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Association Implementation Report on Ukraine

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1. Summary

In line with the revised European Neighbourhood Policy, this report sets out the state of play of Ukraine's commitments under the EU-Ukraine Association Agreement since the publication of the last Association Implementation Report on Ukraine on 15 November 2017, and ahead of the EU-Ukraine Association Council of 17 December 2018.

In 2018, Ukraine has further advanced in its reform process, which is closely connected to the implementation of the Association Agreement (AA). During the reporting period, Ukraine continued to set up inter-institutional mechanisms to further the Association Agreement implementation, including the Deep and Comprehensive Free Trade Area (DCFTA), and demonstrated additional efforts to streamline the process. The alignment of Ukraine's Government and Parliament was underpinned by their joint Roadmap for implementation of the AA adopted in February 2018 and updated in September 2018. In spring 2018, the Government presented its annual AA implementation report, setting out the state of play of the AA implementation sector by sector¹. In line with Ukraine's European integration communication strategy, a first Government communication campaign "Power of Opportunities" and a dedicated web portal² were launched in May 2018.

In 2018, a number of draft laws from the Roadmap for AA implementation³ were adopted, related to decentralisation, intellectual property rights, environment, company law, food safety and energy. In addition, some progress has been reported in the implementation of certain sectoral commitments under the AA, in particular related to sanitary and phytosanitary issues, competition, trade remedies, transparency, public procurement, technical barriers to trade, environment, climate action, energy (including energy efficiency), financial services, intellectual property rights, customs, accounting and auditing.

A number of important reforms in the social sector, launched at the end of 2017, are being carried out, in particular in the area of pensions, healthcare and education. Public administration and decentralisation reforms continued to be implemented steadily. Reforms also advanced in the areas of the judiciary and anti-corruption, albeit at a slower pace. The renewal of the judiciary continued with the newly established Supreme Court becoming operational in late 2017. However, there have been only few convictions in high-level corruption so far and none of them concerned top-level officials. The legislation establishing the new High Anti-Corruption Court was adopted in June 2018 and the selection of judges and other practical tasks have started. There has been progress in the establishment of an automatic verification system for electronic asset declarations, as the necessary verification software was launched in September and connections to some registers for cross-checking of information are established. Further measures are however required to establish a fully functioning system and to prove a convincing track record of effectively verified declarations of high-level officials. The issue of obliging anti-corruption activists and foreign members of supervisory boards of state-owned enterprises to file asset declarations remains unresolved despite commitments made by the Ukrainian authorities and repeated appeals by the EU.

Economic and sectoral reforms have continued. On the reform of State Owned Enterprises (SOEs) and privatisation in the last financial reporting period large SOEs have continued

¹ Link: <https://eu-ua.org/zvity-pro-vykonannia-uhody-pro-asotsiatsiiu>

² Link: <https://eu-ua.org/>. See also: <https://www.kmu.gov.ua/en/news/uryad-shvaliv-novij-brend-ukrayina-zaraz-sho-zabezpechit-yedinij-stil-prezentaciyi-derzhavi-v-sviti>

³ The September 2018 version of the Roadmap consists of a package of 50 draft laws in total.

increasing profit levels and in 2018 several independent Supervisory boards were established. On privatisation the main success has been the sale of hundreds of small assets with several other hundred expected by the end of the year. The reform of the banking sector continued, with strengthening regulatory and supervisory environment, developing strategies on how to address the high level of non-performing loans and reforming state-owned banks. Furthermore, while steps have been taken towards recovering embezzled funds of almost USD 5.5 billion of PrivatBank prior to its nationalisation by filing court cases, there is little progress so far on the recovery of the misappropriated state funds as well as on related measures of prosecution.

In the energy sector, Ukraine has continued the work on developing secondary legislation, based on the legislative changes adopted over the past years. Moreover, work on energy efficiency has substantially progressed with the operationalisation of the Energy Efficiency Fund with substantial financial EU support linked to clear conditionality advancing reforms in the sector. However, there has been little progress in the creation of independent gas and electricity transmission system operators. The renewal and unblocking of the Energy Regulator took place in June 2018. In some areas, such as transport, legislative approximation is delayed.

Despite the stabilisation of the economy achieved over recent years, Ukraine continues to rely on international financial assistance (including by the International Monetary Fund (IMF)⁴ and EU macro-financial assistance programmes) to preserve its macroeconomic stability.

A landmark bill on the reform of the security sector was adopted in June 2018, introducing the principle of parliamentary scrutiny over the security apparatus.

All these developments occurred while the country continues to be affected by the ongoing destabilising actions by Russia in the east of Ukraine, the illegal annexation of Crimea and Sevastopol, further militarisation and hindering and delaying the passage of vessels in the Azov Sea and construction of the Kerch bridge without Ukraine's consent.

2. Political dialogue, good governance and strengthening institutions

2.1 Democracy, human rights and good governance

Ukraine has a **parliamentary-presidential system**. The next regular presidential elections are expected in March 2019 and parliamentary elections in October 2019.

Local self-government has been strengthened by the **decentralisation reform** launched in 2015, which has further advanced in 2018, with 705 new amalgated hromadas (municipalities) established since 2015. The law which allows major cities of a region (Oblast) to become part of the amalgamation process was adopted in May 2018. On 20 September 2018, the Parliament appointed 14 new members of the **Central Election Commission (CEC)**, to replace those whose mandates expired in 2014 and in 2017. One seat remains vacant. The renewed CEC scheduled constituent local elections in over 120 newly amalgamated communities for December 2018.

Electoral legislation still remains to be harmonised and aligned with international recommendations. A new draft electoral code, which could provide the basis for the electoral reform, passed first reading in November 2017. At the same time, more than 1.6 million internally displaced persons (IDPs) remain deprived of parts of their voting rights in the

⁴ On 19 October 2018, the IMF and the Ukrainian authorities reached a staff-level agreement on a new Stand-By Arrangement (SBA). See: <https://www.imf.org/en/News/Articles/2018/10/19/pr18392-imf-and-ukrainian-authorities-reach-staff-level-agreement-on-a-new-stand-by-arrangement>

absence of dedicated legislation. In December 2017, the Constitutional Court invalidated the provision adopted in February 2016, whereby political parties were allowed to modify lists of parliamentary candidates after the elections. The decision is in line with the 2016 recommendations by the Venice Commission.

The implementation of the 2015-2020 National Strategy and Action Plan on **Human Rights** is ongoing. A new **ombudsperson** (Parliamentary Commissioner for Human Rights) Liudmyla Denysova was elected in March 2018.

The **human rights situation in the illegally annexed Crimean peninsula** continued to deteriorate in 2018. The systematic repression of individuals and groups who refuse to align themselves with the de-facto "authorities" continued unabated, with an increasing number of human rights abuses including arbitrary arrest, torture and ill treatment.⁵ The activities of the Crimean Tatar Mejlis remain banned since 2016 under Russian law and wide-ranging restrictions to the community as well as its leaders are still in place.

