of the UCF was [accused](#) of misusing funds. However, these accusations lacked proof, and representatives of the sector filed a [complaint](#) with the State Bureau of Investigation about the case.

Figure 15.2. State support for film production



Source: Derzhkino reports ([2018](#), [2020](#), [2021](#), [2022](#), [2023](#)). Note: With the start of the full-scale invasion, funds allocated for film support were redirected to defense. As of the end of 2023, Derzhkino reported signing 103 contracts for film production. However, the institution did not specify whether production of these films had begun and if so, when

In 2021, a new supervisory board was elected for the UCF. Almost immediately, [concerns](#) arose about their interference with the grant distribution process, as the board would sometimes support projects that lost grant competitions while denying funding to the winners. As a result, several cultural institutions [called on](#) the government to dissolve the board. Despite this, the board worked until the end of its legally mandated three-year term. During the election of the new UCF supervisory board in 2024, the public closely monitored the process and was generally [satisfied](#) with the outcome. At the end of 2024, the board elected a new UCF head via the competition.

Since 2015, the [Dovzhenko Center](#) (an institution tasked with the preservation, research, and promotion of national film heritage, which also manages a unique film archive) has been significantly transformed. It not only became a prominent educational hub and venue for important cultural events but also began generating more revenue. However, in August 2022, the Dovzhenko Center was transferred to Derzhkino, which issued an order for its "reorganization." This plan involved transferring the center's archive to another institution and

evicting it from its premises. Despite [protests](#) from the cultural [community](#), civil society, and international attention, Derzhkino did not appoint Olena Honcharuk as the center's director, even though she won the competition for the position twice (she currently serves as the acting director). In the summer of 2023, Derzhkino canceled its "reorganization" order, [halting](#) the process for now, but there are no guarantees that attempts to reorganize the center will not be revived.

Following Russia's full-scale invasion, Parliament [banned](#) the public performance of Russian music (at the same time allowing the UCF to support national music production) and prohibited the [import](#) of books from Russia and Belarus. As a result, Ukrainian publishing activity has [intensified](#) despite the war, and the number of [bookstores](#) is growing. [Research](#) by the Ukrainian Book Institute shows that Ukrainians are reading more, with a significant increase in the number of people reading Ukrainian-language books.

Since 2022, Russia has [destroyed](#) more than [2,000](#) Ukrainian cultural institutions and nearly [1,000](#) cultural monuments and has looted Ukrainian archives and [museums](#). The cultural sphere has suffered from [reduced](#) funding, as well as from the fact that many artists have joined the military or left the country. Even far from the front lines, cultural institutions often cannot function properly. For example, museums may have hidden or evacuated parts of their collections, theater performances are disrupted by frequent air raid alarms, etc.

At the same time, there has been a surge of interest in Ukrainian culture both within the country and abroad. Also, the government began working on a long-overdue initiative: [creating](#) an electronic catalog of artifacts and cultural treasures of Ukrainian museums and filling in electronic [registers](#) of cultural heritage (e.g., $\frac{3}{4}$ of intangible cultural heritage items were added to the [list](#) after the full-scale invasion). Furthermore, due to the war, the Ministry of Culture compiled a "[red list](#)" of cultural assets at risk, and the UCF developed grant programs and scholarships to [revive](#) cultural and artistic activities, as well as to [support](#) projects aimed at helping people affected by the war.

In the media sphere, the most significant change during this period was the adoption of the new Law "[On Media](#)," which aligns Ukraine's media regulations more closely with European standards. The law expands the powers of the state media regulator, the National Council for Television and Radio Broadcasting, allowing it to impose sanctions on those who violate media legislation. At the same time, the law increases the influence of industry NGOs in decision-making processes. According to the [law](#), representatives from NGOs and local unions of journalists are to be included in the supervisory boards of regional media outlets. Their number must exceed that of representatives from local authorities. Additionally, every media organization, civic organization, and a professional union [can](#) nominate one person for a position on the National Council for Television and Radio Broadcasting.

Figure 15.3A. Number of titles of published books and brochures, by language

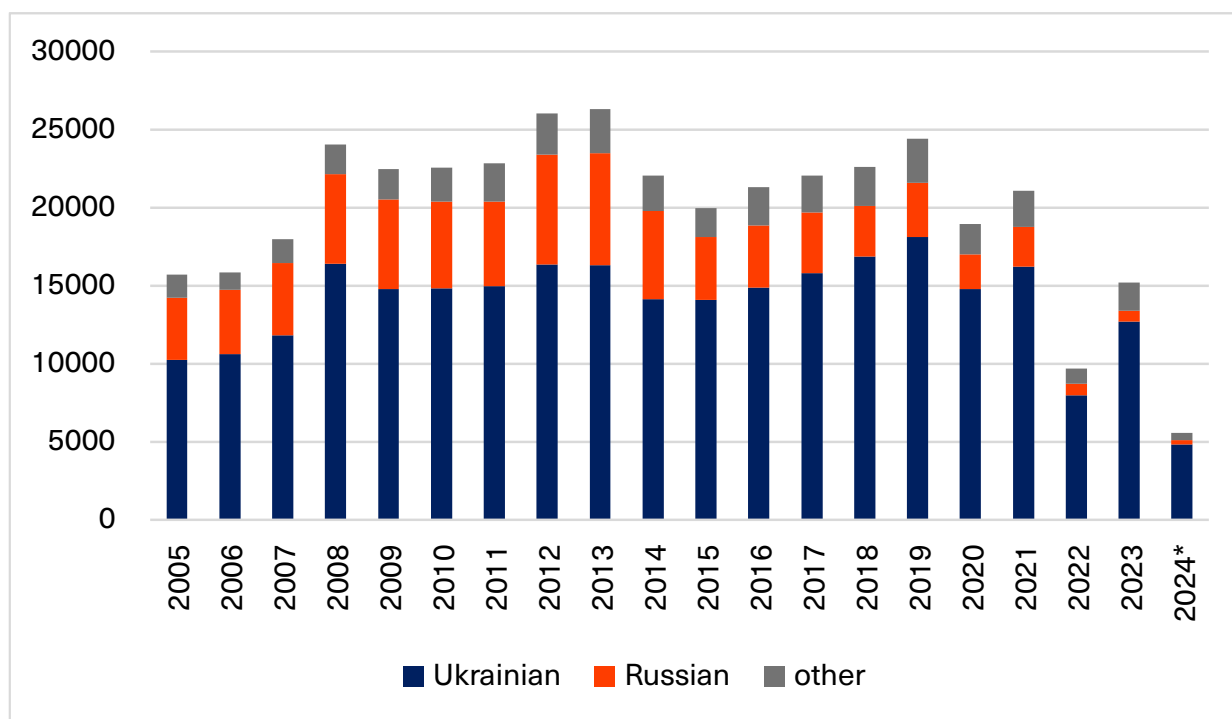


Figure 15.3B. Number of printed copies of books and brochures, by language (thousand)



