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UKRAINE PLAN

THE TITLE

ABBREVIATIONS AND ACRONYMS

ACAA	Agreement on Conformity Assessment and Acceptance of Industrial Products
Acquis	European Union rules, standards, policies and practices
AI	Artificial Intelligence
Association Agreement	Association Agreement between the European Union and its Member States, of the one part, and Ukraine, of the other part
AQR	Asset Quality Review from the National Bank of Ukraine
ARMA	National Agency for Finding, Tracing and Management of Assets
BDF	Business Development Fund
COVID-19	Coronavirus infection COVID-19
DCFTA	Deep and Comprehensive Free Trade Area
DREAM	Digital Restoration EcoSystem for Accountable Management
ECA	European Court of Auditors
EIA	Environmental Impact Assessment
EIB	European Investment Bank
Enlargement report	European Commission Staff Working Document on EU Enlargement. Ukraine 2023 Report
ENTSO-E	European Network of Transmission System Operators for Electricity
EPPO	European Public Prosecutor's Office
ESBU	Economic Security Bureau of Ukraine
ESG	Environmental, Social and Governance Reporting
EU	European Union
EUR	Currency euro (€)
FDI	Foreign Direct Investments
FSDN	Initiatives EU Conversion to a Farm Sustainability Data Network
G20	Group of Twenty
G7	Group of Seven
GDP	Gross Domestic Product
GoU	Government of Ukraine
HACC	High Anti-Corruption Court
HCJ	High Council of Justice
HQCJ	High Qualification Commission of Judges
HR	Human Resources
IDP	Internally Displaced Persons
IFIs	International Financial Institutions
IMF	International Monetary Fund

INECP	Integrated National Energy and Climate Plan
IOM	International Organisation for Migration
IOSCO	International Organization of Securities Commissions
IT	Information Technologies
UJITS	Unified Judicial Information and Telecommunication System
LGBTIQ+	Lesbian, gay, bisexual, transgender, intersex, queer, and other minority gender identities
LLC	Limited Liability Company
MCTID	Ministry for Communities, Territories and Infrastructure Development of Ukraine
MOEs	Municipally owned enterprises
MONEYVAL	Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
MSMEs	Micro, Small, and Medium Enterprises
NABU	National Anti-Corruption Bureau of Ukraine
NACP	National Agency on Corruption Prevention
NBU	National Bank of Ukraine
NEURC	National Energy and Utilities Regulatory Commission
NGO	Non-Governmental Organisation
NPL	Non-Performing Loans
NRS	National Revenue Strategy
OECD	Organisation for Economic Co-operation and Development Organization for Economic Cooperation and Development
OLAF	European Anti-Fraud Office
PE	Private entrepreneurship
Platform	Multi-Agency Donor Coordination Platform for Ukraine
PPP	Public-private partnerships
PSA	Production Sharing Agreement
PSO	Public service obligations
Q, q-o-q	Quarter, quarter-on-quarter
RDNA	Rapid Damage and Needs Assessment Reports
RDNA2	Second Ukraine Rapid Damage and Needs Assessment February 24, 2022 – February 24, 2023 prepared by the World Bank Group, the Government of Ukraine, the European Union services and the United Nations
RDNA3	Third Ukraine Rapid Damage and Needs Assessment, covering period between February 24, 2022, and December 31, 2023 prepared by the World Bank, the Government of Ukraine, the European Union services and the United Nations
REMIT	Regulation on Wholesale Energy Market Integrity and Transparency

s/a	Seasonally adjusted
SAPO	Specialised Anti-Corruption Prosecutor's Office
SDG	Sustainable Development Goals
SME/SMEs	Small and Medium Enterprises
SOB	State-owned banks
SOE	State-owned enterprise
SOP	State Ownership Policy
SPF	State Property Fund
TEN-T	Trans-European Transport Network
Treasury	State Treasury Service of Ukraine
UAH	Ukrainian hryvnia (₴)
UN	United Nations
USA	United States of America
USD	United States Dollar ($)
VAT	Value Added Tax
WB	World Bank
y-o-y	Year-on-year

SECTION 1.

CHAPTER 1. UKRAINE PLAN

Executive Summary

Socio-economic context

On 24 February 2022, Russia invaded Ukraine, starting the largest war in Europe since the Balkan conflicts in the 1990s. It is a war of aggression that has been condemned worldwide and continues to take its toll on Ukraine's human and physical capital. The United Nations estimates that as of October 2023, there are 3.7 million internally displaced people, and about 14.6 million need health and protection assistance and services. Many people have been forced to leave for other countries, and approximately 6.3 million individuals (around 16% of the population) still remain abroad. The large-scale destruction of infrastructure has affected the ability of people to access basic needs, such as electricity, water, food, healthcare, and education. The third Rapid Damage and Needs Assessment (RDNA3) estimated that the direct damages due to the war of aggression amount to around EUR 138.2 billion, with the total reconstruction and recovery needs at EUR 440.5 billion. Housing, transport, energy, commerce, and industry are the most affected sectors. The scale of destruction continues to increase.

The war has had a devastating impact on Ukraine's productive capacity and economic activity. Real GDP contracted by 29% in 2022, the largest contraction in Ukraine's contemporary history. Although the construction sector suffered the most with a 68% decline in output, the hardest blows came from the major contractions in industry (38%), trade (31%), agriculture (28%), and transport (44%). 75% of the population reported a decrease in their income in 2023 compared to before the war. The economy has somewhat recovered in 2023 due to stronger fiscal stimulus, slowing inflation and continued international aid, but much more effort is required to return to even the pre-war levels.

Defence, security, and social care remain top priority spending areas on the back of limited revenue mobilisation, considering the baseline economic situation.

Vision, strategy, and impact

The Ukraine Plan (the Plan) is one of the key instruments for Ukraine's recovery, reconstruction, and modernisation, potentially accelerating the EU accession path in parallel.

The Plan outlines Ukraine's vision for medium-term socio-economic growth that will bring it closer to the single market through increased compliance with EU values and alignment with EU rules, standards, policies and practices ('*EU acquis*'), and further integration with the EU countries. To achieve this ambitious goal, the Plan includes a set of targeted reforms across key sectors that promote growth and attract priority investments. These reforms and investments were selected, designed, and sequenced throughout the four-year timeframe of the Plan based on the needs, priorities and capacity of the Ukrainian state and its vision of a future European Ukraine. The Plans are developed to facilitate Ukraine's accession to the EU and gradually align Ukrainian legislation with EU standards. Approximately 45% of the reforms included are recommended for implementation by other international programs, such as the Ukraine 2023 Report of the European Commission on EU Enlargement policy (Enlargement Report), International Monetary Fund Extended Fund Facility (IMF EFF), International Bank for Reconstruction and Development Development Policy Loan (IBRD DPL), and others. Key guiding principles for the recovery, reconstruction, and modernisation process, such as 'build back better', financial sustainability, inclusiveness, transparency, and accountability, are guiding the implementation of the Plan throughout the entire timeframe. Ultimately, the Plan will also foster the political, institutional, legal, administrative, social and economic reforms required to comply with European Union values.

Ukraine continues actively implementing the Association Agreement, including the comprehensive and deep free trade area. The Ukraine Plan includes reforms that align with the commitments under the Association Agreement, promoting growth, job creation, and economic stability. The funding from the plan will be utilised, in particular, to implement the following government priorities:

- completion of the implementation of the seven recommendations of the European Commission necessary for the opening of accession negotiations with the EU;
- gradual integration of Ukraine into the single market of the EU through the Deep and Comprehensive Free Trade Area (DCFTA) and participation in Union sectoral programs, including access to their funds;
- further improvement of Ukraine's communication and interaction with neighbouring EU member states and other EU members in the transportation, energy, and digital sectors through the ‘Connecting Europe Facility’ Fund, Transport Community, and Energy Community;
- support for trade liberalisation by addressing non-tariff barriers in trade;
- strengthening Ukraine's institutional capacity for effective dialogue within the enlargement policy framework;
- as part of accession negotiations, participate in screening Ukrainian policies for compliance with EU law to understand the scope of tasks for EU membership preparation and subsequent planning for the timely implementation of the *acquis* communautaire.

The Ukraine Plan builds on a coherent strategy grouping four categories of sectors and exploring the synergies between them, as follows:

- stimulating the highest growth enabling sectors of the economy identified to have the largest potential to foster economic growth;
- embedding most relevant cross-cutting areas across the entire Plan, representing societal values as well as means for stimulating economic development and productivity growth;
- strengthening foundational sectors, which are essential elements supporting the broader economic and societal development;
- ensuring core values and good governance which will help deliver the Plan and protect the financial interest of the EU.

Assuming a successful implementation of the Plan, cessation of hostilities[1], and continuous support from the other Donors, Ukraine’s economy is expected to experience strong growth in the next decade. In the upside scenario, real GDP will return to 2021 levels by 2028; by 2033, boosted by the structural impact of the reforms and the contribution of investments, the economy may be 40% larger compared to 2021. Due to the Plan's multifaceted effects, Ukraine will attain growth rates comparable to those seen in Eastern European countries in the pre-accession phase in the early 2000s, reaching the EU’s standard of living and income convergence in less than a generation. For this to happen, it is critical to stop the erosion of the human capital and bring it back on the growth path, including by creating conditions for Internally Displaced Persons and persons under temporary protection to return, which is fully recognised in the Plan.

[1] In developing the Plan and analysing its impact, it was assumed that the cessation of hostilities in Ukraine would occur by the end of 2024.

With the Ukraine Plan, the Government sets out its short to medium-term priorities for economic reforms and investments over the course of the next four years. The scope of the Plan goes beyond the requirements of Regulation (EU) 2024/792 of the European Parliament and of the Council of 29 February 2024, establishing the Ukraine Facility (Ukraine Facility) and outlines a wider and more ambitious reform agenda. The agenda is part of the Ukraine Reforms Matrix, consolidating Ukraine's ongoing conditions and recommendations of partners and presenting priority areas of economic growth.