Human Rights and fundamental freedoms, such as freedom of opinion and of expression, continue to be severely curtailed by armed groups in the **Non-Government Controlled Areas (NGCA) of eastern Ukraine**, including via targeted killings, arbitrary and incommunicado detention, sexual and gender-based violence, torture, and arbitrary violation of property rights.⁶

The **humanitarian situation** in eastern Ukraine remains of serious concern and continues to present a challenge to the country, for the fifth consecutive year. According to various international interlocutors, including the United Nations (UN), the humanitarian situation has even worsened throughout 2018, due to the continued indiscriminate shelling of civilian infrastructure, the deterioration of the economic situation in NGCA as a result of the conflict, and decreasing international assistance. Humanitarian access to NGCA remains limited though some improvement was achieved during May 2018 with renewed access for a number of UN agencies⁷ to NGCA territory. The situation is particularly dire in the sectors of health, food, protection and access to basic infrastructure and utilities. 3.4 million people on both sides of the contact line remain in need of humanitarian assistance and protection. At present, only 29% of the 2018 UN Humanitarian Response Plan for Ukraine is funded. Environmental damage and waterborne diseases remain a real risk.

Modalities for the provision of social benefits to IDPs remain very cumbersome, while pensioners residing in NGCA continue to face difficulties in accessing their pensions. An appropriate legislative framework to ensure the respect of IDPs' rights remains to be adopted. In 2018, the Government adopted an Action Plan for NGCA, which was welcomed by the international community for its inclusive approach and attempt to bring the State closer to citizens residing in NGCA. However, the temporary suspension of cargo transfers to and from NGCA (except humanitarian), in place since March 2017, following the confiscation of Ukrainian companies by the so-called "authorities" in the NGCA, continues to pose serious challenges for the economic aspects of the Action Plan.

⁵ Report on the human rights situation in Ukraine 16 February to 15 May 2018, the Office of the United Nations High Commissioner for Human Rights, https://www.ohchr.org/Documents/Countries/UA/ReportUkraineFev-May2018_EN.pdf

⁶ Report on the human rights situation in Ukraine 16 February to 15 May 2018, the Office of the United Nations High Commissioner for Human Rights, https://www.ohchr.org/Documents/Countries/UA/ReportUkraineFev-May2018_EN.pdf

⁷ UN Children's Fund (UNICEF), UN High Commissioner for Refugees (UNHCR), International Organization for Migration (IOM) and UN Office for the Coordination of Humanitarian Affairs (OCHA).

With a high level of **contamination of mines**, civilians are exposed to injury and death and often lack access to agricultural land. Over 1,600 casualties have been recorded in eastern Ukraine since 2014 due to extreme levels of landmine and other explosive remnants of war contamination. According to the UN, the contact line in eastern Ukraine has become one of the most mine-contaminated stretches of land in the world, globally counting the largest number of casualties.⁸ Ukraine has not yet established a National Mine Action Centre and not yet adopted appropriate demining legislation that would ensure proper coordination of the work of its agencies and allow international humanitarian actors to further assist the country in addressing this major security concern.

In December 2017, the Parliament adopted amendments to the Criminal Code and the Criminal Procedural Code related to sexual and gender-based violence. A new law on domestic violence was adopted at the same time and is largely in line with the Istanbul Convention, which is still to be ratified. The Government Commissioner for Gender Equality Policy was officially nominated in early 2018. In April 2018, a State Social Programme on **Equal Rights and Opportunities** for 2018-2021 was approved. The programme looks at strengthening the institutional mechanisms and an integrated approach for enhancing gender equality in all areas of public life in Ukraine. In 2018, the 2016-2020 National Action Plan for the implementation of UN Security Council Resolution 1325 on Women, Peace and Security will undergo a mid-term review, to be followed up by relevant amendments. In 2018, the **Kyiv Equality March** was held peacefully. However, attacks on Women's Marches on the occasion of International Women's Day were recorded. An increased amount of hate speech and violence targeting minority groups including LGBTI and Roma has been documented by the UN Human Rights Monitoring Mission in Ukraine. The majority of these were reportedly perpetrated by extreme right-wing groups.

Following the December 2017 Venice Commission opinion on the language provisions of the new framework **law on education**, the Ukrainian authorities took a number of steps taking into account these recommendations. In early 2018, a roadmap for the implementation of the article in question was drawn up and consultations with representatives of minorities started in June-July 2018 with a view to further legislative steps regarding implementation. The Parliament has yet to adopt the legislative amendments proposed by the Government to extend the transitional period of the law on education, in line with recommendations by the Venice Commission.

The **public broadcasting service** (PBS) established in 2017 has remained underfinanced in 2018 with only 50% of the budgetary allocation stipulated under Ukrainian law. The financial situation rendered PBS unable to fulfil its basic financial obligations till the end of the year and prompted it to take austerity measures in September 2018, affecting its staff and postponing payments for contractual obligations. Due to its insolvency, PBS analog broadcasting was cut off in all regions. Other expected consequences of such underfunding are the switch off of the analog signal for PBS radio stations as well as the switch off of digital broadcasting.

While freedom of the media is broadly respected in Ukraine, as of September 2018 the Institute of Mass Media reported that since the beginning of the year, there have been 67 cases registered of impediment to lawful professional activities of journalists, 24 cases of threats, 22 cases of beatings of journalists, and 12 cases of limitation of access to information. The

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https://www.humanitarianresponse.info/sites/www.humanitarianresponse.info/files/documents/files/2018_02_protection_cluster_-_mine_action_en_0.pdf

investigation into the 2016 high-profile killing of the prominent journalist Pavlo Sheremet has not brought results, while the trial of two suspects for the killing of journalist Oles Buzyna commenced in February 2018.

Progress has been made in the area of **Public Administration Reform (PAR)**⁹. In 2017-2018, the Government aimed at strengthening its capacity to design policies and legislation, including those stemming from the AA. A centralised, transparent and merit-based recruitment system has been launched through a dedicated web-platform (career.gov.ua) with close to 24 000 applications received between October 2017 and September 2018 for approximately 1010 positions published. The Government of Ukraine has initiated the process of updating its PAR Strategy in line with recommendations of a baseline measurement of Ukraine's public administration prepared by the EU-OECD 'SIGMA' programme.

In 2018, Ukrainian **civil society** continued to play a very active role in the promotion, design and oversight of reforms, especially in the areas of anti-corruption, judiciary, human rights, decentralisation, energy, and healthcare. Some civil society actors denounced increased pressure from authorities on their activity. Various attacks on civil society activists have been documented in different cities of Ukraine. The legal provision requiring anti-corruption non-governmental organisations (NGOs) to submit electronic asset-declarations introduced in 2017 remains in place. Throughout 2018, Ukrainian civil society organisations continued to take an active part in the Eastern Partnership Civil Society Platform and the EU-Ukraine Civil Society Platform foreseen by the Association Agreement.