Source: [Book Chamber of Ukraine](#), *2024 data for the first six months, for the full year the data on Russian language books is not provided

Figure 15.4A. Printed copies of periodicals, excluding newspapers, by language (thousand)

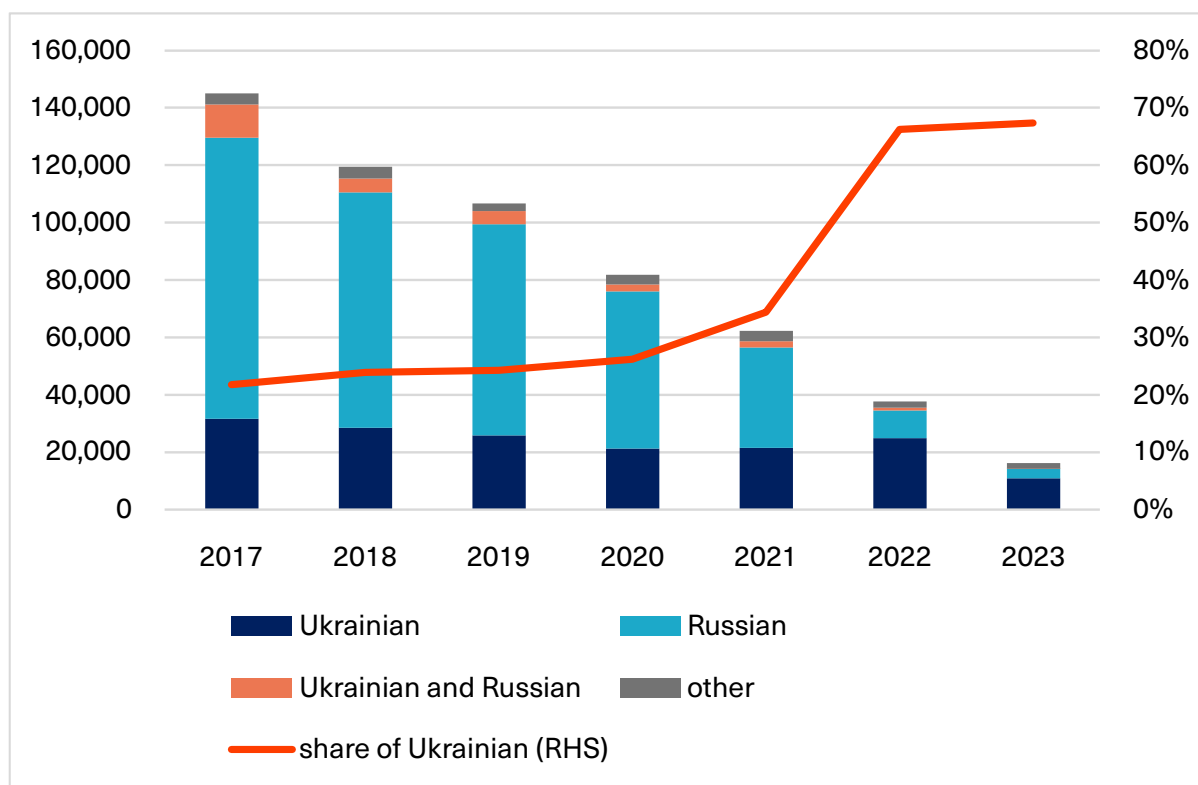
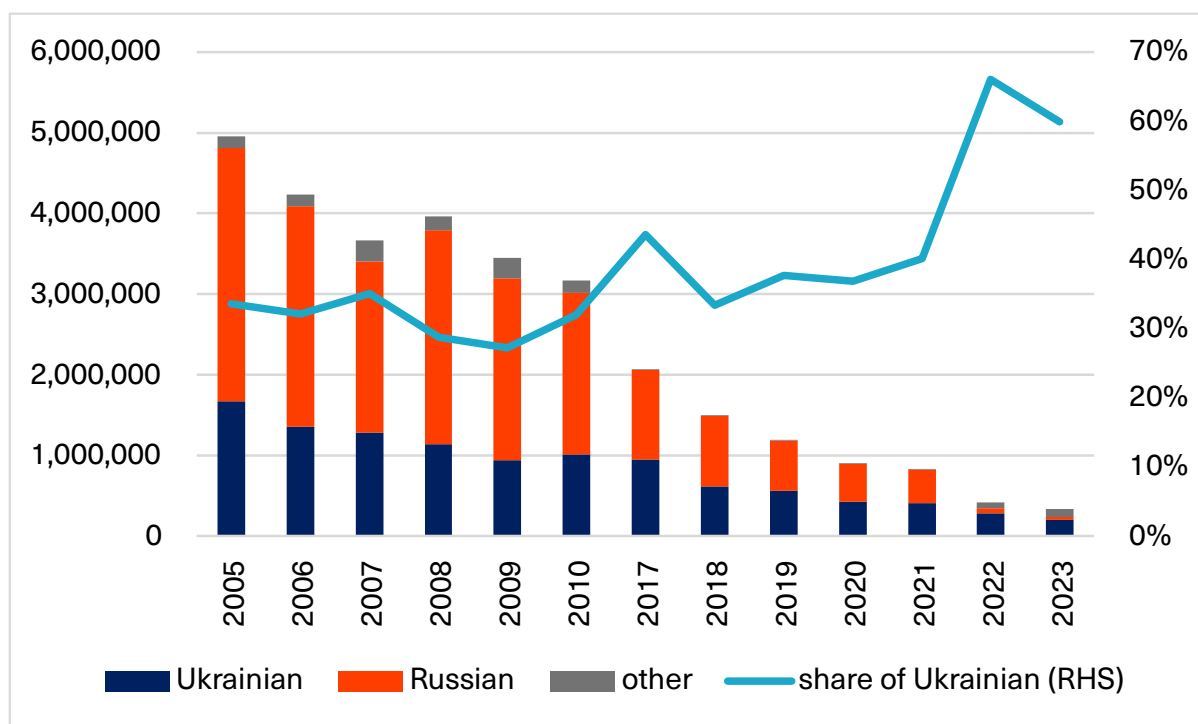


Figure 15.4B. Number of printed copies of newspapers by language (million)



Source: *Book Chamber of Ukraine*

The law increased transparency of media ownership and brought online media into the legal domain. Another step towards implementing European standards in the media market was [amending](#) the laws on advertising. These changes strengthened the prohibition of discrimination in advertising and introduced fines for inciting discrimination and hatred based on ethnicity, religion, gender, sexual orientation, and other characteristics. The fines amount to 10% of the [licence fee](#) for licenced entities and from 5 to 40 times minimum wage for media organizations per day that the law is violated.