The Government aims to leverage the Ukraine Plan as an instrument for careful prioritisation and sequencing of key reforms supporting the country's recovery and future economic growth and laying out areas of investments that will enable economic and social growth and resilience. Equally important, the Ukraine Plan sets out key reform efforts to be undertaken in the years to come, including facilitating coordination with the donors, fostering alignment and transparency of joint recovery efforts in Ukraine, as well as mobilising and optimising donors and private investors towards the recovery, reconstruction and modernisation.

Uniting around the Ukraine Plan as a reference document would simplify administration, facilitate effective coordination and promote Ukraine European integration efforts. Finally, the Multi-Agency Donor Coordination Platform for Ukraine serves as an effective coordination tool in close cooperation with the Government to mobilise resources for projects and areas of priority within the Plan.

The need to finance the state budget expenditures for 2024 is about EUR 36 billion, with an average monthly deficit of EUR 3 billion. The launch of the Ukraine Facility will allow to receive the first disbursement to the state budget of Ukraine in March and April 2024 as part of the bridge financing, which will help to maintain the macro-financial stability of the country. To overcome the challenges of the upcoming periods of 2024, the Government is requesting the European Union, within the framework of the Plan, according to Article 24 of the Regulation (EU) 2024/792 of 29 February 2024, to provide pre-financing payment of an amount of up to 7 % of the loan support provided under Pillar I of Ukraine Facility.

The reforms and investments of the Ukraine Plan

Growth-enabling sectors

The five sectors assessed to have the largest potential for unleashing economic growth are energy, agriculture, transport, critical raw materials (as well as developing process industries capacities), and IT. Improved management of state-owned enterprises is also expected to contribute to the economic growth potential. These sectors are both of immediate strategic importance for the country as well as potential catalysts of accelerated post-war economic growth. The Plan identifies clear initiatives aimed at unlocking their growth potential.

The reforms and investments in energy will lead to a transformation of the sector and contribute to a decarbonised future for Ukraine. The measures will also ensure further integration into the EU energy market. Approximately 85% of the reforms in the energy sector align with the requirements outlined in the Enlargement Report, IBRD DPL, and EU Macro-Financial Assistance Plus (MFA+). Apart from prioritising and facilitating conditions for the development and use of renewable energy, including streamlining permitting procedures in line with new EU rules and introducing competitive auctions, it will promote efficient energy consumption in buildings and district heating and ensure the regulator's independence. The Plan also includes a roadmap for gradually moving towards gas and electricity market liberalisation and reforming the public service obligations in the gas and electricity market while ensuring vulnerable consumers are adequately protected and considering martial law.

The measures in agriculture will ensure this sector capitalises on its strategic and growth potential while bringing it closer to EU policies and principles. The Plan brings forward regulatory alignment with the EU *acquis*, creates a functional land market, increases food safety, and improves capacity for managing investments for each of the sectors identified in this Plan. It also includes measures that are crucial for the demining process. Half of the implemented measures in agriculture align with the Enlargement Report and IBRD DPL recommendations.

The Plan ensures that the transport sector is reconstructed, improves connections between people and businesses and enables trade. To promote better connectivity with the EU, the reforms and investments will restore and modernise Ukraine’s logistic systems, develop the Trans-European Transport Network (TEN-T networks) across all transport modes, align the railway sector with EU standards and establish open and fair competition for port services.

Critical raw materials are a vital sector for Ukraine’s trade specialisation. The Plan proposes reforms that promote good governance, predictability, and transparency for investors, as well as roll out internationally accepted best practices to create a sustainable raw material extraction sector and climb up the value chain across the clusters of products.

The development of Ukraine's processing industries and integration into global value chains is pivotal for several reasons. Firstly, embracing the green transition in areas like renewable energy, hydrogen, electrification, and energy-saving technologies positions Ukraine in alignment with global sustainability trends. Additionally, the concepts of nearshoring, friendshoring, and diversifying supply chains contribute to reducing dependence on dominant suppliers enhancing economic resilience. To bolster its trade balance, Ukraine must shift focus from importing critical goods to domestically producing and competitively exporting items like food, petroleum, building materials, and more. The full-scale war emphasised the necessity of building a robust processing industry, enabling Ukraine to meet domestic demands during hostilities and reconstruction, thereby reducing reliance on imports and improving the overall trade balance.

The Plan aims to embed a level playing field based on the ongoing reforms. Based on a new state ownership policy, the Ukrainian SOE sector will be transformed with enterprises embarking on a major corporatisation and restructuring process while integrating the G20/OECD corporate governance and ESG principles. Following the size optimisation of the portfolio, the management of state assets will be modernised. Crucially, the largest SOEs will ensure the separation of accounts between public service obligations (PSO) and non-PSO activities, ensuring transparency in financial relations with the State and clarifying the scope of its participation in the market. The state aid control framework will be improved. An identified strategy will also be to gradually reduce state ownership in the banking sector to ensure financial stability and mitigate fiscal risks. Implementing these reforms and their compliance with EU rules will be overseen by a task force that will include European Commission and Ukrainian experts.

Cross-cutting areas

The Ukraine Plan is a driver for Ukraine’s transition to a green, digital, and inclusive economy, and these objectives are echoed across the board. While the Plan envisages specific chapters on green transition and digital transformation, all other reforms and investments in the Plan should consider and, to the greatest extent possible, integrate these principles into implementation. For instance, the energy reforms broadly reflect the goals of the European Green Deal, while those managing critical raw materials also integrate decarbonisation commitments. More than half of the developed measures for green transformation align with the recommendations of the Enlargement Report.

The Plan recognises the central role of rebuilding the social fabric and strengthening the social cohesion needed to heal and rebuild the country. This requires a holistic and multidimensional approach rooted in people-centric measures. The principles of inclusivity, gender equality and social cohesion are visible across the Plan, beyond the specific commitments under human capital and business environment.

A dedicated chapter on the business environment puts forward measures for deregulation, alignment to the single market standards and regulations, improving access to finance, and improving the functions of the regulatory agency in countering economic crimes.

Additional attention is dedicated to the reform of state procurement with a focus on adhering to the principles of gender equality (including, in accordance with the Regulation of the European Parliament and Council 2018/1046) and ensuring the procurement of goods, services, and works with a reduced environmental impact.

Supporting small and medium enterprises is at the core of the Plan. Apart from dedicated funding, various reforms will help firms operate in a more effective and productive market. These reforms include deregulation, improvement of insolvency management, digitisation of public services, development of the State Agrarian Register, and ensuring a level playing in the market via the reforms undertaken in the state-owned enterprises.

The adherence to green objectives is important in the reconstruction and recovery architecture and will broadly guide the future reforms and investments triggered by the Ukraine Plan. The Plan aims to uphold the principles of ‘do no significant harm’ and help Ukrainians foster climate change mitigation and adaptation measures, protect the environment, including biodiversity protection, sustainable waste management, and the circular economy, and, ultimately, drive the green transition and address the challenges resulting therefrom. The transition to climate neutrality and adherence to the Paris Agreement, as well as environmental convergence with EU standards, are thereby key aspects and are, therefore, an important part of the Plan.

The digital transformation agenda will enhance productivity growth by enabling Ukraine to capitalise on its competitive advantages in this sector. It includes measures supporting the digitalisation of institutions, regulatory convergence with the EU, and bolstering cybersecurity standards.

Foundational sectors

The areas of the foundational economy, seen as platforms for providing essentials for all citizens, are education, healthcare, and social services. The Ukraine Plan recognises that the accessibility and quality of services in these sectors are important to build up the labour force, incentivise the return of Ukrainians abroad, and improve the general quality of life. It identifies reforms and investments aimed at strengthening these sectors.

The identified reform initiatives are complementary to already ongoing reforms, such as the Health Reform and the New Ukrainian School Reform. A crucial example is the Plan to improve access to and quality of early childhood education and care for the long-term benefit of children. The Plan also includes actions to build a stronger system for vocational education and address the growing need for assistance to people who have suffered mental and physical traumas, including ways of helping people with disabilities stay active.

Improving social care for those in need is a major part of the reform package. Specifically, reforms identified in the Plan will help address the needs of the most vulnerable categories of people, including war widows and widowers, children, especially those without parental care, persons with disabilities, minorities, young and elderly people, and other persons in vulnerable situations. This involves the deinstitutionalisation of care and the improvement of Ukraine's housing sector, including social housing. There are also important measures to improve access to utilities, like district heating or waste management. Finally, the Plan proposes relevant measures to protect and stimulate Ukrainian culture, not least to foster social healing and cohesion.

Core values and good governance

The pursuit of a swift recovery and attraction of investments hinges on the foundation of an effective and trust-worthy justice system and well-functioning administration, which upholds the rule of law, safeguards human rights, and ensures good management of public resources. Building on the strong progress obtained since the Revolution of Dignity, through the Plan, the Ukrainian Government commits to strengthening the rule of law, enhancing anti-corruption mechanisms, and ensuring a more efficient and effective public administration.

The Plan proposes a comprehensive rule-of-law reform agenda, addressing all judicial, prosecution and anti-corruption system layers. Crucially, the proposed amendments to the Criminal Code and the Code of Criminal Procedure, such as the cancellation of the pre-trial investigation period from the time of the registration of the criminal proceedings until the notification of the suspicion, will help Ukraine build a convincing track record in fighting corruption at all levels. The system's capacity will significantly improve via additional staffing, digitalisation, and new equipment. This will significantly reduce the backlog in the system, improve enforcement of court decisions and increase accountability and integrity. The Plan will ensure that the capacity and independence of all specialised law enforcement bodies will be increased. At the same time, asset recovery and management at the institutional and procedural levels will be prioritised. The majority of the proposed measures to strengthen the judicial system take into account the requirements outlined in the Enlargement Report.

To ensure an efficient market economy and a conducive business environment, the Plan includes measures to improve the insolvency proceedings and resolve non-performing loans. The fight against money laundering and economic crimes is also prioritised by creating a unified registry of bank accounts and empowering the Economic Security Bureau.