2.2. Foreign and security policy

The **security situation** in eastern Ukraine remains very tense and volatile. Despite a series of renewed commitments to the ceasefire, the situation continues to be marked by daily ceasefire violations on both sides, use of heavy weapons, destruction of critical civilian infrastructure and major mine contamination. The Office of the UN High Commissioner for Human Rights (OHCHR) estimates that more than 10 250 people have been killed and 24 600 injured since the start of hostilities in Donbas in 2014. Furthermore, according to the United Nations Office in Ukraine, over 3 000 civilians have been killed and more than 9 000 injured in eastern Ukraine over the same period.¹⁰

The **Law on Reintegration of the Donbas**¹¹ entered into force in February 2018 and defines Russia as "an occupying force" which should assume responsibility for ensuring the rights of civilians living in the "occupied area". In line with this new law, in May 2018 the Ukrainian Armed Forces formally took over the responsibility for the strategic coordination over the operations in the east from the Security Service of Ukraine.

On the diplomatic front, the **Minsk process** remains stalled. The four working groups under the Trilateral Contact Group have continued to meet on a regular basis. The main result since the 2017 Association Implementation Report was an exchange of some 300 prisoners in December 2017. However, no tangible progress has been achieved on the security and

⁹ The Government published the Annual Report on the PAR Strategy implementation in 2017 on 23 April 2018. It shows that 55% of planned activities for 2017 are on track; 31% implemented with some delay; and 14% either not implemented or significantly delayed. A baseline measurement of Ukraine's public administration launched by the EU-OECD 'SIGMA' programme in November 2017 was finalised and published in June 2018. Available at: <http://www.sigmaxweb.org/publications/Baseline-Measurement-Report-2018-Ukraine.pdf>.

¹⁰ <http://www.un.org.ua/en/information-centre/news/4406-on-world-humanitarian-day-united-nations-calls-for-the-protection-of-civilians-in-eastern-ukraine>

¹¹ Formally titled the law "On the special aspects of state policy aimed at ensuring Ukraine's state sovereignty over the temporarily occupied areas of the Donetsk and Lugansk Regions".

political tracks of conflict resolution efforts. The work of the **Organisation for Security and Cooperation in Europe** Special Monitoring Mission (OSCE SMM) continues to face obstacles, mainly in NGCA, in particular close to the Russian border.

Ukraine is challenging Russia's **illegal annexation of the Crimean peninsula** inter alia under the United Nations Convention on the Law of the Sea (UNCLOS). Ukraine submitted its further legal arguments in the ongoing arbitration case against Russia under UNCLOS in early 2018. Since the illegal annexation of the Crimean peninsula, Russia has reportedly tripled the number of military servicemen in the peninsula, and has deployed advanced long-range missile systems there.

In March 2018, Russian presidential **elections were held for the first time in illegally annexed Crimea and Sevastopol**. In May 2018, the Council of the EU added five persons involved in the organization of the elections to the list of those subject to restrictive measures over actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine¹².

In May 2018, **the Kerch Strait bridge** was inaugurated by President Putin. It was constructed without Ukraine's consent and connects the illegally annexed Crimean peninsula with the annexing state, Russia. The bridge also has negative economic consequences for Ukrainian ports and exporters, as the largest cargo ships can no longer pass through the Kerch Strait to the ports of Mariupol and Berdyansk. Tension in the **Azov Sea** increased since spring 2018, when Russia started to halt and inspect many non-military vessels passing through the Kerch Strait to and from the Ukrainian mainland ports in the Azov Sea. These inspections have resulted in delays of more than two days in the cargo traffic to and from Ukrainian ports in the Azov Sea. In July 2018, the Council of the EU added six entities involved in the construction of the Kerch Bridge to the list of those subject to restrictive measures over actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine¹³.

In May 2018, the Joint Investigation Team presented further findings on the downing of flight MH17. It concluded that the installation used to bring down the flight MH17 belonged beyond doubt to the armed forces of the Russian Federation. In July 2018, the Ukrainian Parliament ratified a Treaty that aims at delegating jurisdiction in this case to the Dutch judicial system¹⁴. Ukraine pursues the MH17 case in the International Court of Justice alleging Russian violations of the UN Convention for the Suppression of the Financing of Terrorism.

On 21 September, Ukraine informed Russia on its decision not to prolong the Treaty on Friendship, Cooperation and Partnership between Ukraine and Russia, which was signed in 1997.¹⁵

From January 2018 until 23 October 2018, Ukraine aligned with 26 out of 58 EU Common Foreign and Security Policy declarations it had been invited to support. Ukraine has continued to cooperate with the EU on regional and international issues.

¹² Council Decision (CFSP) 2018/706 of 14 May 2018 amending Decision 2014/145/CFSP concerning restrictive measures in respect of actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine.

¹³ Council Decision (CFSP) 2018/1085 of 30 July 2018 amending Decision 2014/145/CFSP concerning restrictive measures in respect of actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine.

¹⁴ The agreement between Ukraine and the Netherlands on international legal co-operation concerning crimes related to the downing of MH17 was signed in Tallinn on 7 July 2017.

¹⁵ The treaty was due to expire on 31 March 2019.

2.3 Justice, Freedom and Security

By September 2018, the **National Anticorruption Bureau of Ukraine (NABU)**, in cooperation with the Specialised Anticorruption Prosecutor's Office (SAPO), had initiated 644 pre-trial investigations in high-level corruption cases, including against public figures in Ukraine. However, the conviction rate of these cases remains very low at 21 cases as the vast majority of cases are blocked in Ukraine's ordinary courts. So far, no high-level official has been convicted of corruption.

To address this issue, Ukraine adopted in June 2018 legislation to establish a **High Anti-Corruption Court (HACC)** that should be staffed with independent judges selected in a competitive process with international participation. Once established, the HACC will consider cases under NABU's jurisdiction. The law foresees the creation of a Public Council of International Experts (PCIE), which assists the High Qualification Commission of Judges (HQCJ) with the selection of judges and has the power to collectively disqualify a candidate-judge. In mid-September 2018, five international organisations, including the EU, jointly nominated a list of 12 international experts as candidates for the PCIE. The selection of the six members of the PCIE is outstanding. The EU will provide technical assistance to the selection process as well as the establishment of the High Anti-corruption court. Donors have stressed the importance to amend certain rules of the selection procedure to ensure a fully transparent and merit-based selection process.