Additionally, the law imposed new restrictions on alcohol advertising. Unlike tobacco brands, alcohol brands are still allowed sponsorships, including media sponsorships. However, the law sets strict rules for alcohol advertising, such as not showing alcohol consumption or implying that alcohol can solve personal problems or contribute to success, etc. The changes also simplified rules for interrupting films with advertisements and introduced mandatory labeling of ads on social media. The law empowered the Ministry of Economy to address violations of intellectual property rights in advertising. Later, Parliament [allowed](#) advertising in minority languages (excluding Russian) in areas with larger minority populations.

A very important change was [the ban](#) of religious organizations related to Russia. The implementation of this law in practice is quite challenging, as Ukraine must remain within the legal framework, despite the fact that the Russian Orthodox Church openly supports Russian aggression and spreads Russian propaganda.

See further details on legislative changes in the cultural and media spheres during the first six months after the full-scale invasion in our [review](#)

What next?

For many years, both the Ukrainian government and society paid little attention to the cultural sphere, seeing it more as a supplement rather than a cornerstone of national identity. Meanwhile, Russia invested significant resources to keep Ukrainians within a common cultural space, reinforcing the myth of "one people."

On the international stage, the situation is even worse: Russian culture has long received recognition and the label of "great", while Ukrainian culture remained largely unknown until 2022. This [created](#) pro-Russian biases in Western societies, perhaps contributing to the nearly unanimous "expert" [predictions](#) that Ukraine would be conquered within days and therefore should not be provided with weapons. Although the situation is gradually changing, Ukraine still has much work to do to promote its culture abroad.

It is clear that the state lacks sufficient financial resources for this. For example, in 2025, funding for culture and film production will [decrease](#) from UAH 1.38 billion (USD 34.5 million) in 2024 to UAH 593.6 million (USD 15 million). Funding for Derzhkino will be reduced threefold (from UAH 618.4 million to UAH 204.1 million), for the Ukrainian Book Institute by 2.6 times

(from UAH 466 million to UAH 178.5 million), and for the Ukrainian Cultural Foundation by half (from UAH 215.7 million to UAH 145.7 million). Moreover, funding for the Ukrainian Institute, which handles cultural diplomacy, will decrease from UAH 80 million to UAH 65 million.

Spending on the public media will remain at the 2024 level, with some budget programs even increasing. For instance, support for the Public Broadcasting Company of Ukraine (Suspilne) is expected to rise to UAH 2.1 billion, which is UAH 300 million more than in 2024. Over UAH 1.5 billion will be allocated for the "United News" marathon and the "Dom" TV channel, the same as in 2024. However, Parliamentary "Rada" TV channel and the "Holos Ukrainy" newspaper (an official outlet that publishes new legislation) will receive UAH 78 million in 2025, down from UAH 198 million in 2024. Funding for the state media regulator, the National Council for Television and Radio Broadcasting, will be reduced by UAH 7 million (3%).

In our opinion, this funding "bias" toward television does not align with the current reality, as broadcast television, and the "United News" [marathon](#) (a 24/7 news broadcast produced by 5 largest TV channels and financed by the state that was formed right after the full-scale invasion) in particular, is rapidly losing both [viewers](#) and [trust](#). In contrast, the participation of Ukrainian films in international film festivals and the availability of translated Ukrainian books in foreign bookstores attract significant attention to Ukraine. Therefore, funding for the TV marathon could be reduced in favor of more "prestigious" projects.

At the same time, funding for cultural projects can be sourced from private and international organizations, as the [UCF does](#), by securing grants from the European Union (through [programs](#) like Creative Europe Ukraine and [Horizon Europe](#)) and other donors. To this end, government agencies and cultural institutions need to establish processes for collaborating with donors, from identifying organizations that can fund specific projects to ensuring effective reporting. This requires employing project managers who understand how to organize and promote cultural initiatives. Implementing transparent selection procedures and granting these managers autonomy over their work will help to attract more talent. It is crucial to develop public-private partnership projects in the cultural sphere because Ukraine has many companies capable not only of creating high-quality cultural products but also of promoting them.

Another essential domain of work in the cultural sector directly related to the war is the preservation of culture in government-controlled territory and the recovery of artifacts stolen by Russia. For example, occupiers looted over [23,000](#) artifacts from the Kherson Regional Museum alone.

The protection of cultural assets in Ukraine is governed by the laws "[On the Protection of Cultural Heritage](#)" and "[On the Protection of Archeological Heritage](#)." Unfortunately, these laws lack clearly defined mechanisms for safeguarding cultural assets during wartime. They outline general measures for the protection, preservation, registration, and proper use of

cultural heritage objects, such as preventing the destruction or damage of cultural sites, as well as their conservation and restoration. In 2023, the first law was amended to allow for the creation of cultural heritage registers, but the second law has not been updated since 2012.

Recently, the government submitted to Parliament several [draft laws](#) aimed at strengthening the role of local authorities in preserving cultural and archaeological heritage. These laws would allow local authorities to impose significant fines on negligent owners or to take ownership of such objects. They would enable local governments to [protect](#) objects that are not officially recognized as cultural heritage but are historically valuable, and they also propose to create a registry of traditional Ukrainian artisans. Hopefully, these draft laws will be adopted in the near future.

It is also necessary to update the Cabinet of Ministers 2013 [resolution](#) that regulates evacuation, specifically to include into it the algorithm for evacuating cultural artifacts and the resources that can be used during this process.

The concept of "crimes against culture" must be incorporated into criminal law. The current Criminal Code does not specify penalties for attacks on cultural objects during wartime, their use for military purposes, or their looting. While there are punishments for smuggling and illegal transfer of cultural assets, these offenses are not classified as war crimes. This creates a legal gap that must be addressed.

Creating electronic registers of cultural institutions, museum assets, intangible heritage, and other cultural elements is of high priority. Not only will this facilitate the restoration or recovery of damaged, lost, or stolen cultural assets, but it will also enable, for example, virtual museum tours, thereby promoting Ukrainian culture. A good example of effective work with such a register is the [map](#) of Ukraine's intangible cultural heritage.