The aim to improve the capacity and efficiency of the Ukrainian public administration is another core feature of the Plan. The Government is committed to restoring merit-based recruitment in the public sector, improving the public wage system, and digitising the sector. An essential requirement of the Plan is ensuring macro-financial stability and there are key measures proposed to ensure improved revenue and debt management to reduce dependency on concessional lending gradually. There are also measures to enhance public investment management to help authorities manage the funds made available for reconstruction via a single project pipeline, a clearly defined prioritisation, and within a public investment management framework. Finally, the Plan will ensure improved budget oversight by increasing the capacity and independence of the responsible institutions.

The Plan also has a special emphasis on advancing decentralisation and regional development. Authorities committed to reforming the local state administrations, ensuring a better distribution of powers between local self-governments and executive authorities. There is also a commitment to develop a multi-level governance. The Plan anticipates the allocation of at least 20% of the non-repayable financial support under Pillar I of Ukraine Facility to the recovery, reconstruction and modernisation needs of sub-national authorities.

Consistency with the objectives, general and financing principles of the Ukraine Facility

The Ukraine Plan aligns with the strategic goals of Regulation (EU) 2024/792 of the European Parliament and of the Council of 29 February 2024, establishing the Ukraine Facility.

The Ukraine Plan has been prepared with a focus on meeting Ukraine’s peaceful recovery, reconstruction, and modernisation needs. At the same time, it is intended to serve as an overarching framework for ensuring steady progress towards the general and specific objectives set out in Article 3 of the Regulation on the Ukraine Facility. This is particularly true regarding the aim of ensuring an upward trajectory in Ukraine’s social and economic conditions as well as the progressive integration into the EU by successfully addressing the challenges outlined in the Commission Opinion and Analytical Report. In that sense, the reforms laid out in the Ukraine Plan complement the Commission's enlargement report recommendations. The Plan is also aligned with the Association Agreement and the Deep and Comprehensive Free Trade Agreement as deeper alignment with the EU *acquis* would create necessary conditions and opportunities for Ukraine’s integration into the EU single market. These objectives have guided Ukraine during the identification, consultations, and prioritisation of sectors as well as during the formulation of the specific objectives and reform initiatives presented in these sectors.

Ukraine subscribes to the general principles outlined in Article 4 of the Regulation. Specifically, reform initiatives have been guided by the principles of a needs-based and geographically balanced approach, ownership, participation, inclusion, gender aspects, and the pursuit of development effectiveness, which are seen as integral parts of Ukraine’s efforts to recover, reconstruct, and modernise. They are accompanied by principles such as ‘do no significant harm’, ‘build back better’, pursuing energy efficiency, and increasing compliance with climate and environmental standards of the EU, which sets the tone for our reconstruction efforts. The principle of ‘leaving no one behind’ has guided initiatives to widen and deepen social services and put in place measures to help people recover from the war and improve their livelihoods and lives.

Ukraine will continue to honour its commitment to international Conventions, Treaties and Conferences, including those related to human rights, the elimination of discrimination against women and children's rights, and the Conventions on Climate Change, Biodiversity and Forestry. Ukraine remains committed to the traditional principles of good governance, including responsiveness, transparency, accountability, efficiency, and fair legal frameworks that are enforced impartially.

The measures of the Ukraine Plan will take place along three key directions, as defined by the Ukraine Facility - through budgetary support, investments, and funds for subsidising interest rates and technical assistance.

The Ukraine Plan anticipates the utilisation of funds received under the Ukraine Facility following principles of financial management and in a manner that is transparent and accountable to the European Union and the Commission. The implementation of the Ukraine Plan will adhere to Ukraine's commitment to the principles of financial cooperation between the Commission and Ukraine, as defined in the

Framework Agreement, as well as the undertaking of specific measures regarding the control, reporting, monitoring, and auditing of each measure implemented using funds from the Ukraine Facility. Measures will be taken to comply with EU sanctions legislation. As per the Framework Agreement, no operation falling under the scope of EU economic and other restrictive measures will be conducted under the Ukraine Plan. Ukraine will monitor and prevent such occurrences.

Implementing the Ukraine Plan will comply with the rules protecting the financial interests of the EU.

Implementation arrangements

The Ukraine Plan presents the reforms and investments that the Ukrainian Government will pursue over the 2024-2027 period and their implantation timeline. The Plan is divided into 15 sectoral chapters, each with reforms and, if relevant, investments. The reform agenda under each chapter is divided into measures that are directly linked to funding under the Ukraine Facility and measures that go beyond the Facility, which the Ukrainian authorities commit doing in parallel as part of the reconstruction, recovery, and modernisation process. The investments proposed under each chapter also guide Pillar II of the Ukraine Facility, the Ukraine Investment Framework, and other donors that will provide financial support in the next four years.

The expected investments under Pillar II are aimed at 'build back better' principle, placing a strong emphasis on green and digital technologies to foster resilient businesses with products and processes aligned to EU standards. Significant attention is dedicated to providing financial support, especially for small and medium enterprises, and with a focus on larger investments in key industries such as green metallurgy, machine building, and pharmaceuticals. De-risking instruments and co-financing facilities, particularly for high-value manufacturing and agroindustry, are recommended as crucial mechanisms to stimulate investments. The development of financial instruments includes improving interest rate affordability, supporting war-risk insurance, assisting businesses in war-affected regions, and promoting project finance. Special consideration in the investment mechanisms should be given to SMEs owned by women, internally displaced persons, and veterans. Rebuilding logistics infrastructure, enhancing technical assistance capacity, and ensuring private sector participation in reconstruction efforts are also vital for sustained growth.

The Ukraine Plan complements and reinforces Ukraine's efforts in the enlargement track. The proposed conditionalities in the Ukraine Plan are well-aligned with the assessment and recommendations presented in the Enlargement report. Many of the reforms covered under the Plan will help Ukraine fast-track its alignment with the EU *acquis* when completed.

The overall responsibility for coordinating and ensuring the Ukraine Plan's effective implementation lies with the National Coordinator, namely the Ministry of Economy, which will also be the single point of contact for supporting international development partners.

To implement the Plan, Ukraine proposes robust mechanisms for monitoring and control. Additionally, an independent Audit Board will assist the Commission in ensuring the protection of the financial interests of the Union.

CHAPTER 2. IMPACT OF THE PLAN

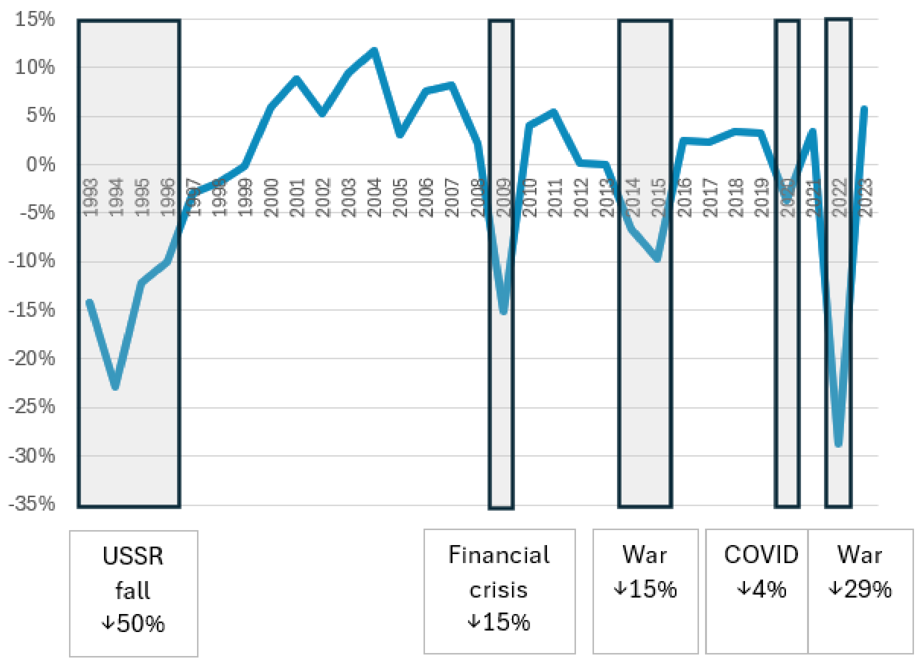
1. Macroeconomic impact of the Ukraine Plan

1.1. Economic developments in 2022-2023

On top of the severe impact on the lives of Ukrainians, Russia's occupation of the territory, destruction of productive capacity and infrastructure, and broken supply and export chains led to a 28.8% drop in the GDP of Ukraine in 2022. This is the largest annual drop in Ukrainian contemporary history. Military actions, magnified by the obstructions at seaports and electricity shortages, led to a 35.2% decrease in exports of goods, reducing foreign exchange earnings. Imports also experienced a significant decline, but less so due to the rapid growth in the imports of military equipment. Hence imports of goods only decreased by 20.4%, resulting in an increase in goods trade deficit from EUR 5.6 billion to EUR 13.9 billion. Inflation soared to 26.6% in 2022, driven by supply chain disruptions and rising food and energy costs. The deficit ballooned to UAH 914.9 billion in 2022, financed by the National Bank, international grants and concessional lending totalling about EUR 30.5 billion.

Despite these challenges, judicious policies (like temporary suspension of selected burdensome regulations or direct assistance with business relocation, energy equipment procurements etc.) staved off a complete economic collapse. Early signs of recovery are emerging, GDP growth in 2023 was about 5%, supported by some reconstruction efforts and a gradual increase in exports and investment[2] (for example, in March-August 2023 exports of goods increased by 3% compared to the same months of 2022). However, the risks remain extraordinarily high due to the uncertain duration of Russia's war of aggression against Ukraine.

Figure 1. GDP growth in Ukraine



Source: State Statistic Service of Ukraine

[2] IMF, Ministry of Economy, and National Bank of Ukraine

Impact of the war on economic growth

Demonstrating remarkable resilience, the Ukrainian economy surpassed initial expectations. Exports of agricultural products via three Ukrainian Black Sea ports resumed in August 2022 thanks to the UN-backed Black Sea Grain Initiative, helping drive initial economic recovery during the third quarter of 2022. However, Russian attacks on the domestic energy infrastructure starting in October 2022 caused widespread blackouts and dampened economic activity again. Despite the escalation of aggressive activities, the recorded GDP contraction of 28.8% in 2022 was notably lower than the 40-50% decline forecasted at the onset of the invasion.