Following a probe by NABU for hampering investigations, disciplinary proceedings were launched against the Head of SAPO in April 2018. However, the Qualification and Disciplinary Commission of Prosecutors (QDCP), despite having received evidence that the Head of SAPO committed gross violation of prosecutorial ethics, recommended a reprimand instead of the dismissal of the Specialised Anti-corruption Prosecutor. This decision caused strong reaction from the international community, as well as NABU and civil society, who expressed concerns about the effective functioning, independence and cooperation of the anti-corruption institutions as well as the damaging effect on the reputation of SAPO. NABU appealed the decision of the QDCP before the Supreme Court, which will have to decide on the admissibility of this appeal and only in a second stage take a decision on its merits.

By October 2018, the **National Agency for Prevention of Corruption (NAPC)**, in charge of the electronic asset declaration system for public officials, only managed to verify some 400, out of 2.7 million, e-declarations currently uploaded on the system. In September 2018, NAPC put into operation automated software to verify the very high number of e-declarations and obtained access to some state registers to cross-check information submitted by public officials. Despite this progress, NAPC has not yet produced a convincing track record of effectively verified declarations of high-level officials.

The extension of the requirements **for e-asset declarations to NGO** activists, international experts working in the field of anti-corruption and foreign members of supervisory boards of state-owned enterprises has not yet been lifted. An opinion by the Venice Commission from March 2018 clearly spoke against the requirements introduced by the Ukrainian parliament in spring 2017. Any additional reporting requirements imposed on NGOs would have to be in line with the expert opinion of the Council of Europe.

During 2017-18, the renewal and reform of the **judiciary** continued. Ukraine's new Supreme Court became operational in December 2017 through a new recruitment process with unprecedented transparency. Nevertheless, the Public Integrity Council (PIC), which consists essentially of civil society experts, expressed doubts about the integrity of 25 of the 113 judges appointed, thereby raising concerns about the perception of the new court. The re-

evaluation of 5 157 judges resumed in January 2018. In addition, the recruitment of some 750 new judges (first instance and specialised courts) started. In March 2018, the PIC suspended its participation in the process of qualification assessment of judges quoting unrealistic time frames for the assessment of thousands of judges and the ignoring of negative PIC opinions.

In September 2018, the Cassation Administrative Court of the Supreme Court recognized as unlawful and abolished relevant provisions of the Rules of Procedure of the High Qualification Commission of Judges (HQCJ), which had introduced additional requirements and pre-conditions for the consideration by the Council of negative opinions on candidates issued by the Public Integrity Council. This ruling can still be appealed. Meanwhile, the international community, in talks with the HQCJ and the PIC, has been mediating to facilitate the return of the latter in the selection/re-evaluation process. According to the High Qualifications Commission of Judges, as of August 2018, 1 486 judges completed the qualification assessment, of which 1 245 (84%) judges were found to meet the necessary requirements, while 241 judges (16%) failed to pass the assessment. Additionally, the HQCJ postponed consideration of matters in relation to 289 more judges. Since 2016, 2 470 judges voluntarily resigned without waiting for re-evaluation, representing 28% of their total number.

In February 2018, **the Constitutional Court** appointed its president and started adjudicating a number of pending cases, including on highly politically charged ones, demonstrating strengthened independence from political interference.

In the area of **law-enforcement**, the State Bureau of Investigation (SBI) was established with the selection of its leadership in November 2017. Once operational and fully staffed, the SBI will be able to take over most investigative powers from the Prosecutor General's Office and investigate crime committed by public officials outside NABU's exclusive jurisdiction. However, as the SBI has not yet become operational, Ukraine does not have an institutional structure in place to register and investigate complaints regarding criminal offences committed by law enforcement officers, as foreseen by the EU-Ukraine Association Agenda. The cases formally under the SBI's investigative jurisdiction are currently investigated by other law enforcement agencies, thus infringing on the model of delineation of competences prescribed by the procedural legislation. Concerns were raised by civil society organisations and the international community against nominations for senior management positions in SBI made by a politically appointed External Commission.

On 21 June 2018, Ukraine's Parliament adopted the **Law on National Security**. This framework law covers definitions, delineations and oversight mechanisms for the whole security sector and includes provisions for the effective subsequent **reform of the Security Service** of Ukraine (SSU), which would need to be regulated by appropriate secondary legislation. A genuine SSU reform has a potential to strengthen the rule of law, enhance the business climate and increase trust for the SSU.

A **Law on Cybersecurity**, adopted in 2017, entered into force in May 2018. It delineates responsibilities and mechanisms for coordination as regards cybersecurity.

In 2018, the **reform of the National Police** of Ukraine (NPU) continued to be implemented. The EU has maintained its support to rule of law reforms in Ukraine in an integrated approach through the **EU Advisory Mission for Civilian Security Reform (EUAM)** and the EU-funded support programmes on Rule of Law and Anti-corruption.

As of 31 August 2018, citizens of Ukraine have made over 25.9 million trips to EU countries since the **visa free regime** for short term stays for Ukrainian citizens holding biometric passports entered into force in June 2017. Six million Ukrainian citizens have crossed the

border with biometric passports (23% of the total), of which 1.3 million without visas. The demand for biometric foreign travel documents remains high and new manufacturing equipment was purchased to improve processing time.

In 2018, Ukraine stepped up measures to **prevent irregular migration**. The number of detained irregular migrants increased during the first half of 2018 by 46%¹⁶ as compared to the similar period of 2017. During 2018, the State Border Guard Service together with the National Police and the State Migration Service conducted a number of special operations aimed at preventing violation of migration and border regulations. In 2018, the Temporary Accommodation Centre for Refugees in Yagotyn received its first asylum seekers.

3. Economic development and market opportunities

3.1. Economic development

Ukraine's economy has continued the recovery started in 2016, following the recession of 2014-2015. GDP grew by 2.5% in 2017 and is projected to grow by 3.5% in 2018. Ukraine has made significant progress in consolidating public finances, notably by reducing the fiscal deficit from 4.5% GDP in 2014 to 1.4% in 2017. Inflation has decreased substantially since 2015, down to 13.7% in 2017 and 8.9% by July 2018. The exchange rate of the local currency, the Hryvnia, has remained relatively stable, notwithstanding the volatility of other emerging market currencies. International foreign exchange reserves had been steadily growing, and reached nearly USD 18.8 billion at end-2017, but slipped to USD 17.2 billion between January and August 2018, largely due to foreign debt repayments, which increased in 2018 and will rise further in 2019, as repayments on restructured Eurobonds have to be resumed. The economic stabilisation has been supported by prudent macroeconomic policies and significant international financial and technical assistance, including the macro-financial assistance programme provided by the EU. The overall unemployment rate remained stable at 9.5% in 2017 and slightly decreased to 9.2% by the first half of 2018.

Ukraine has improved its **business environment** in recent years, though this progress is stalling to some extent. According to the World Bank's Doing Business survey, Ukraine ranks 76th in 2018, which is an improvement from 80th in 2017, and 142nd in 2010¹⁷. **Foreign direct investment** remains relatively low at USD 2.3 billion in 2017.