Finally, as part of the broader strategy to "build back better," it is essential to restore damaged cultural institutions in a way that ensures accessibility, so that all the citizens have access to our cultural heritage.

16/REFORMS OF THE ARMED FORCES OF UKRAINE

Creation of the Ukrainian Army and first steps (1991-2004)

Following Ukraine's declaration of independence in 1991, the country inherited from the USSR one of the largest armies in Europe with about one [million](#) military personnel (Figure 16.1), [significant amounts](#) of military equipment, and the world's third-largest nuclear arsenal.

On August 24, 1991, the Verkhovna Rada adopted the resolution "[On Military Formations in Ukraine](#)," establishing the control of the sovereign Ukrainian government over military units and creating the Ministry of Defense of Ukraine. The Presidential Decree "On the Defense Council of Ukraine" (September 3, 1991) defined the governance principles in the defense sector. On October 11, 1991, the Parliament approved the [Concept](#) of Defense and Armed Forces Development, which stipulated that Ukraine would gradually become a neutral and non-nuclear state, not participating in military alliances but adhering to all agreements on the non-use of nuclear weapons. The Armed Forces would have three branches: the Ground Forces, the Air Force, and the Navy.

The Armed Forces of Ukraine (AFU) were formally established by the law "[On the Armed Forces of Ukraine](#)" on December 6, 1991. The law "[On the Defense of Ukraine](#)" adopted on the same day defined the main principles of ensuring the country's military security.

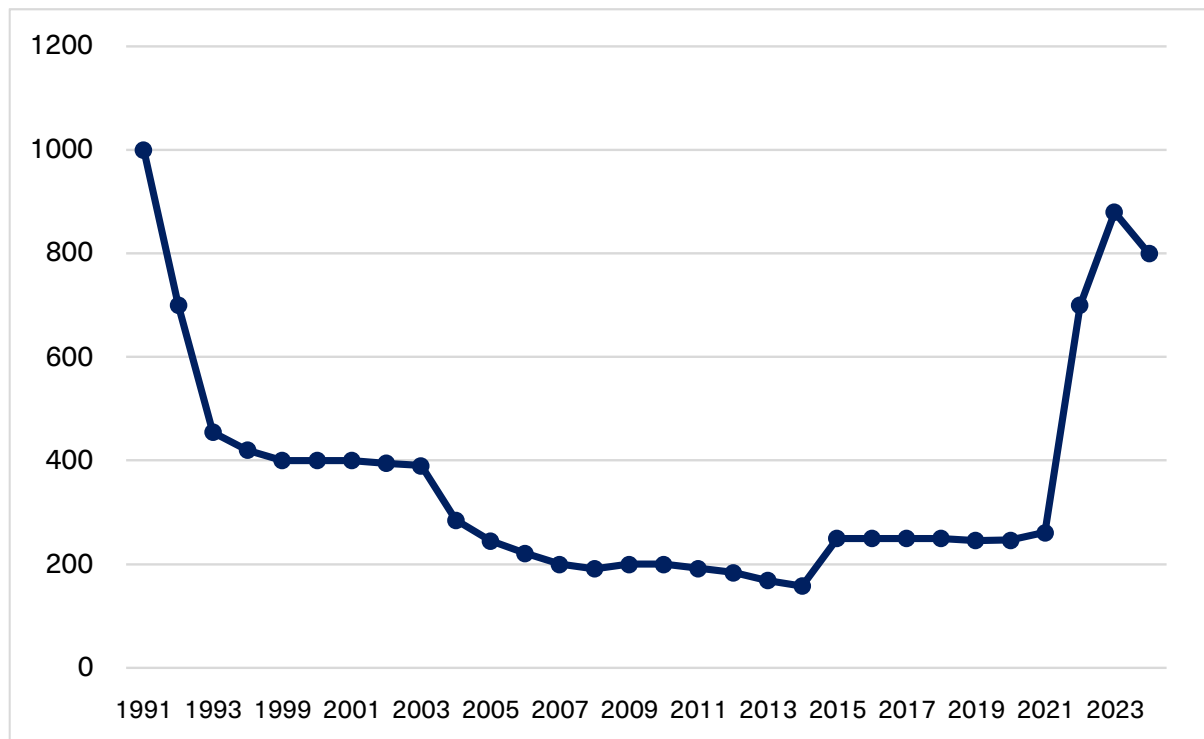
In 1992, Ukraine joined the [Treaty](#) on Conventional Armed Forces in Europe, which foresaw the reduction of military units and armaments.

In the [Military Doctrine](#) adopted in 1993, the country declared a non-aligned status and a course toward reducing military capabilities. That same year, the army's strength was reduced from 700,000 to [455,000](#) personnel.

A significant step was the signing of the [Budapest Memorandum](#) (1994), under which Ukraine relinquished its nuclear weapons in exchange for security guarantees from the United States, the United Kingdom, and Russia. By 1996, Ukraine's nuclear arsenal was completely

eliminated: by June 1, 1996, all nuclear warheads had been [transferred](#) to Russia. In 1999, Ukraine signed, and in 2005 ratified, the [Ottawa](#) Convention, under which it destroyed approximately 3 million anti-personnel mines. Over time, it became evident that the signed international treaties did not provide real security for our state.

Figure 16.1. Total strength of the AFU, thousand personnel



Source: [Laws of Ukraine](#); until 1999 - resolutions of the Parliament of Ukraine

In 1999, Ukraine and Russia signed an intergovernmental [treaty](#), under which Ukraine transferred eight strategic bombers Tu-160, three Tu-95MS, and 575 Kh-55 cruise missiles to Russia in exchange for writing off the USD 275 million debt for supplied gas.

In the early 1990s, Ukraine and Russia had been negotiating the division of the Black Sea Fleet. The 1997 [agreement](#) determined that Ukraine would [receive](#) only 18% of the fleet while Russia would get 82%. Additionally, Russia was allowed to station its fleet in Sevastopol, which later became a springboard for Russian aggression in 2014.

In 2000, the President approved the State [Program](#) for the Reform and Development of the Armed Forces of Ukraine until 2005. The program aimed to reduce the army size to 295,000 personnel, decrease the number of military units, enhance the mobility of military formations, and develop a professional non-commissioned officer (NCO) corps.