The reduction in GDP in 2022 was primarily linked to the incapacitation of productive resources within territories either occupied or adjacent to the frontlines as well as to the large-scale displacement of people. Construction, industry, trade, agriculture and transportation suffered the largest decline in economic output sector-wise. The industrial sector experienced a year-on-year contraction of 37.5%, accounting for a substantial 7.6 percentage points of the overall GDP decline in 2022. Trade suffered a decline by 32.2% year-on-year, leading to an additional 4.4 percentage points loss in GDP. Meanwhile, the drop in gross value added produced by the agricultural sector, at 25.2%, contributed to a reduction of 2.7 percentage points. The transport sector suffered a 40.5% year-on-year decrease, primarily attributed to infrastructure destruction, the blockade of seaports and flight hazards, resulting in a 2.2 percentage point decline in GDP. The construction sector suffered the most with a decline of 66.9% year-on-year, primarily due to a sharp decrease in investment demand, adding a 1.8 percentage point decline in GDP.

The most significant impact on final demand components (13.4 percentage points) of the GDP contraction in 2022 was attributed to the sharp decrease in final consumer expenditures, which contracted by 15.5% compared to the previous year. The considerable reduction in foreign trade activities contributed an additional 9.8 percentage points to the GDP decline in 2022. While the decline in gross fixed capital formation by 33.9% year-on-year accounted for another 4.5 percentage points of the GDP contraction.

Economic activity turned on a sequential upward trend in early 2023 as nationwide power supplies stabilised thanks to quick partial repairs on the damaged energy equipment, favourable weather, and restoration of electricity imports. Also, the external environment for steel and iron ore improved, while domestic inflation and devaluation expectations stabilised, triggering a recovery in household consumption. Real GDP rose by 2,4% q-o-q s/a during the first quarter of 2023 following a 4.7% drop during the fourth quarter of 2022. The year-on-year decline narrowed to 10.5% from 31.4% year-on-year during the fourth quarter of 2022, including due to a comparison base effect. In the second quarter of 2023, real GDP grew by 0.8% q-o-q s/a, and the annual dynamics changed to a positive one – an increase of 19.5% compared to the second quarter of 2022. In the third quarter of 2023, real GDP grew by 0.7% q-o-q s/a, and on an annual basis, there was a growth of 9.3% compared to the third quarter of 2022. Positive trends have led the Ministry of Economy to revise the 2023 outlook to 5%. The National Bank estimates growth in 2023 at 5.7%.

The key factor driving the GDP decline in 2022 was the one-time drop in output, which partially faded away in 2023 (like one-time losses of the inventories, a drop in consumption). Other factors will have a more lasting impact on productive capacities. This includes the complete destruction of industrial enterprises such as Azovstal and MMK Illicha in Mariupol, which represented 40% of total base metal production capacity, or Kremenchug oil refinery, the only large operating one in Ukraine, among 130 more damaged or destroyed large/medium industrial enterprises. Areas that are currently occupied, or have been occupied in the past, have experienced extensive destruction and human rights violations, exacerbating long-standing regional disparities. Territories close to the frontlines in general have been facing a much larger decline in economic activity than the rest of Ukraine, further adding to regional disparities.

Therefore, recovery of the absolute real value of pre-war GDP and the setting of Ukraine on a path to long-term sustainable prosperity will require tackling both the immediate effects of Russia's aggression (recovery of the lost industrial capacities or replacing them with similarly large revenue streams for the economy, rebound in agriculture and other key sectors, repair of critical infrastructure, return of the refugees and veterans to the labour force), as well as the underlying structural weaknesses that have hindered growth for many years.

Figure 2. Contributions of major economic sectors to GDP, in percentage points

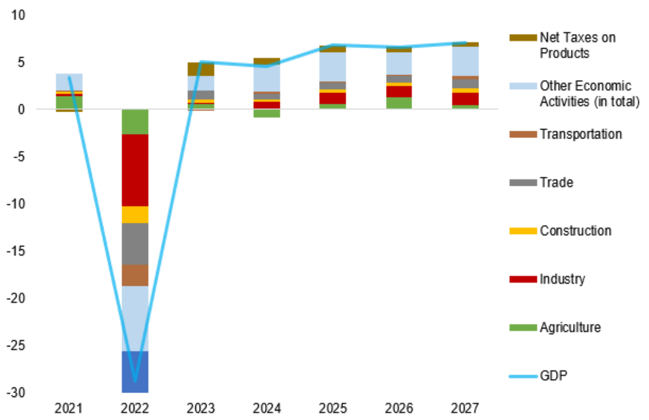
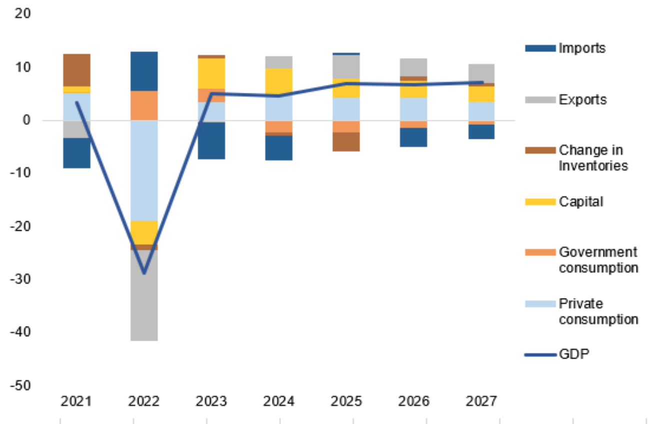


Figure 3. Contributions of demand components to GDP growth, in percentage points



Source: State Statistic Service of Ukraine, Ministry of Economy calculations

Ukraine suffered huge damages as a result of the full-scale invasion. According to the RDNA3 as of the beginning of 2024, the direct damage inflicted on buildings and infrastructure is estimated at almost EUR 140 billion. According to another assessment made by KSE Institute, together with occupation of territories, damages led to a decrease in capital stock by almost 20%.

Table 1. Total damage, loss, and needs by sector, EUR billion

Sector	Damage	Loss	Needs
Social sectors			
Housing	50.6	15.8	72.8
Education and science	5.1	6.3	12.6
Health	1.3	16.1	12.9
Social protection and livelihoods	0.2	8.6	40.3
Culture and tourism	3.2	17.8	8.1
Infrastructure sectors			

Energy and extractives	9.6	48.9	42.7
Transport	30.4	36.9	66.8
Telecommunications and digital	1.9	2.1	4.3
Water supply and sanitation	3.6	10.5	10.1
Municipal services	4.4	6.2	10.3
Productive sectors			
Agriculture	9.3	63.2	50.8
Commerce and industry	14.1	156.9	61.2
Irrigation and water resource management	0.6	0.6	9.7
Finance and banking	0.0	5.2	2.1
Cross-cutting sectors			
Environment, natural resource management, and forestry	3.0	24.0	2.1
Emergency response and civil protection	0.4	0.5	2.1
Justice and public administration	0.3	1.5	0.6
Explosive hazard management	-	31.3	31.3
Total	**138.2**	**452.4**	**440.5**

Source: RDNA3

Business expectations are returning to a neutral level now, after a long period of negative sentiments. The NBU’s business activity expectations index peaked at 51.5 in April 2023, the highest wartime level, and hovered around the neutral level of 50 in May-November. During the first two winter months, the index fell below the neutral level, but almost recovered in February 2024. Expectations are very volatile and dependent on external factors. Most problems of entrepreneurs are of external nature (demand, input prices, logistics, labour) and cannot easily be resolved by their own efforts or with policy instruments, at least in the short term. Capital inflows can help alleviate some problems (such as issues with logistics, supply chain breaks, lack of personnel, electricity shortages and general insecurity).

The financial sector proved resilient to the economic shock with no bank runs occurring. Most banks continued to operate (except Russian-owned banks, which were deliberately withdrawn from the market, and a few small banks that had problems before the full-scale invasion). Deposit outflows in February 2022 were short-lived, deposits quickly recovered and started to grow. Overall, total deposits increased by 22.9% in 2022 and by 57.6% in 2022-2023.

The recovery of lending took more time. Total loans to corporates and households decreased by 10% in 2022 and started recovering only in Q2 2023. Losses of banks due to invasion were moderate. According to the NBU’s estimates, the banks' cumulative war-related losses will amount to around 20% of their pre-war performing loan portfolio.

The labour market remains weak and inefficient in matching demand and supply. A lot of workers left Ukraine and the deficit of skilled labour has become one of the most acute problems for Ukrainian businesses. At the same time, unemployment is estimated to have risen to 18.4% in 2022; from an already high level of 10% in 2021. There are no updated official statistics so far, but according to a forecast from the Ministry of Economy in 2023 the unemployment rate is expected to increase to 18.9%, which will be affected by the loss of jobs due to further destruction of production facilities, especially in those regions where hostilities are taking place.

Monetary and fiscal policy

The financial support provided by IFIs and Ukraine’s other foreign partners provided a lifeline for the government. It helped finance a large budget deficit and support the external position. Ukraine received about EUR 29.6 billion of budgetary support in 2022, including EUR 13.5 billion or 45.8% of the total in grants and the rest in loans provided on highly concessional terms. In 2023, foreign partners and IFIs provided EUR 39.3 billion of budget support, with 27% of this sum being in the form of grants.

The IMF was instrumental in soliciting the necessary amount of financial aid and ensuing its regular disbursements. As the Ukrainian government remained fully functional and successful in navigating the economy through the challenges, the IMF approved in March 2023 a 11.6 billion SDR (USD 15.6 billion, or about EUR 14.4 billion) four-year Extended Fund Facility (EFF) program for Ukraine. The EFF program forms part of a four-year financial support package amounting to USD 122 billion (about EUR 112 billion) in a baseline scenario and USD 140 billion (about EUR 129 billion) in a downside scenario.