In 2017/18, the **banking sector** continued to stabilise. The new Governor of the National Bank of Ukraine (NBU) was appointed on 15 March 2018. The NBU is working to implement a comprehensive banking sector development programme, while introducing international rules for capital adequacy, liquidity, corporate governance, information disclosure and risk management in the banking sector. The new **Risk Management Regulation for Ukrainian Banks** was adopted by the NBU Board in June 2018. Furthermore, the NBU is working on a strategy to deal with the high level of non-performing loans, which still present a systemic risk, albeit mitigated by a high level of provisioning. After the nationalisation of the systemically-important PrivatBank in December 2016, the bank has been successfully managed by the Ukrainian authorities and its governance improved. Some steps have been taken towards recovering the embezzled funds of almost USD 5.5 billion by filing court cases against former owners in Ukraine and in foreign jurisdictions, including the initiation of lawsuits in London and Switzerland against former owners.

¹⁶ Source: <http://migraciya.com.ua/news/ua-min-ust/sergij-jarovijj-do-knja-serpnja-v-ukran-trivatime-speoperajamgrant>

¹⁷ Source: <http://www.doingbusiness.org/en/data/exploreconomies/ukraine>

Furthermore, the Government adopted strategic principles for reforming **state-owned banks (SOBs)** in February 2018, followed by an implementation plan given the extensive state ownership in the banking sector. On 5 July 2018, the Ukrainian Parliament adopted a law on improving functioning of the financial sector, which includes obligatory Supervisory Boards for SOBs with a majority of independent members. Following the adoption of the **Law on Credit Registry** in February 2018, full-fledged operations started in July 2018. On 3 July 2018, a law was adopted to improve protection of creditors' rights. Finally, a law to allow for a gradual liberalisation of currency operations and capital flows was adopted on 21 June 2018 and will enter into force at the beginning of 2019.

In the **non-banking financial sector**, a draft law on **Financial Regulatory Reform** has been pending in the Parliament since August 2016. A draft law to provide the National Commission for Securities and Stock Market with necessary enforcement powers and operational and financial independence is also pending since April 2017. Adoption of both laws would allow for a better integration of regulatory and supervisory powers over financial markets in Ukraine. The delay in the institutional strengthening is also stalling upgrading the legal and regulatory framework for non-bank financial institutions.

The implementation of the **Public Finance Management (PFM) strategy** and the Action Plan adopted in 2017 continued during 2018. To strengthen **medium-term budget planning** and programme-based budgeting, the Government submitted legal amendments to the Parliament in February 2018. In order to optimise public expenditure, the Government launched **spending reviews** in five public institutions. In **internal control and audit**, the Ministry of Finance prepared and published a performance review of the internal audit function across the Government. In **external audit**, after a two-year delay, in March 2018 the Parliament put in place a new college of the **Accounting Chamber of Ukraine**, allowing it to reform external audit and bring it closer to the international standards. In July 2018, Ukraine signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting, which is now to be ratified by the Parliament.

In **revenue mobilisation**, a long overdue medium-term consolidated and comprehensive reform plan for the **State Fiscal Service (SFS)** has not yet been adopted by the Government. The function of investigation of economic crimes remains underdeveloped; several draft laws on establishing a new institution to deal with financial crimes are registered in the Parliament. Yet, a political consensus on setting up a professional, politically neutral and analytical new body is outstanding. On **customs and trade facilitation**, Ukraine is behind schedule in implementing commitments of the AA and joining the Conventions on a **Common Transit Procedure** and on the **Simplification of Formalities in Trade in Goods**. Ukraine's legislation aimed at approximating EU customs legislation, and in particular draft laws on authorised economic operator, common transit procedure, enforcement of intellectual property rights and customs relief for travellers with EU, regulations still need to be adopted by the Parliament. Ukraine became a full member of the Regional Convention on pan-Euro-Mediterranean (PEM) preferential rules of origin convention on 1 February 2018.

The revised law on **statistics**, pending since 2016, has not yet been considered by the Parliament. The lack of professional independence in the State Statistics Service remains a source of concern.

In May 2018, Ukraine adopted the **Action Plan of the Strategy for the development of Small and Medium Enterprises (SMEs)**. The Action Plan indicates specific support measures for SMEs, also as a result of the analysis done by the EU-financed Better Regulation Delivery Office (BRDO). These measures specifically address the regulatory

framework, which is still tarnished by a number of problematic or outdated legal acts. With regard to the **reform of SOEs**, profits of the top-100 State owned enterprises have increased by 38% in 2017. In 2018, new recruitment procedures passed in early 2018 have resulted in the appointment of independent Supervisory Boards at three large SOEs. In 2018, the government has also passed guidelines on the State Ownership policy. The Parliament has still to pass the law that will effectively empower supervisory boards. On privatisation, the implementation of the new law passed in early 2018 has resulted in the successful privatisation of hundreds of small assets with several hundred more expected by the end of the year. As regards the privatisation of large SOEs, the State Property Fund has recently appointed privatisation advisers for a few large SOEs, aimed at their privatisation in 2019.

Legislative work continued on aligning the rules on the protection of rights of shareholders, creditors and other stakeholders, **company law, accounting and auditing and corporate governance** policy with EU and international practices. The new prospectus and transparency requirements for issuers of securities entered into force in July 2018. The long-awaited law on **Limited Liability and Additional Liability Companies** was adopted in February 2018 and came in force in June 2018. Amendments to the law on **Accounting and Financial Reporting** were introduced in October 2017, defining Public Interest Entities, classification of enterprises for the purposes of financial reporting and the scope of application of IFRS (International Financial Reporting Standards) and IFRS-compliant standards for financial reporting. The new law on **Audit of financial statements and Auditing activities** was adopted in December 2017, envisaging stronger supervision of the audit profession by a Public Oversight Body to be established, and stricter requirements for audit firms verifying accounts of Public Interest Entities to reduce possibilities of conflicts of interests. In December 2017, a Memorandum of Understanding was signed between the financial market regulators and the Ministry of Finance on the unified electronic system for Public Interest Entities (PIEs) as required by the new **Accounting Law** adopted in October 2017.

In terms of **agricultural policy**, the **Law on Basic Principles of State Agrarian and Rural Development (ARD) Policy**, after having failed to be adopted in first reading in July 2018, has been re-registered at the Ukrainian Parliament in October 2018. This is an important Law as it will allow for the implementation of the ARD Action Plan over the coming five years.