In 2003, Parliament passed the Law "On [Democratic Civilian Control](#) over the Military Organization and Law Enforcement Agencies of the State," establishing public and Parliamentary oversight over the Armed Forces of Ukraine. These reforms were part of

Ukraine's efforts to secure a NATO Membership Action Plan in the early 2000s. As a part of the process, Ukraine was implementing reforms, participating in joint exercises, and taking part in NATO missions, including operations in [Iraq](#). However, the "Kolchuga [scandal](#)" (an alleged sale of an air defense system to Iran) significantly undermined NATO members' trust in Ukraine.

Despite the [conflict](#) over Tuzla Island in 2003, Ukraine continued to reduce its army and [sell off](#) military equipment, including tanks, aircraft, and air defense systems. At the same time, no proper modernization of its own weaponry took place.

Euro-Atlantic course and attempts to professionalize the Army (2005-2010)

After the Orange Revolution, Ukraine [declared](#) its course toward NATO integration with plans for further modernization of the Armed Forces according to the Alliance standards. However, these plans were not fully implemented due to a lack of funding.

In 2004, the government approved the [program](#) of transition to a fully contract-based army by 2010. The aim was to professionalize the Armed Forces and enhance their combat readiness. However, the reform was [never fully implemented](#) due to poor planning. In 2005, the duration of compulsory military service was [reduced](#) from 18 to 12 months to increase the attractiveness of military service.

During this period, the army was further reduced: in 2007, it had 200,000 personnel, and by the end of 2010, it had decreased to 192,000. Along with the downsizing of the army, the [sale](#) of military equipment and the closure of military bases continued.

In 2005, the Ministry of Defense introduced the '[White Book](#),' an annual publication informing the public about the defense policy, the state and development of the Armed Forces of Ukraine. This publication promotes transparency and accountability in the military sphere (the latest [issue](#) was published in 2021).

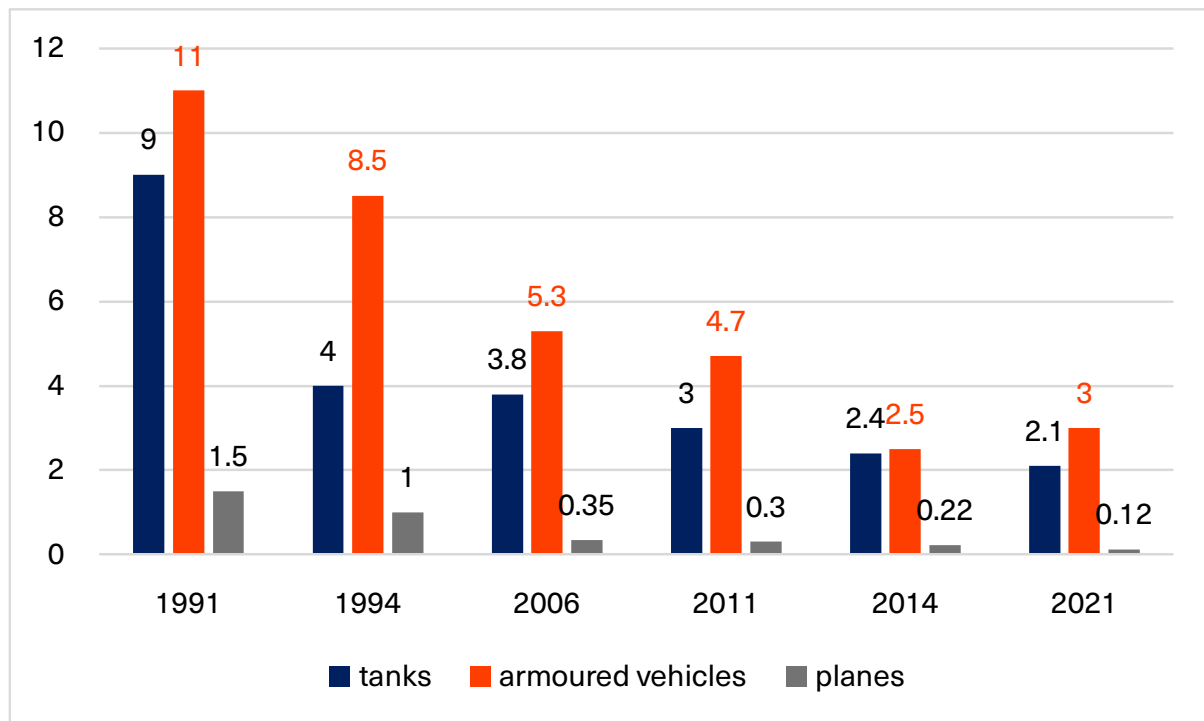
In 2008, Ukraine and Georgia requested a NATO Membership Action Plan at the Bucharest Summit. However, due to pressure from Russia, Germany and the United States denied this request. Three months later, Russia attacked Georgia, and Ukraine [provided](#) military assistance to it.

Decline of the Army under Yanukovych and non-aligned status (2010-2014)

After Viktor Yanukovych was elected President in 2010, the course toward Euro-Atlantic integration was halted. In July 2010, Yanukovych signed a [law](#) on domestic and foreign policy principles, which declared Ukraine's non-aligned status. The [new Military Doctrine](#) of Ukraine approved in June 2012 reinforced this non-aligned status and stated that Ukraine should seek assistance from international partners in the case of an attack.

The downsizing of the army continued: in 2013, its strength was 168,000 personnel, and by 2014, it had decreased to 157,500. A massive [sell-off](#) of military equipment significantly depleted Ukraine's military stockpiles (Figure 16.2). The funds from these sales were not invested in modernization, so the army was effectively deprived of modern weaponry.

Figure 16.2. Weapon stockpiles, thousand, 1991-2021



Source: [RBC](#)

On October 1, 2013, Yanukovych [canceled](#) compulsory military service in Ukraine within the transition to a fully contract-based army. The last conscription took place in the fall of 2013. However, mandatory service was reinstated after the start of Russian aggression in 2014.

During Yanukovych's presidency, individuals whose loyalty to Ukraine was questionable held the Minister of Defense position. Thus, Dmytro Salamatin, the Minister of Defense from February to December 2012, [obtained](#) Ukrainian citizenship only in 2005. Before that, he was a Russian citizen and left for Russia after the Revolution of Dignity. Pavlo Lebedyev served as Minister of Defense from December 2012 to February 2014, and then he also moved to Russia. [According to](#) former Chief of the General Staff Volodymyr Zamana, Lebedyev had Russian citizenship while serving as Ukraine's Minister of Defense.