The official exchange rate of the hryvnia to the U.S. dollar has been fixed since day one of the Russian invasion, supported by tight controls on capital and current account transactions, including a ban on repatriating dividends and restrictions on principal and interest payments on external debt. After the correction of the official rate of the Ukrainian hryvnia by 25% in July 2022, to 36.6 UAH/USD, in response to mounting currency pressures, the NBU has since successfully maintained the peg thanks to intensified foreign aid inflows (substantial receipts from international partners) and additional measures intended to curb foreign exchange demand, including a 15 percentage point hike in the key rate, to 25%, and fine-tuning of capital controls. Responding to these measures and supported by positive seasonality, the spread between the official and cash market exchange rates almost disappeared during the first half of 2023, and capital outflows subsided. This enabled the NBU to cut net foreign exchange sales to about EUR 1.8 billion in May-July, from the earlier average of EUR 2.8 billion during the winter months.

In the meantime, foreign aid inflows to the budget averaged EUR 3.6 billion per month during the first half of 2023 and about EUR 3.7 billion in the second half of 2022, much higher than EUR 2.2 billion in the first four months of the war. Overall, Ukraine received nearly EUR 40 billion in foreign budgetary budget support in 2023, while the net NBU foreign exchange sale interventions totalled EUR 26.4 billion. As a result, the National Bank’s international reserves surged by 37% in 2023, reaching a new all-time high of EUR 36.7 billion by the end of 2023.

Consumer inflation started to slow rapidly in 2023 following the sharp acceleration in 2022 caused by the war. By the end of 2023, headline CPI slowed down to 5.1% y-o-y from 26.6% in 2022. Sequential slowdown in inflation was determined: supported by the preservation of restrained demand in the conditions of the war; the relative stability of the hryvnia exchange rate (even after the transition from a fixed to a managed flexibility regime); constant control over the price situation by the state, as well as efforts to maximally reduce the price pressure on the population by keeping the vast majority of housing and communal tariffs stable; the decrease in world energy prices. Also, stabilisation in centralised electric power supplies since mid-February cut power costs due to less intensive use of autonomous power generators. Additional disinflationary factors included stabilisation of inflation and devaluation expectations, and a bumper harvest of selected crops last year. These factors helped moderate underlying inflationary pressures and offset almost a 70% hike in residential electricity tariffs in June.

Ukraine’s budgetary performance deteriorated sharply as the war progressed. The state budget deficit increased to UAH 1,395.5 billion in 2022 (net of grant financing) or 26.6% of GDP, up from 3.7% on average per year before the war (for the period 2019-2021). The deficit expansion was fuelled by military spending, which grew by 425% y-o-y to UAH 1,586 billion (30% of GDP) in 2022, leading to an increase in total central budget spending by 81% y-o-y to UAH 2,705.7 billion. At the same time, tax revenues decreased by 14.2% y-o-y to UAH 949.8 billion in 2022, covering less than half of central budget expenditures. The dynamics of the state budget deficit slightly improved in the first half of 2023 due to the slowdown in non-military spending, higher tax collection in response to recovering economic activity, and several one-offs (such as a transfer from the NBU worth UAH 71.9 billion).

Foreign aid inflows were the key source of budget deficit financing in 2022 and the first half of 2023. As disbursements of foreign aid became more predictable and the government intensified domestic borrowings, the NBU stopped monetary financing of the budget deficit in 2023 after providing the equivalent of EUR 11.7 billion for the purpose in 2022.

Despite a substantial budget deficit, Ukraine's state and state-guaranteed debt in 2022 increased moderately by 21.1% compared to 2021, reaching EUR 104.6 billion, supported by grant financing from foreign partners. The debt-to-GDP ratio still rose to 78% in 2022 from 49% in 2021 due to a sharp decline in real GDP. In the first half of 2023, the state and state-guaranteed debt continued to increase, reaching EUR 117.9 billion by the end of June. The pace of debt growth in 2023 somewhat accelerated due to a lower share of grant financing in foreign aid inflows (31% of the total volume). However, the debt growth, as before, was driven by loans being provided on highly concessional terms, with long maturities and low or subsidised interest rates, meaning they will not overly burden Ukraine's financing needs in the coming years.

Economic performance before 2022

Ukraine’s recent economic history is full of contradictions. With economic growth only beginning in 2000, Ukraine has already experienced three recessions, all linked to external factors. These include the global financial crisis in 2007-2008, hostile actions by Russia in the Eastern part of Ukraine and Crimea annexation in 2014, and the COVID-19 pandemic in 2020. While the first and the third cases were mostly stories about demand and pricing, the second one was about supply, with events fundamentally comparable to the invasion but on much a smaller scale. The situation was further aggravated by high dependence on raw material exports and particular markets, oligarchic asset ownership, a high share of the shadow economy, ageing and shrinking population, among other issues.

Just before the full-scale invasion, the Ukrainian economy was recovering from one of such a crisis. In 2020, the economy was hit by COVID-19, which decreased global demand (except for some sectors such as agricultural products and IT services), disrupted global supply chains, especially related to China, and created a burden for both the population and businesses due to strict healthcare related domestic policies. GDP dropped by 3.8% that year. However, in 2021, the economy grew by 3.4%. As of October 2021, the IMF expected similar or slightly higher growth rates, 3.4-4.0%, for the next five years.

1.2. Macroeconomic framework conditions

Table 2. Key macroeconomic indicators of economic and social development of Ukraine

Indicators	2020[3]	2021[3]	2022[3]	2023 assessment of the Ministry of Economy as of 27.02.2024	2024 forecast as of 24.10.2023[4]
Gross Domestic Product:					
nominal, UAH bn	4,222.0	5,450.8	5,239.1	6,486.1	7,643.0
% to the previous year	96.2	103.4	71.2	105.0	104.6
GDP deflator, %	110.3	124.8	134.9	117.9	113.0
Consumer Price Index:					
on average to the previous year. %	102.7	109.4	120.2	112.9[3]	108.5
December to December of the previous year. %	105.0	110.0	126.6	105.1[3]	109.7
Producer Price Index of industrial products:					
on average to the previous year. %	98.4	140.8	147.3	124.2	118.9
December to December of the previous year. %	114.5	162.2	138.2	116.2	111.4
Average monthly salary of employees, gross:					
nominal, UAH	11,591	14,014	14,847	17,442[3]	21,809
Labour force aged 15-70 years, mln persons	17.6	17.3	15.2	15.1	15.1
Number of people employed in economic activity aged 15-70 years, mln persons	15.9	15.6	12.4	12.2	12.3
Unemployment rate of the population aged 15-70 years according to the methodology of the International Labour Organization, % to the labour force of the corresponding age group	9.5	9.9	18.4	18.9	18.7
Balance of goods and services (according to the balance of payments methodology), million EUR	-2,022	-2,320	-24,867	-34,585[3]	-36,855[5]
Balance of goods and services, % of GDP	-1.5	-1.4	-16.3	-21.0	-21.4
Export of goods and services (according to the balance of payments methodology), million EUR	53,154	69,106	54,444	47,259[3]	51,626[5]
Export of goods and services, % to the previous year	93.6	130.0	78.8	86.8[3]	109.0

[3] Reported data from the State Statistics Service and the National Bank of Ukraine.

[4] Correspond to the indicators approved by the resolution of the Cabinet of Ministers of Ukraine dated 15 December 2023 № 1315.

[5] Calculated based on volumes expressed in million US dollars, as approved by the resolution of the Cabinet of Ministers of Ukraine dated 15 December 2023 № 1315, and the EUR/US dollar exchange rate, averaging 1.09 US dollars per EUR in 2024, as specified in the assumptions for the forecast calculations.

Import of goods and services (according to the balance of payments methodology), million EUR	55,176	71,426	79,311	81,844[3]	88,481[5]
Import of goods and services, % to the previous year	81.1	129.5	111.0	103.2[3]	105.9

Provided that the war ends by the end of 2024, and assuming a stable macro-financial situation, the Ministry of Economy forecasts a gradual recovery of the economy. In 2024, GDP growth is forecasted at 4.6% compared to 2023. The Ministry of Economy's macroeconomic forecast, which forms the basis of the State Budget for 2024, provides for a gradual increase in tax revenues as well. However, due to the ongoing war, defence spending will remain quite high in 2024, and the overall need for financing budget expenditures through international financial assistance and borrowing will amount to about EUR 36 billion (Law on the State Budget for 2024). The revenues of the state budget (excluding grants) approved by the Law on the State Budget for 2024 amount to 1,762.0 billion UAH, which is 21.3% less than the actual revenues of the state budget (excluding grants) in 2023.

Table 3. General indicators of state budget revenues in 2022 – 2024

Indicators	**2022**		**2023**		**2024**		**deviation 2024** (plan) **relative to**			
							2022 (actual)		**2023** (actual)	
	actual, UAH bn	share of GDP, %	actual, UAH bn	share of GDP, %	forecast, UAH bn	share of GDP, %	UAH bn	changes in GDP, percentage points	UAH bn	changes in GDP, percentage points
GDP	5,239.1		6,466.1[6]		7,643.0		2,403.9		1,176.9	
State budget *(excluding interbudgetary transfers)*	**1,778.2**	**33.9**	**2,629.6**	**40.7**	**1,768.5**	**23.1**	**-9.8**	**-10.8**	**861.1**	**17.5**
general fund:	*1,489.6*	*28.4*	*1,646.9*	*25.5*	*1,596.6*	*20.9*	*107.0*	*-7.5*	*-50.3*	*-4.6*
excluding grants and assistance from international partners	1,008.9	19.3	1,221.4	18.9	1,596.6	20.9	587.7	1.6	375.3	2.0
special fund	*288.7*	*5.5*	*982.7*	*15.2*	*171.8*	*2.2*	*-116.9*	*-3.3*	*-810.9*	*-12.9*
excluding grants and assistance from international partners			974.3	15.1	165.4	2.2	165.4	2.2	-808.8	-12.9

Source: Law of Ukraine № 3460-IX dated 9 November 2023 'On the State Budget of Ukraine for 2024'.