However, due to a lack of leadership and direction to steer changes, the implementation of the **land reform** remains slow. The draft law on **Land Turnover** finalised in 2017, which would lift the Moratorium on Land sales in place since 2001, will be assessed by a Working Group established in July 2018. Work is also ongoing to improve the accuracy of the land cadastre, the registry of rights and the transparency of land governance. In line with AA obligations, laws regulating **organic production**, the circulation and labelling of organic products, state controls over **Genetically Modified (GM) Products** and the circulation, tracking and labelling of GMOs are at various stages of the legislative adoption process in the Ukrainian Parliament. Furthermore, the Ukrainian **Geographic Indications (GIs) system** was designed: a framework law on GIs was adopted and specialised laws to regulate GIs for certain products were finalised in 2018. The Ministry of Agrarian Policy and Food (MoAPF) is undergoing an ambitious restructuring. Sustainable **management of forestry and fisheries resources** is addressed with the objective of reducing illegal, unregulated and unreported practices, but further efforts are needed to modernise fisheries management in line with best practices from the EU, Food and Agriculture Organization (FAO) and General Fisheries Commission for the Mediterranean (GFCM).

Ukraine has taken steps to enhance the support of economic development through its **regional development** model. The "Innovative Economy and Investments" programme is now

operational and targeted specialisation has been identified as a future priority. The allocation of adequate budgetary resources to the State Fund for Regional Development in line with national legislation nevertheless remains behind ambitions. Ukraine has strengthened its participation in the EU Strategy for the Danube Region.

While in 2018 Ukraine has undertaken some steps in the approximation of legislation in line with the AA in the areas of **employment, social policy and equal opportunities**, it continues to face some delays. In 2018, Ukraine continued to implement the pension reform initiated in 2017, while there are delays on legislation on occupational safety and health, part-time work and parental leave. A review of the legislation in the areas of undeclared labour and occupational safety and health was undertaken in spring 2018 with support of an EU-funded project. The adoption of the new **Labour Code**, which would advance legal approximation, has not progressed since the draft law was prepared for second reading in 2017. The Government has initiated procedures to improve the targeting of social subsidies and plans to start with a gradual monetisation of subsidies in 2019. A modernisation of the social dialogue, including through the adoption of legislation on collective bargaining, is pending. Occupational prohibitions for women were abolished in late 2017. The minimum monthly wage was increased further to UAH¹⁸ 3 723 (+16.3% y/y) after a substantial increase in 2017. In 2017, the first time since 2013, Ukraine recorded a reduction in the moderate poverty (according to the World Bank's national methodology for Ukraine) to an estimated 24.5% in 2017 from 26.7% in 2016, but still up sharply from 14.1% in 2013. The poverty rate (under USD 5.5/day in 2011 PPP¹⁹) is estimated at 5.7% in 2017.²⁰

On 25 May 2018, the European Commission and the State **Space** Agency of Ukraine signed a cooperation arrangement that establishes a partnership on Earth observation. Furthermore, in view of using EGNOS (the European Geostationary Navigation Overlay Service) in Ukraine, it has been decided to deploy a first EGNOS ground station at Zhuliany Airport (Kyiv)²¹.

3.2. Trade and trade-related matters

After almost **three years of provisional application of the AA/DCFTA and since entering into force on 1 September 2017**, the DCFTA shows **positive results**. The EU has become Ukraine's largest trade partner by far, representing 42% of total Ukrainian external trade. In 2017, exports from the EU to Ukraine, and imports from Ukraine to the EU increased by respectively 22% and 27.2%. While trade is increasing also with the rest of the world, the pace of increase is much faster with the EU, which demonstrates that the AA/DCFTA is playing a significant role. Since 2018, exports from Ukraine to the EU are fully back to the pre-crisis (i.e. 2012) level.

Against the background of progressive tariff liberalisation between the EU and Ukraine, the EU has repeatedly called on Ukraine to repeal an **export ban on raw wood** (applicable since autumn 2015) because of its incompatibility with Ukraine's World Trade Organisation (WTO) and DCFTA commitments, and to abstain from the introduction of any further trade-restricting measures. The Commission has repeatedly raised this at all instances and levels²², intending to address this trade irritant through the dispute settlement mechanism provided for under the DCFTA should the problem persist. The EU and a number of Member States have

¹⁸ Ukrainian Hryvnia.

¹⁹ Purchasing Power Parity.

²⁰ <http://pubdocs.worldbank.org/en/684631523347829626/Ukraine-Economic-Update-April-2018-Eng.pdf>

²¹ On 27 March 2018, the EU-Ukraine 2nd High-level Industrial and Dialogue recommended starting the negotiations of the EGNOS extension agreement.

²² Including at the last EU-Ukraine Summit (Brussels, 9 July 2018).

also been providing technical assistance to Ukraine to support the reform of its forest-based sector.

In terms of **technical barriers to trade**, the implementation of the **Strategy for the Development of the Technical Regulation System** until 2020, and its related Action Plan, has started with the view to implement the AA and - in the future - an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA). The adoption of amendments to the **Law on Market Surveillance** is pending. Ukraine is very active within international standardisation bodies²³ whereas they have been less active within European Standardisation organisations. The implementation of newly-adopted standards remains a challenge.

In the area of **telecommunication rules and infrastructure**, discussions on the draft law "On Electronic Communications", which would strengthen the role of the regulator, continue to be postponed. Another draft law "**On Radio Spectrum Resource**" is pending in the Parliament since 2016. Broadband services penetration stands significantly below the EU average and the harmonisation of spectrum exploitation as foreseen by the law would bring economic benefits. During the first half of 2018, two tenders were conducted in 4G: for frequency 2600 MHz it resulted in issuing 1600 licenses and for frequency 1800 MHz it allowed for issuing 4800 licenses.

Most of the legislation to reform the **Intellectual Property Rights (IPR)** system, in line with Ukraine's commitments in the DCFTA, is pending approval in Parliament. The law on **Collective Management Organisations (CMOs)** was adopted in May 2018 and came into force in July 2018, with some provisions requiring still further improvement. Six draft laws are in different phases of the legislative process in this area: on **Semiconductors, on Utility models and inventions**, on **geographical indications** (see above), on **Trademarks and designs**, on **IPR border measures** and on **Copyright and related rights**. Furthermore, progress in the judicial reform would help to ensure effective enforcement of IPR rights. The new **Specialised IP Court** was established in September 2017 and is expected to be operational by early 2019.

Public procurement (PP) continues to be one of the flagship reforms of the Government. On the basis of the Strategy for Public Procurement Reform (Roadmap), amendments to the PP law are under preparation by the Ministry of Economic Development and Trade (MEDT) to comply with commitments of the AA. Ukraine has continued to further improve the electronic procurement system "ProZorro". The pilot initiative on centralised procurement for the central Government entities is being successfully implemented. However, draft legal amendments further improving the functioning of e-procurement and PP appeals submitted to the Parliament in April 2018 have not advanced. Attempts to introduce populist amendments in the PP legislation continue. A draft law "**Buy Ukrainian, Pay Ukrainians**", which would contradict, if approved in its current form, basic provisions of the AA, was adopted in first reading in December 2017. Other issues have been identified in the draft legislation on concessions: the ability to address more complex procurements, the efficiency of the State Audit Service and healthcare sector procurement.