[According](#) to the State Bureau of Investigation, the unlawful downsizing of the Armed Forces was a key factor in the loss of Crimea in 2014. More than 70% of Ukrainian military personnel on the peninsula either [sided](#) with Russia or did not resist. Years of underfunding, personnel cuts, and neglect for strategic army development planning had weakened Ukraine's defense. The interim Ukrainian government (including acting President Oleksandr Turchynov) lacked

both the resources and international [support](#) to mount an armed resistance against the occupiers in Crimea. Russia was held back in eastern Ukraine in 2014-2015 thanks to the mobilization of volunteers. De-facto, Ukraine had to rebuild its army from scratch in the midst of war.

Since the government and a significant part of society were not preparing for the war under the [influence](#) of Russian propaganda that kept talking about “brotherly nations”, during 1991-2014 the Armed Forces were gradually reduced, with the ultimate goal of transitioning to a small professional army. The renunciation of nuclear weapons and the downsizing of the army was also part of Ukraine’s international commitments. However, the absence of a defense sector development strategy led to a critical weakening of the country’s combat capability, significantly reducing Ukraine’s ability to resist Russian aggression in 2014.

Reforms from 2014 to 2019

After the Revolution of Dignity and the beginning of Russia’s aggression in 2014, Ukraine needed to urgently transform its Armed Forces. As described above, before 2014 Ukrainian army was underfunded (Figure 16.3) and gradually downsized. In 2014, the Ministry of Defense budget was only UAH 15.2 billion (USD 1.3 billion or 1% of GDP). By 2019, it had increased to UAH 103 billion (USD 4 billion or 2.6% of GDP). Total expenditures on defense and security (including the army, police, SBU, and other security agencies) amounted to at least 5% of GDP from 2015 onwards.

The key areas of military reform included restoring combat capability, adopting NATO standards, and creating new organizational structures.

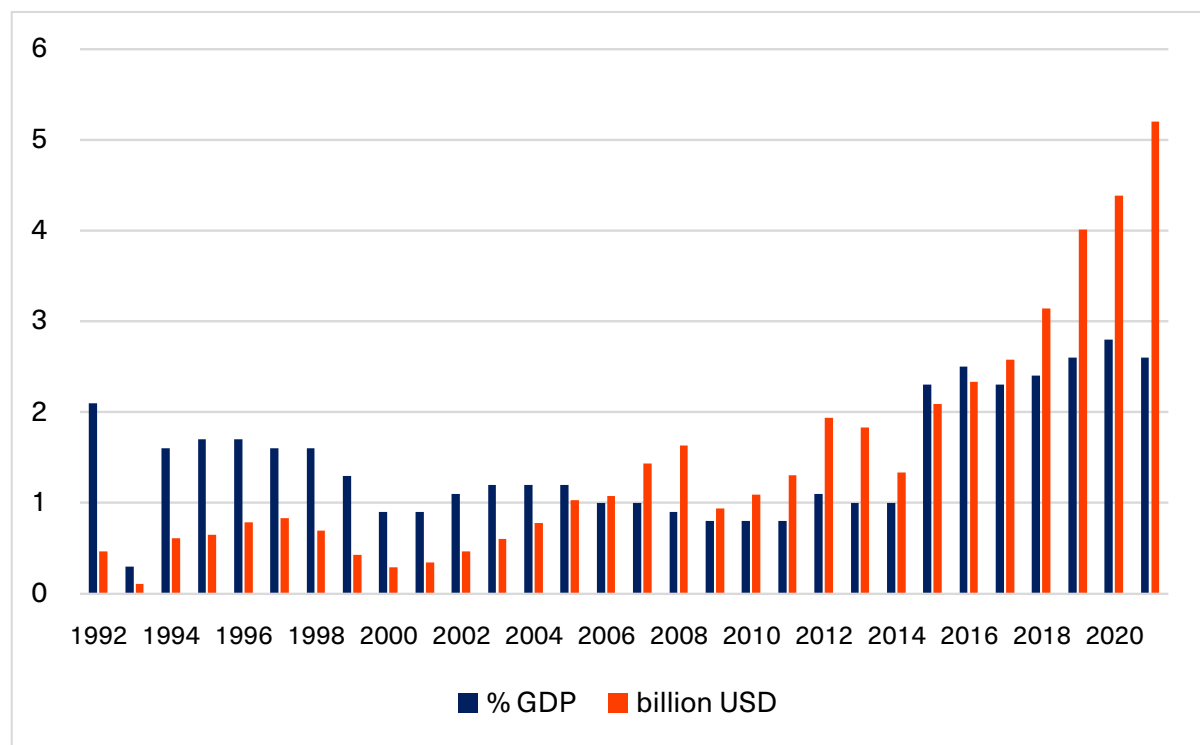
In 2014, Ukraine began the actual formation of territorial defense units. While the Territorial Defense Forces (TDF) had been [legally established](#) in 1991, until 2014 they existed mostly on paper, conducting no training or assemblies and only being allowed to operate during a special period (martial law). On April 30, 2014, acting President Oleksandr Turchynov [announced](#) the creation of territorial defense battalions in every oblast. As a result, 32 battalions and an experimental territorial defense brigade were [formed](#).

In 2015, Ukraine approved a [new Military Doctrine](#), officially identifying the Russian Federation as a military adversary. The doctrine also confirmed the rejection of non-aligned policy and restored the strategic course toward Euro-Atlantic integration, specifically NATO membership. On February 7, 2019, the Parliament [enshrined](#) the state’s strategic course toward full membership in the European Union and NATO in the Constitution.

In 2016, Ukraine [outlined](#) key priorities for defense sector reform until 2020. These included restructuring the Ministry of Defense and the General Staff, introducing new command and control systems, and preparing for full interoperability with NATO. Other priorities [included](#)

modernizing military equipment, implementing NATO standards, and ensuring social protection for military personnel.

Figure 16.3. Army funding in 1992-2021



Sources: [Slovo i Dilo](#), [openbudget.gov.ua](#). Note: Ukraine's military expenditures have increased significantly since 2022. They amounted to USD 35.4 billion, or 22% of GDP in 2022, USD 57.2 billion, or 32% of GDP in 2023, and USD 57.6 billion, or 30% of GDP in 2024

In 2015, the Ministry of Defense [began reforming](#) the military food supply system by introducing a product catalog and new standards aligned with NATO norms. This improved the quality and variety of soldiers' diets, increased the assortment of fresh vegetables and fruits, meat, and dairy products. At the same time, the provision of military uniforms and gear was significantly enhanced.

Defense procurement reform began with the introduction of the Prozorro system in June 2015. In 2016, Parliament passed a [law](#) on the specifics of procuring goods, works, and services for defense needs, which accelerated procurement processes. For some time, procurement rules were frequently changed to balance transparency necessary for civic oversight of state funds use with military secrecy. Finally, in July 2020, the law "[On Defense Procurement](#)" established a comprehensive mechanism for this system.