Thus, the increase in financial aid will accelerate the economy's return to pre-war levels. Thanks to rapid economic growth and integration with the European Union, Ukraine will be able to accelerate the convergence with EU countries in terms of income level by 2030-2050. A more ambitious scenario of economic growth, thus, should rely on such a strategy: reconstruction of the war-torn regions of the country, strengthening defence capability to withstand future Russian challenges, as well as laying the groundwork for progress through well-planned economic policy, sound macroeconomic policy, and reforms aimed at growth.

[6] Included in the forecast calculations for the year 2024, as considered during the development of the budget for the year 2024

1.3. Macroeconomic impact of the Ukraine Plan

The EU funding, as part of the Ukraine Plan, will mitigate macro-financial risks for Ukraine by partially reducing the state budget deficit, especially during the war. This reduction is expected to support the capacity of Ukraine to maintain the defence and war-related expenditures through taxes, which will alleviate inflationary and devaluation pressures, ultimately supporting the welfare of the population. Additionally, funds directed to the state budget, particularly through the SME support programs and recovery programs and investment programs under Pillar II, are anticipated to bolster capital investment of businesses, stimulate the overall business environment to generate higher tax revenues, improve the current account balance, and improve debt sustainability. This injection of funds is seen as an additional stimulus for economic activity in Ukraine.

Allocating funds for the reconstruction and modernization of infrastructure damaged or destroyed by the war is expected to have several positive impacts on the macroeconomic situation. This includes the restoration of economic activity in some of the most affected regions, facilitation of the movement of goods and people, and a reduction in costs for businesses conducting production and logistics operations. These efforts are anticipated to stimulate demand for labour, contribute to the revival of economic activity in the country, and restore the export capacity of the economy.

The Ukraine Plan is coordinated with the IMF Extended Fund Facility for Ukraine and so both programs will reinforce each other in terms of restoration of fiscal and debt sustainability, external viability and promoting long-term growth.

To achieve the vision outlined in the plan, with a focus on recovery, resilience, and economic growth, Ukraine will require substantial public and private investments. Therefore, the four sectors of the economy which have the largest potential to unleash the growth potential of Ukraine were identified: energy, agriculture and food production, transport and logistics for exports, and the manufacture of critical materials. There are also three cross-cutting areas: digital transformation, green transition/environmental protection, development of small and medium enterprises.

Forecast scenarios anticipate[7] that these sectors have the potential to attract investment for the following reasons. These sectors are already big contributors to the economy of Ukraine. They have global growth potential and an existing EU market for these products/services. Competitive costs are based on resources, energy, and logistics. Finally, there is a need to substitute some of the destroyed industrial capacities.

In addition, Ukraine has a big potential to significantly develop the private sector within the traditional sectors like education (including military education, attracting international students), healthcare (including medical tourism that was already developing before the full-scale invasion), social services (including foster care), cultural heritage (which will facilitate tourism, including foreign tourists).

The increased role of the private sector in Ukraine is important not only as a goal of reforms but also as a means of recovery, making it one of the investment priorities. Identifying viable business models in traditionally publicly owned sectors, such as social services mentioned above, will accelerate and enhance the efficiency of the recovery.

1.3.1. Macroeconomic forecast scenarios

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[7] Scenario development of the National Bank of Ukraine, Ministry of Economy, Kyiv School of Economics; Modelling of the National Bank of Ukraine with DSGE model (further - model assumptions)

The macroeconomic consequences of the Russian full-scale invasion will be long-lasting due to a lot of destroyed capital and displaced labour. The real capital stock is estimated to be 20% lower in 2022 than in 2021, attributed to destructions on government-controlled territories, losses on occupied territories, and underinvestment due to security risks and macroeconomic uncertainty. Many people were forced to leave for other countries, and about 6.5 million people (about 16% of the population) still stay abroad. Scores of people remain in occupied territories, and the demographic situation has worsened. Productivity declined due to supply chain disruptions and labour market mismatches. The share of occupied land rose from 7% in 2021 to 18% in 2023.

The assumption is made that 2024 marks the end of active hostilities in Ukraine, and three recovery scenarios for 2024-2034 are modelled. These scenarios vary in terms of productivity growth, levels of foreign aid (comprising budget support and concessional investments from donors), and the return of migrants. Sustainable economic recovery requires high physical capital investments and technological catch-up with more advanced peers. Both may be attracted by reforms and facilitated by European integration.

Ukrainian real GDP is projected to recover to its 2021 level by 2027-2031, depending on the scenario. GDP per capita will reach 10.1-14.9 thousand in current EUR by the end of the forecast horizon in 2033. It makes 74-109% of the level in Romania in 2021. Technological catch-up will be the primary driver of economic growth. Ukraine can be set on the path of convergence with EU countries in case of fast European integration with corresponding reforms and inflows of FDIs.

Figure 4. Population, mln people

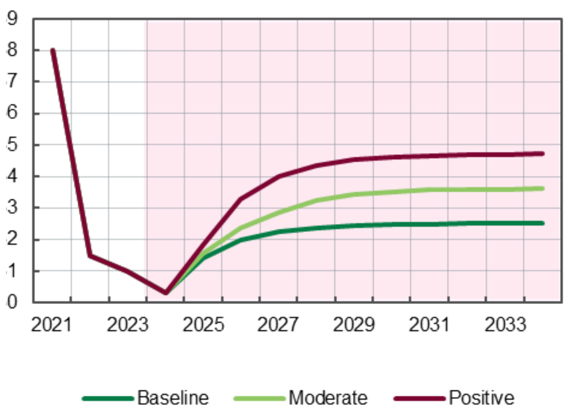
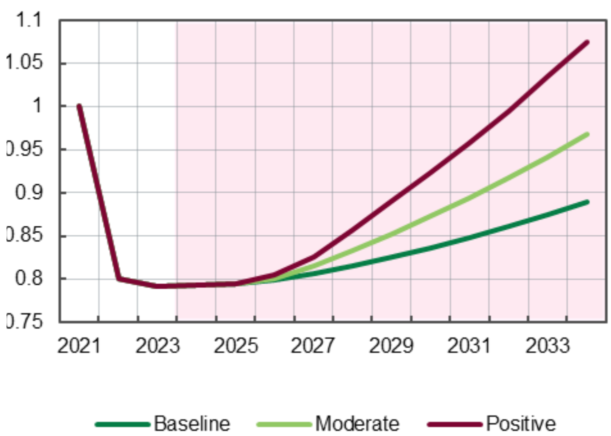


Figure 5. Real capital, 2021=1



Source: model assumptions

The Baseline scenario models partial reforms necessary on the path to EU accession. The reforms spur productivity growth as Ukraine gets enhanced access to the EU single market and attracts FDIs. In this scenario, Ukraine receives official financing from international donors, which helps cover the state budget. Externally displaced people start coming back in 2025, up to a total amount of 4 mln people in 2025-2034, with the majority returning in 2025-2026. Yet, the dire demographic situation takes its toll. The real capital stock stabilises and gradually grows thanks to internal investment demand.

The Moderate scenario models additional policies that ensure transparent and efficient use of foreign financial assistance. Better economic perspectives encourage the return of externally displaced people, up to a total of 5.1 mln people. Ukraine managed to secure EUR 92 billion in official foreign capital inflows in 2024-2034, coming on top of the budget financing from donors from the Baseline scenario. 20% of the money is added to the budget financing; 80% comes in the form of investments that facilitate physical capital accumulation; 60% of all investments are directed to export-oriented sectors (including export-oriented infrastructure and logistics). Public investments crowd in further FDIs that bring technology transfers and lead to higher productivity growth.

The Positive scenario is the most optimistic and assumes that there are enough reforms to increase economic growth to the levels of high-performing Eastern European countries around their EU accessions. In this scenario, Ukraine attracts EUR 266 billion in official foreign capital inflows distributed the same way as in the second scenario. Population growth is consistent with all externally displaced people (6.3 mln) returning home or the inflow of labour migrants from other countries. Most migrants return in 2025-2026, but the inflow persists at least until the end of the forecasting horizon. Due to the demographic situation, keeping the population constant takes positive net migration. The real capital stock grows the fastest of all scenarios but reaches its 2021 level only in 2033. However, it is much more productive than the soviet legacy capital that was abundant in Ukraine in 2021.

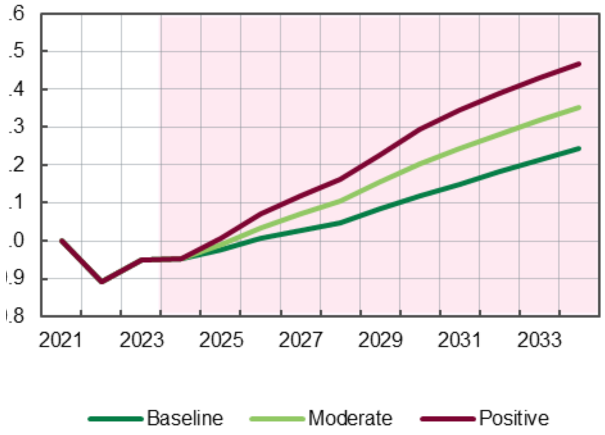
Table 4. Forecast scenarios

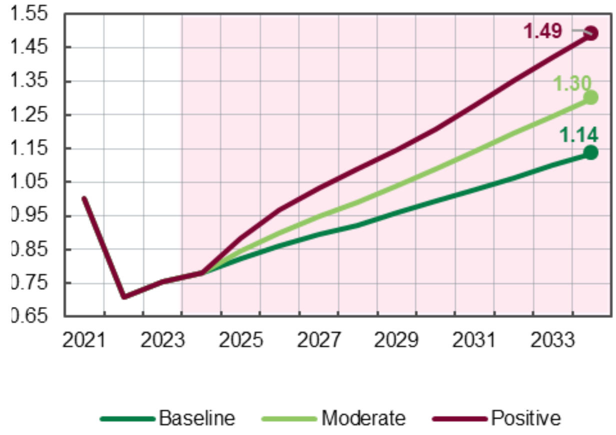
	Baseline scenario	**Moderate scenario (EUR 92 billion)**	**Positive scenario (EUR 266 billion)**
Reforms	enhanced market competitiveness, access to the EU market, price stability	additionally strengthen anti-corruption agencies	additionally legal system overhaul
Total factor productivity	2.5% average annual growth in 2024-2034	3.2% average annual growth in 2024-2034	4.0% average annual growth in 2024-2034
Financial aid	EUR 73 billion of official budget financing from donors in 2024-2034	Additional EUR 92 billion from donors in 2024-2034	Additional EUR 266 billion from donors in 2024-2034
Population	partial return of externally displaced people (4 mln)	partial return of externally displaced people (5.1 mln)	return of all externally displaced people (6.3 mln) or inflows from other countries

Source: model assumptions

Figure 6. Total factor productivity, 2021=1

Figure 7. Real GDP, 2021=1





Source: model calculations

Productivity growth in Ukraine could stem from reforms and convergence with more advanced economies. It would also benefit from general macroeconomic stability. Overall, productivity growth is positively related to institutional quality and the rule of law. Ari and Pula (2021)[8] identify the weak judiciary system as the most important factor holding back productivity growth in Ukraine. Dieppe (2021)[9] emphasises the crucial role of the rule of law and secure property rights. Foreign investors cite corruption, lack of trust in the judiciary system, and market monopolisation by oligarchs in Ukraine as the top three impediments to investment. These are the issues that must be addressed first. Reducing corruption and strengthening the rule of law would produce positive spillovers to other reform areas.