Following the introduction of **State Aid control** in August 2017, in 2018 the Cabinet of Ministers adopted several by-laws on compatibility. Up to June 2018, the Anti-Monopoly Committee of Ukraine (AMCU) has received around 300 notifications and adopted 30

²³ In particular in the International Organization for Standardization and the International Electrotechnical Commission.

decisions. In 2018, Ukraine continued gaining case-practice, worked on completing the State Aid legal architecture and on stopping some large granting bodies from bypassing State Aid control.

On **competition law**, AMCU adopted in October 2017 the Vertical Block Exemption Regulation, largely inspired by EU law. In 2018, EU experts are conducting a comparative analysis of Ukrainian competition law and EU law, which will lead to identifying priority issues for approximation and a roadmap to address them.

During 2018, the **State Service of Ukraine for Food Safety and Consumer Protection** resumed its official controls and veterinary checks thanks to the entry into force of the law on **State Control for food, feed, animal health and animal welfare** in April 2018. The drafting and adoption of **sanitary and phytosanitary (SPS) legislation** has noticeably accelerated in 2017/18, resulting in 17 EU legal acts adopted and more than 140 being in the process (out of 250 acts in total). The SPS Strategy has been finalised in October 2018 and its final version was agreed by both the Ukrainian government and the EU. The Law on Food Safety and Hygiene was adopted in January 2018 and should enter into force in January 2020. The draft laws on **Food Information for Consumers, Veterinary Medicines** and on requirements to objects and materials that are in contact with food products remain to be adopted by the Parliament. The design of veterinary certificates for poultry products exported from the EU into Ukraine are not completed yet, and negotiations should be launched for other products (notably beef and pork). Animal welfare obligations under the AA are to be further considered, notably regarding poultry exports to the EU.

4. Connectivity, Energy Efficiency, Climate Action, Environment and Civil Protection

Ukraine has continued working on the 2016 EU-Ukraine Memorandum of Understanding **on a Strategic Energy Partnership**, and the parties approved a new Annual Work Plan in April 2018.

Following the adoption of a new Energy Strategy 2035 by Ukraine in August 2017, the long-term implementation plan is outstanding.

During the winter 2017/18, **gas transit** to the EU via Ukraine continued to be reliable and smooth, despite continued challenges in its technical cooperation with Gazprom which affect gas pressure and despite continued changes in daily volumes nominated for transit. Ukraine continued to cover its gas import needs through deliveries from the EU. This has not changed even after the final award of the Stockholm arbitration court on the transit and supply disputes in February/March 2018, following which Gazprom refused to supply the requested gas volumes. In view of the resulting gas shortage in Ukraine, on 1 March 2018 Ukraine activated for the first time the Energy Early Warning Mechanism under the AA. Trilateral talks on a future gas transit contract via Ukraine between Russia, Ukraine and the European Commission started in July 2018.

The Supervisory Board of the new gas pipeline operator MGU was appointed in spring 2018. However, the final decision on the unbundling of NAK Naftogaz has not been taken by the Government. In 2018, the Cabinet of Ministers prolonged several times the gas Public Service Obligation (PSO), which caps **gas prices** for households and for municipal heat supply companies below market prices. In October, the Ukrainian government agreed with the IMF on gradual gas price increases for households that should reach market level in 2020. Based on this, a new PSO will need to be adopted by the government. Further gradual monetisation of housing subsidies for gas and heat has not yet taken place.

In September 2018, the Parliament adopted the important law on transparency in extractive industries, which sets international transparency standards for the legal environment and business reporting in the mining, oil and gas extraction sector.

The challenging process to implement the **Electricity Market law** has been on-going since June 2017. The aim is to move from an overly regulated single buyer model with cross-subsidies to a competitive market in line with EU legislation, a challenge in view of the current oligopolistic market structure. The corporate governance reform of electricity transmission system operator Ukrenergo has led to a transparent selection process for its supervisory board members, although it does not yet own the assets as required under the 'ownership unbundling' model. Ukraine has not yet assigned the control over electricity production and electricity transmission companies to different Ministries. On **renewable energy**, the Parliament launched a discussion on a new law aimed at reducing the existing costly support schemes for renewable electricity generation.

In June 2018, the selection of five Commissioners of the **Energy Regulator** (National Energy and Utilities Commission of Ukraine) was finalised in line with the provisions of the Energy Regulator's law, providing new credibility to the independence of this key institution.

In the **field of energy efficiency**, the implementation of the laws on energy performance in buildings and on commercial heat metering and billing adopted in June 2017 has started. The Energy Efficiency Fund has been formally registered. The Fund benefits from substantial financial EU support linked to clear conditionality advancing reforms in the sector.

In 2018, Ukraine continued **fuel diversification for the supply of its nuclear power plants**. The commissioning of the New Safe Confinement above the 4th destroyed reactor in Chernobyl had to be postponed. A draft law re-establishing the full independence of the State Nuclear Inspectorate still has to be adopted by the Parliament.

The Government adopted a new **National Transport Strategy** in May 2018 with the aim of improving the functioning of the Ukrainian transport sector and enhancing connectivity with the EU through the extended indicative trans-European Transport Network (TEN-T); the implementation plan is expected to be adopted by the end of 2018. The State Road Fund started operations in 2018 and includes a road safety component. Ukraine received an audit from the International Maritime Organisation in mid-2018, which pointed to a number of shortcomings in measures and resources to address maritime safety and environmental protection. Key draft laws on market opening, including on road, railway and inland waterways, which shall be instrumental in harmonising Ukrainian transport legislation with that of the EU, have not yet been adopted. New Aviation Rules on civil aviation aircrew entered into force on 1 January 2018 and Aviation Rules on aerodrome certification were adopted in December 2017, both based on EU legislation. The Common Aviation Area Agreement between the EU and Ukraine still awaits its signature.

In April 2018, the Cabinet of Ministers endorsed an updated **National Environmental Strategy 2030**. Following the adoption of the Law on Environmental Impact Assessment (EIA) in 2017, a single EIA Registry has been launched, along with a relevant set of secondary legislations. In April 2018, a **new Law on Strategic Environmental Assessment (SEA)** was adopted.

Ukraine has also launched first steps towards the concrete transition to a more circular economy: after the adoption of a **National Waste Strategy** in late 2017, the Government has developed a Waste Framework Law and other draft laws in the area.

In June 2018, Ukraine hosted the 6th meeting of the Eastern Partnership (EaP) Panel on Environment and Climate Change, the first such meeting hosted by an EaP partner country.