The institutional structure of the defense sector was significantly reshaped. One of the key elements was the [introduction](#) of civilian control over the Armed Forces in 2018, in accordance with NATO standards. Within this process, the Ministry of Defense was reorganized, and civilians were appointed to leadership positions, including the Minister of

Defense. The General Staff of the Armed Forces was also reformed by separating the functions of strategic and operational command. This allowed for more effective military management. In 2016, the Special Operations Forces (SOF), [created](#) in 2007 as a unit within the General Staff, [became](#) a separate branch of the Armed Forces. As a result, the effectiveness of special operations and the country's defense capabilities have improved.

Between 2014 and 2019, other notable changes in the military sector were aimed at increasing the army's combat readiness and improving service conditions for the military. Thus, salaries of the military were gradually [increased](#). In 2014, the salaries of soldiers in the ATO zone on the first and second/third lines were UAH 5,600, while by 2019, they increased to UAH 23,500 and UAH 17,000, respectively.

Additional social guarantees were introduced for combat veterans, their [pensions were increased](#), and one-time payments in case of injury or death of service members were raised as well. Other benefits included the provision of [housing](#) or respective financial [compensation](#), [subsidized](#) housing loans, and free provision of [land plots](#). Beyond financial compensation and land, an important change for veterans was establishing military rehabilitation [centers](#) and the first institutions for veteran psychological assistance.

Ukraine strengthened international cooperation through joint exercises and improved personnel training according to NATO standards. However, the same as today, the most influential NATO members strongly opposed Ukraine's accession to the Alliance. In 2018, Ukraine was [granted](#) NATO aspirant status, confirming its aspiration for membership, but this status did not include any legally binding guarantees and did not bring Ukraine closer to obtaining a Membership Action Plan (MAP).

Thanks to 2014-2019 reforms, including increased military funding, institutional changes, alignment of the Armed Forces with NATO standards, improved logistical support, and enhanced social protection for service members, Ukraine's defense capabilities significantly improved. The remaining challenges included an imperfect command system, corruption in defense procurement, and insufficient development of domestic arms production.

Volunteers and civil society organizations played a crucial role in restoring and modernizing the Armed Forces of Ukraine between 2014 and 2019. With the onset of Russian aggression in 2014, the volunteer movement [became](#) a key force in supplying the army with essential equipment, gear, and medical supplies. Although their financial contribution did not exceed 5% of the total, volunteers had the advantage of delivering necessary items more quickly or providing supplies that the state did not procure. Between 2014 and 2019, 13-23% of Ukrainians [participated](#) in the volunteer movement, with 60-70% of them supporting the army.

In addition to material support, civil society actively participated in the reform of the defense sector. In 2019, a working group of security and defence officials and civilian experts led by Major General Serhiy Kryvonos was established under the National Security and Defense

Council. This group [developed](#) the concept of the Law "On Territorial Defense of Ukraine," proposing the creation of a separate military formation — the Territorial Defense Forces of Ukraine — to involve citizens in national defense (the law was passed in 2021).

Thus, volunteers and civil society organizations not only provided the army with essential resources but also played an active role in shaping and implementing defense policy, contributing to the strengthening of Ukraine's national security.

Army reforms in 2019-2024

In March 2021, Parliament [established](#) new approaches to mobilization training and personnel reserves. Military commissariats were replaced with Territorial Recruitment and Social Support Centers, and the process of maintaining military records for reservists was improved, including the introduction of the "Oberih" IT system (the Unified State Register of Conscripts, Persons Liable for Military Service, and Reservists).

In July 2021, Parliament adopted the law "[On the Fundamentals of National Resistance](#)." According to this law, in January 2022, the Territorial Defense Forces were created. Territorial Defense Forces were the key factor that allowed to repel the first wave of the Russian aggression in February-March 2022.

After the start of the full-scale war on February 24, 2022, the Verkhovna Rada imposed [martial law](#) (inter alia, expanding the powers of military administrations) and declared general [mobilization](#).

During martial law, the government significantly increased the financial support for the military. Soldiers on the frontline or implementing combat missions behind enemy lines receive an [additional](#) monthly payment of UAH 100,000. [Additional](#) social guarantees have been introduced for wounded soldiers, families of the fallen, and veterans (see Chapter 12).