Generally, long-term economic growth in emerging markets relies on real convergence with more advanced peers. Emerging markets can benefit from technology diffusion stemming from trade and FDIs. Relatively open economies become more productive thanks to exploiting comparative advantages, participating in global supply chains, and importing advanced technologies and machinery. Market participation can be increased with regional trade agreements. Convergence is promoted by producing more complex goods but can be slow in economies with high agricultural employment. Workers that are healthier and more educated are better placed to absorb new technologies.

The EU integration process is essential for enhancing economic recovery. First, the mere process of integration, even before formal accession, will bolster external trade and bring FDIs. Second, access to the European educational system will provide a more productive labour force. Third, alignment with European laws will reduce corruption and encourage market competition. Ukrainian recovery should be intertwined with its European integration. The common purpose will help transform Ukraine into a modern economy in line with the rules and standards of the EU.

Innovation and investment by the private sector require policies that promote macroeconomic stability. Dieppe (2021) links stability with low inflation and low black market exchange rate spread. Stable macroeconomic environments accelerate real convergence and increase positive effects from other factors promoting productivity growth. On the other hand, macroeconomic uncertainty defers investments and causes capital outflows.

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[8] Ari, Anil and Pula, Gabor (2021) Assessing the Macroeconomic Impact of Structural Reforms in Ukraine (April 2021). IMF Working Paper № 2021/100, https://www.elibrary.imf.org/downloadpdf/journals/001/2021/100/article-A001-en.xml
[9] Dieppe, Alistair, ed. (2021) Global Productivity: Trends, Drivers, and Policies. Washington, DC: World Bank, https://openknowledge.worldbank.org/bitstream/handle/10986/34015/9781464816086.pdf

Table 5. Contributions to real GDP growth

	Baseline scenario	Moderate scenario (EUR 92 billion)	Positive scenario (EUR 266 billion)
Average real GDP growth in 2024-34, %	3.8	5.0	6.2
Total factor productivity, percentage point	2.5	3.2	4.0
Labour, percentage point	0.8	1.0	1.1
Capital, percentage point	0.4	0.7	1.1

Source: model calculations

Under the Baseline scenario, which involves partial reforms, the attainment of the 2021 level of real GDP is projected no earlier than 2031. The Positive scenario, which envisions full reforms, brings this goal closer to 2027. Ukraine must implement bold reforms and attract massive investments to generate robust economic growth. In their absence, long-term growth will likely stagnate, making recovery difficult.

Productivity will be the biggest driver of economic growth in Ukraine. Long-term improvement in living standards is achievable only through technological progress, most likely driven by convergence with more advanced EU economies. Productivity growth attracts investments and leads to capital accumulation. Financial aid will be instrumental in increasing productivity if it encourages reforms. Moreover, productivity is increased by the financial aid directed into infrastructure investments, particularly transportation and energy.

Figure 8. Real exchange rate, 2021=1

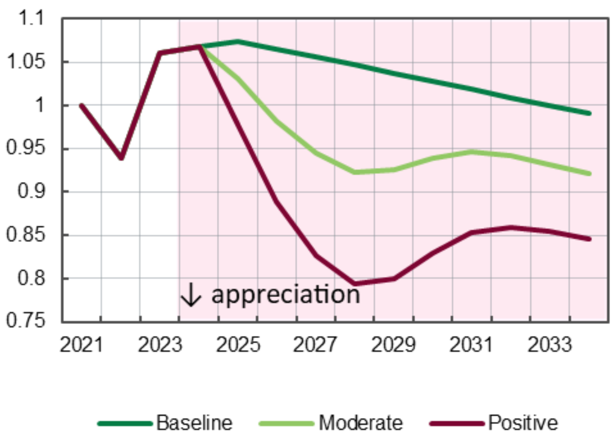
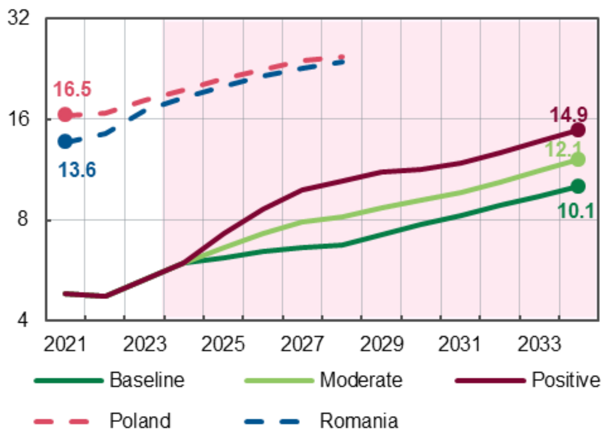


Figure 9. GDP per capita, thousand EUR*



*Source: IMF World Economic Outlook, model calculations, * logarithmic scale*

Convergence with income levels of EU economies will happen through real GDP growth and real exchange rate appreciation. The latter will be driven by productivity growth and capital inflows.

Priority of price stability in the NBU mandate is a vital precondition for successful European integration. The inflation target will have to be higher than in EU countries to absorb real appreciation with the inflation differential. Still, nominal appreciation will be needed to ensure low inflation in case of fast real convergence. Moreover, monetary policy might have to be relatively tight amid loose fiscal policy and budget deficit financed by foreign aid.

Under the Positive scenario, it will take until 2033 for GDP per capita in EUR to reach the level seen in Romania in 2021. The speed of economic growth depends on the extent to which Ukraine can attract FDIs. In turn, investment attractiveness is conditional on reforms. Narrowing the income gap with EU economies requires long-term political resolve.

1.3.2. Reconstruction and recovery scenarios

Reconstruction means the restoration of destroyed or partially damaged assets, recovery means the restoration of activities, but for the sake of simplicity, it will refer to both as recovery. Figures are the results of the aggregation of data received from two sources. The first one is the Multi-Agency Donor Coordination Platform for Ukraine (total needs are EUR 60.7 billion), while the second one is RDNA3 issued in February 2024 by the World Bank (total needs are EUR 440.5 billion).

The Moderate scenario assumes meeting the demand for only critical needs. It included all projects from the Multi-Agency Donor Coordination Platform for Ukraine and the most critical components of RDNA3, not covered by the Platform projects. The largest components of RDNA3 (housing, transportation and energy infrastructure, and demining) were taken with the 50% coefficient. For both sources, only needs for government-controlled territories (never occupied or de-occupied) were considered (see Table 8 for the sectoral decomposition of this scenario).

***Table 6. Recovery components of the Moderate scenario,* million EUR**

Moderate scenario	2023	2023-2033	2024-2033	Included in EUR 92 billion	Remaining budget financing need (above EUR 73 billion baseline)
Budget Financing Need					
Baseline estimate	41,923	144,413	102,490		29,237
with larger defence budget financing and conservative tax revenues	42,578	279,186	236,607		163,354
Budget-financed Recovery	1,831	19,218	17,387	17,387	
Partners + Private ForeignInvestment/Grants	916	75,919	75,003	75,003	
Local business & people self-recovery/investment	-	54,793	54,793		
Total Recovery	2,747	149,930	147,183	**92,389**	

Source: model calculations based on RDNA2, RDNA3, IMF EFF, List of recovery projects of the G7 platform

The Positive scenario assumes meeting the demand of all needs mentioned in RDNA3, but again for unoccupied territories only, totalling almost EUR 266 billion. The only exception is industry and commerce. It is assumed that the reconstruction of most destroyed assets could (and in some cases even more feasible) occur elsewhere. Please see Table 9 for the sectoral decomposition of this scenario.

Table 7. Recovery components of the Positive scenario, million EUR

Positive Scenario	2023	2023-2033	2024-2033	Included in EUR 266 billion	Remaining budget financing need (above EUR 73 billion baseline)
Budget Financing Need					
Baseline estimate	41,923	144,413	102,490		29,237
with larger defence budget financing and conservative tax revenues	42,578	279,186	236,607		163,354
Budget-financed Recovery	1,831	45,892	44,061	44,061	
Partners + Private Foreign Investment/Grants	916	208,937	222,214	222,214	
Local business and people self-recovery/investment	-	17,974	17,974		
Total Recovery	2,747	272 803	270,056	**266,275**	

Source: model calculations based on RDNA2, RDNA3, IMF EFF, List of recovery projects of the G7 platform

Depending on the scenario, recovery would lead to additional EUR 97-176 billion of capital investments. In the best case, annual recovery-related capex would be approximately equal to average capital investments during the last ten years. That would lead to additional value added of EUR 27.5 to 49.5 billion. The largest beneficiaries would be construction, manufacturing, and commerce. This alone means 1.8-3.0 percentage points annual GDP boost for the next ten years. Even more value added would be generated as a result of related wages and consumption, and not capex related expenditures for the recovery.