On Climate Action, Ukraine formally communicated its Low Emission Development Strategy (LEDS) to the UNFCCC²⁴ in July 2018. Work is ongoing to prepare legislation for the establishment of an emissions Monitoring, Reporting and Verification (MRV) system. In September 2018, a draft Law On Ozone Depleting Substances and Fluorinated Greenhouse Gases was registered in the Parliament, envisaging the gradual phasing out of these substances.

Ukraine has made steady progress on **disaster risk management** and looks forward to a closer cooperation with the **EU Civil Protection Mechanism**.

5. Mobility and People to People contacts

The Ukrainian Government is explicitly committed to **human capital development**. Education reforms remain one of the Government's priorities in 2018, comprising all levels: general secondary education, vocational education and training, and higher education. Implementation of the competency-based "**New Ukrainian School**" started in September 2018.

The **vocational education and training (VET) reform** is an essential component of broader efforts to stimulate economic growth and competitiveness. In May 2018, the Ministry of Education and Science approved a '**reform concept for the vocational education in Ukraine**' to be adopted by the Government. The document envisages the consolidation of the draft legislation currently under revision and scheduled for adoption by the end of 2018.

In 2018, the **reform of higher education** has been further consolidated. Higher education modernisation focuses on quality assurance with 108 new competence-based standards for bachelor level, 50 for master degree level and 20 for PhD level to be approved in late 2018. Work continues on the creation of the National Repository of Academic Texts to assure integrity of higher integration, and on setting up procedures to make the National Quality Assurance Agency in Higher Education operational.

Ukraine is among the most successful participants in the Erasmus+ programme. This programme supports modernisation and internationalisation of the education system, implementation of Bologna principles, non-formal education projects and academic exchanges.

The reform of the Ukraine **research and innovation** system is progressing. Since Ukraine in 2015 became associated to Horizon 2020, it has benefited from a number of support instruments. An EU peer-review strategic analysis was prepared, which resulted in specific recommendations for the modernisation of research and innovation. With the implementation of the Law on **Scientific and Technological Activities**, the National Council for Science and Technology Development was established in January 2018, paving the way towards a more effective national research system, optimal transnational and international competition, gender equality in research, and better exchange of scientific knowledge. In addition, a package of legislation to stimulate innovation activities is expected to be submitted by the end of 2018.

Ukraine's **potential within the framework of Horizon 2020 remains high** (GDP, level of education, number of researchers); more favourable conditions for the intensification of cooperation of Ukrainian science and industry with EU partners and other countries involved

²⁴ UN Framework Convention on Climate Change.

in Horizon 2020 are under development. Ukraine has benefited in 2018 from a number of Horizon 2020 capacity building sessions under the **EU4Innovation initiative**.

The reform of the **cultural sector** is ongoing with the operationalisation of the Ukrainian Cultural Fund, hosting inter alia the Creative Europe Programme Desk. Ukraine continues to participate in Creative Europe. Since November 2017, Ukraine benefits also from the Culture Bridges programme to support cultural and creative sectors. Starting from September 2018, Ukraine is eligible to participate in the EU Prize for Literature.

6. Financial Assistance

In 2018, the EU continued to provide macro-financial and reform assistance to support Ukraine's stabilisation and reform process. To this end, the EU has since 2014 mobilised over EUR 11 billion in grants and loans (out of its EUR 12.8 billion pledge).

In June 2018, a new EUR 1 billion programme of EU macro-financial assistance (MFA) was approved by the European Parliament and the Council of the EU. The Memorandum of Understanding signed in September 2018 sets the main conditions of the programme in the following four areas: (1) the fight against corruption, (2) public finance management, (3) specific sector reforms (state-owned enterprises, banks and the energy sector), and (4) social policies. The new assistance will support Ukraine's reform efforts and complement EUR 2.8 billion disbursed under previous MFA programmes.

Under the European Neighbourhood Instrument (ENI), three large-scale programmes, each worth EUR 50 million, were launched in 2017: support to energy efficiency, to public finance management reform, and to the conflict-affected areas in eastern Ukraine. Local currency lending and technical assistance support to key areas of AA implementation were also addressed under the EUR 200 million bilateral ENI 2017 budget.

Since the beginning of the conflict, EU humanitarian assistance was continuously provided to the most affected population, including IDPs, amounting to EUR 112 million provided by the European Commission since 2014.

Through its Instrument contributing to Stability and Peace (IcSP), the EU has also supported peacebuilding, stabilisation and early recovery efforts with more than EUR 100 million. In 2018, new actions focused on supporting the OSCE SMM, community-based reintegration for veterans of the conflict in eastern Ukraine and to strengthen community resilience.

The EU has embarked on an enhanced strategic response to the conflict in eastern Ukraine aligning it with the humanitarian-development nexus. The Joint Humanitarian Development Framework 2017-2020 provides for a coordinated EU approach towards providing humanitarian, early recovery and reform assistance to support the conflict-affected population and Ukraine.

Programming priorities in 2018 include vocational education and training; energy efficiency; people-to-people contacts; and enhanced investment-related support linked to the External Investment Plan (EIP). Humanitarian assistance will continue to be provided to people affected by the conflict in eastern Ukraine along both sides of the contact line and in NGCA. Ukraine continues to benefit from regional programmes and other EU instruments.

The first part of the Annual Action Programme for 2018 worth EUR 91 million covering energy efficiency and the Technical Cooperation Facility supporting Ukraine in implementing the AA/DCFTA and ensuring respect for human rights and fundamental freedoms was adopted in July 2018.

7. Concluding remarks and future outlook

Against the background of its political association and economic integration with the EU, Ukraine has advanced with a number of important political and economic reforms in 2017-2018 across a range of sectors, for instance in the areas of health, pensions, decentralisation, public administration, public procurement and the environment.

Further inter-agency coordination within the Ukrainian Government and cooperation between Government, Parliament and President will be key in order to achieve further progress regarding gradual legal approximation to EU standards and norms. It is also essential, as emphasised by civil society and other international partners, that the Ukrainian authorities maintain and reinforce the reform momentum, including on the fight against corruption, ahead of the presidential and parliamentary elections to be held in March and October 2019 respectively.

Ukraine's macro-economic situation has remained stable, but fragile, due to major repayment obligations over the next years. Further structural reforms would improve the business environment and increase economic growth. The conflict in eastern Ukraine and the illegal annexation of Crimea and Sevastopol by the Russian Federation continue to weigh heavily, while the Ukrainian authorities have acknowledged the need to continue to address the socio-economic and humanitarian consequences of the conflict in an inclusive manner.

In spite of the conflict, Ukraine has shown strong resilience and persistence in achieving societal change, asserting its European orientation. The EU, including through the European Commission's Support Group for Ukraine (SGUA) and the EUAM, and in cooperation with international partners, has continued its support for the implementation of the Association Agreement, including through political, technical and financial support, with clear conditionality.