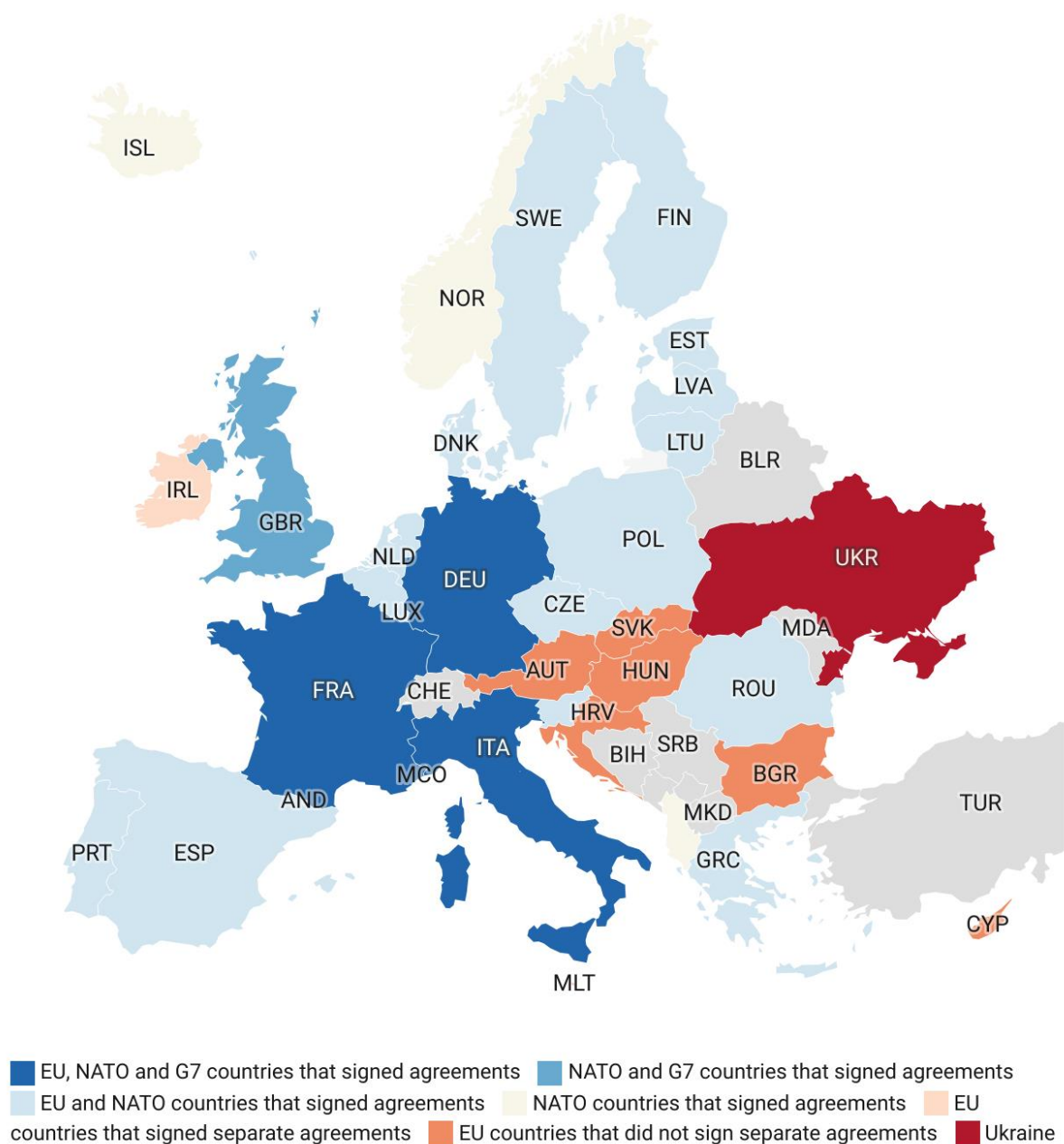
Drones have been used in combat since 2014, primarily for reconnaissance. However, with the start of the full-scale invasion, their use increased significantly. One of the reasons for this was the shortage of ammunition: despite partners' assistance, Ukraine has continuously faced the deficits of artillery shells. In addition to destroying enemy equipment and personnel, drones perform various other functions, including reconnaissance, artillery coordination, and disruption of enemy logistics, even deep in the rear. At the beginning of 2024, the President officially "[legitimized](#)" the role of drones in warfare by establishing the Unmanned Systems Forces as a separate branch of the military. A respective [law](#) was adopted later.

International cooperation

During 2024, Ukraine signed a series of bilateral security agreements to strengthen military cooperation and ensure mutual support during armed conflicts. The first agreements were

signed with the [United Kingdom](#), [Germany](#), and [France](#), followed by agreements with the [United States](#) and the [European Union](#). The EU agreement establishes long-term commitments from all 27 member states to provide Ukraine with military, financial, humanitarian, and political support for ten years. This document also reaffirms the EU's readiness to support Ukraine on its path to membership.

Figure 16.4. Countries with which Ukraine signed security agreements



Created with Databender

Note: The [US](#), [Japan](#), and [Canada](#), which are G7 members and signed security agreements with Ukraine, are not shown on the map

As of January 2025, 28 agreements have been [signed](#): a Joint open [Declaration](#) on Support for Ukraine by G7 countries, 20 with countries who joined the declaration, and one with the European Union (Figure 16.4).

The security agreements signed by Ukraine serve, on the one hand, as a temporary alternative to full NATO membership and, on the other hand, as a safeguard in case of a potential crisis within the Alliance. Their actual effectiveness will depend on the political situation in the United States and Europe.

Despite some progress in strengthening security through bilateral and multilateral agreements, Ukraine [continues](#) to consider full NATO membership the only real guarantee of its security and a deterrent against further Russian aggression.

Reforms of 2019-2024 contributed to the transformation of the Armed Forces of Ukraine, but until 2022, changes often occurred despite, rather than due to, government actions. The key factors in strengthening the army after the full-scale invasion were not just government decisions but also the immense efforts of volunteers, who provided the military with essential equipment, technology, and support. At the same time, the army adapted to real combat challenges and deepened cooperation with NATO partners.

What next?

Between 2014 and 2024, the Ukrainian Armed Forces significantly transformed, their combat readiness and ability to respond to modern challenges largely increased. However, since the war is ongoing and there is no certainty about its end, further reforms are necessary.

In January 2025, during the meeting of the Ukraine-NATO Council, Commander-in-Chief of the Armed Forces of Ukraine Oleksandr Syrskyi [presented](#) the Ukrainian Army Strategy for 2025. The Strategy [outlines](#) four priorities: stabilizing the front line, strengthening Ukraine's defense capabilities, enhancing air and maritime security, and providing an asymmetric response to the aggressor's attempts to gain the advantage of scale. At the meeting, roadmaps for the development of Ukraine's Defense Forces until 2027 were [approved](#). These plans were developed within the framework of eight capability coalitions, focusing on aviation, air defense, naval capabilities, artillery, armored vehicles, IT systems, drones, and mine clearance.

To attract young people aged 18-25 to join the Ukrainian Armed Forces, a special [program](#) was introduced in February 2025, offering significant financial payments, housing, and educational benefits (however, some [consider](#) this program to be unfair). Moreover, Major General Mykhailo Drapatyi, the Ukrainian Ground Forces Commander, [announced](#) plans to transform the training, command, and recruitment system to address personnel shortages

and eliminate corruption. Key priorities include improving training programs, implementing modern technologies, and expanding the role of the non-commissioned officer corps.

Along with developing the Defense Forces, the government plans to scale up the defense industry and improve military supply systems. The Minister of Strategic Industries of Ukraine, Herman Smetanin, [reported](#) that as of early 2025, Ukraine produces over one-third of the weapons required by the Armed Forces. Defense enterprises will focus on air defense systems and missile capabilities.

In the military supply area, a [reform](#) of the Armed Forces' food system is planned. The Ministry of Defense is implementing a modern approach to improve reliability, transparency of the supplies and their responsiveness to the needs of the military. Initially, the new system was to be tested in five regions — Kyiv, Vinnytsia, Zhytomyr, Cherkasy, and Kirovohrad, as well as in Kyiv city. However, after the first procurement tenders under the new model received no bids from market participants, the Ministry of Defense decided to [reduce](#) the pilot project scale to Kyiv city and Kyiv oblast.

An important reform area is improving rehabilitation and medical care for military members. To address this, the government has approved the [Strategy](#) for the Transition from Military Service to Civilian Life until 2027.

In 2025 and the following years, the government plans to further reform the Armed Forces of Ukraine with an emphasis on enhancing combat readiness, improving command and logistical efficiency, and advancing the country's integration into Euro-Atlantic security structures.