Table 8. Sectoral recovery decomposition of the Moderate scenario, million EUR

2023-2033	Partners/IFIs (1)	Foreign investors (2)	Total (1)+(2)	Total, all sources of financing
Agriculture	-	1,143	1,143	4,570
Commerce and Industry	-	-	-	0
Culture and tourism	-	-	-	0
Education	4,698	-	4,698	6,264
Emergency Response and Civil Protection	766	326	1,092	2,326
Energy and Extractives	3,908	4,500	8,408	23,208
Environment	-	-	-	0
Explosive Hazards Management	9,574	-	9,574	12,766
Finance and Banking	1,272	730	2,002	4,615
Healthcare	10,499	-	10,499	13,999
Housing	-	4,479	4,479	17,914
Irrigation and Water Resources	-	-	-	0
Justice and Public Administration	330	-	330	440

Municipal Services	1,680	-	1,680	2,241
Social protection	21,286	-	21,286	28,382
Telecommunications and Digital	-	791	791	3,165
Transport	-	6,297	6,297	25,190
Water Supply and Sanitation	3,640	-	3,640	4,854
ALL RECOVERY	**57,654**	**18,265**	**75,919**	**149,930**

Source: model calculations based on RDNA2, RDNA3, List of recovery projects of the G7 platform

Table 9. Sectoral recovery decomposition of the Positive scenario, million EUR

2023-2033	Partners/IFIs (1)	Foreign investors (2)	Total (1)+(2)	Total, all sources of financing
Agriculture	-	13,942	13,942	16,402
Commerce and Industry	-	18,044	18,044	21,228
Culture and tourism	3,258	-	3,258	4,654
Education	4,385	-	4,385	6,264
Emergency Response and Civil Protection	716	-	716	1,023
Energy and Extractives	3,647	30,597	34,244	41,207
Environment	691	-	691	987
Explosive Hazards Management	17,872	-	17,872	25,531
Finance and Banking	1,188	2,481	3,668	4,615
Healthcare	9,799	-	9,799	13,999
Housing	-	30,454	30,454	35,828
Irrigation and Water Resources	4,834	209	5,042	7,149
Justice and Public Administration	308	-	308	440
Municipal Services	1,569	-	1,569	2,241
Social protection	19,867	-	19,867	28,382
Telecommunications and Digital	51	2,666	2,718	3,209
Transport	35,502	3,463	38,965	54,791
Water Supply and Sanitation	3,397	-	3,397	4,854
ALL RECOVERY	**107,083**	**101,857**	**208,938**	**272,803**

Source: model calculations based on RDNA2, RDNA3, List of recovery projects of the G7 platform

CHAPTER 3. INVESTMENT AND RECOVERY ARCHITECTURE

1. Investment and Recovery Organisational Structure

Effective coordination of recovery processes in Ukraine requires a clear definition of the powers and responsibilities of various authorities and institutions of Ukraine in the process of reconstruction, recovery, and modernization, cooperation with international partners, the definition of key principles, procedures, and financial framework for the reconstruction, recovery, modernization and economic growth, and taking into account the volume of restoration projects that need to be implemented, should be built on the principle of a single project pipeline.

Recovery, reconstruction, modernisation, and economic growth of Ukraine are the main priorities of the state policy for the years ahead, which will require the implementation of reforms and investments in all sectors. A good starting point for the effective implementation of these priorities would be a single architecture of planning documents in a multi-level public administration system, focused on the wartime priorities, as well as a reasonably determined framework for the post-war recovery and development of Ukraine.

2. State investment and recovery coordination system

The recovery, reconstruction and modernisation are led and determined by Ukraine in cooperation with its international partners.

The Cabinet of Ministers as the highest body in the system of executive authorities, determines the priority areas for the recovery of Ukraine on an annual basis, mobilises appropriate financial resources, and ensures the involvement of international partners in the recovery process. The Strategic Investment Council chaired by the Prime Minister, made up of members of the Cabinet of Ministers, will ensure coordination of strategic priorities for public investments and approval of a single project pipeline. The Ministry of Economy will provide information, methodological and analytical support for the Council’s activities.

The Government engages relevant public authorities, including ministries, agencies, services and inspections, state (military) administrations, in the decision-making process in the field of recovery, through consultations and collection of proposals. In addition, the Government organises consultations with local self-government bodies and their associations to consider the interests and needs of territorial communities.

The Ministry of Economy is responsible for developing the system of strategic planning for economic and social development on a national level, preparation of a medium-term plan of priority public investments, and methodological support for the preparation, prioritisation, appraisal, selection and implementation of public investment projects. The Ministry conducts monitoring of the implementation of a single project portfolio and ensures the functioning of the Prozorro electronic procurement system.

The Ministry of Economy conducts an analysis of the application of business activity stimulus in the real sector of the economy and develops proposals to enhance their efficiency for achieving economic growth. The Ministry identifies areas of activity and develops measures to increase the competitiveness of the national economy and to structurally reform the economy. The Ministry carries out work related to state forecasting of economic and social development in Ukraine and the preparation of corresponding programs. The Ministry closely cooperates with representatives of the real sector of the economy to attract direct investments into the economy, create a favourable investment climate, prepare proposals for state regulation in the field of investment activity, attract foreign investments and loans to Ukraine, and create favourable conditions for the development of concession activities.

The Ministry of Finance determines the fiscal framework for public investment and provides methodological support for budget planning of public investments aligned with the strategic goals and objectives and fiscal framework. The Ministry undertakes assessment of the feasibility of attracting public investment and assessment of fiscal risks related to public investments, primarily regarding PPPs and concessions, as well as ensuring inclusion in the budget or provision of state support only for those projects that have passed established appraisal and selection procedures.

The Ministry for Communities, Territories and Infrastructure Development (Ministry for Infrastructure) is responsible for coordination of strategic planning of regional development on the basis of which public investments at the local level should be planned and preparation of sectoral strategies in the fields of transport and transport infrastructure, housing policy, housing and communal services and energy efficiency, determination of sectoral prioritisation criteria based on them, preparation of sectoral project pipelines and proposals for the medium-term plan of priority public investments and coordination of the implementation of projects in the said sectors.

The Ministry for Infrastructure ensures overall coordination of recovery policies in close cooperation with line ministries, in particular the Ministry of Economy, to engage the private sector, as well as with the Ministry of Finance to ensure macroeconomic stability and effective mobilisation and administration of public funds.

The State Agency for Infrastructure Restoration and Development, through its territorial offices, is responsible for the largest infrastructure projects at the national level, support, and implementation of regional and local recovery projects based on the requests of the relevant project customers. The activities of the Restoration Agency are directed and coordinated by the Cabinet of Ministers through the Deputy Prime Minister for Restoration - Minister for Communities, Territories and Infrastructure Development.

The line ministries are responsible for the relevant sectors (education, health, energy, waste recycling, law enforcement, etc.) preparation of sectoral strategies, determination of sectoral prioritisation criteria based on them, preparation of sectoral project pipelines, coordination and monitoring of project implementation in the relevant spheres of state policy. Eight ministries have deputy ministerial positions responsible for restoration.

The Government Office for the Coordination of European and Euro-Atlantic Integration of the Secretariat of the Cabinet of Ministers is responsible for coordinating the process of approximation to the EU in close cooperation with public authorities.

Regional state (military) administrations (RSA/RMA) can act as customers of projects for the construction of critical and social infrastructure facilities, authorised to implement recovery projects on behalf of territorial communities.

Territorial communities are the key recipients of the results of the recovery; therefore, they will be assigned a leading role in the processes. Territorial communities are responsible for developing planning documents, establishing communication with international partners, and implementing restoration projects in the respective territories based on an inclusive approach which entails engaging and consulting with local civil society. To strengthen the capacity of territorial communities, the Government, together with development partners, will work on creating mechanisms to strengthen the competencies of representatives of local self-government bodies in strategic planning, public investment management, anti-corruption, project management, urban planning, digitalization, investment activities and work with donors.

To ensure the availability of funding for the reconstruction effort on the local level, a transparent mechanism to finance the recovery, reconstruction, and modernization needs of subnational authorities, and in particular local self-government bodies, will be applied. This mechanism will allow to provide financial support to subnational authorities, in particular to local self-government bodies, in the implementation of priorities in the field of restoration, reconstruction, and modernization, which are defined in their local and regional development strategies and correspond to the priorities of the State Regional Development Strategy and relevant sectoral strategies. This mechanism will ensure compliance with the Ukraine Facility regulation.

Effectiveness and transparency of financing measures for restoration, reconstruction, and modernization at the local level will be ensured by implementing measures to reform the management of state investments. These measures will include, in particular, the formalisation of procedures for planning, prioritisation, selection, and monitoring of public investments at the local level in accordance with uniform approaches established for all funding sources and mechanisms. In accordance with these approaches, the existing mechanism of capital transfers from the state budget to local budgets will be revised.

3. Recovery Planning

According to the RDNA3 report prepared by the World Bank together with the Government, the European Commission, and the UN, direct damage to Ukraine has reached almost EUR 138.2 billion considering almost two years of the war. The total needs for reconstruction and recovery are estimated at almost EUR 440.5 billion.

For the formation of an effective recovery policy, the starting point is a unified architecture of strategic planning documents in a multi-level management system, focused on wartime priorities, as well as defining the basis for the post-war reconstruction of Ukraine.

Crucial to creating the foundation of a recovery architecture is to reconcile:

– sectoral strategic planning documents (national sectoral strategies, action plans for their implementation, state target programs) developed by ministries, and;
– intersectoral documents, for example, the State Strategy for Regional Development for 2021-2027 and action plans for its implementation, the Plan for the Recovery and Development of the Regions of Ukraine.

The Government ensures the preparation of a coherent system of strategic planning documents at the national, regional and local levels, which includes, inter alia:

1) at the national level: the revised State Regional Development Strategy for 2021– 2027 and the Action Plan for its implementation for 2024-2027, sectoral strategies. The documentary framework of the State Strategy for Regional Development has the formal and de facto status of a key strategic planning document for the regional and local levels, in particular in the implementation of the territorial restoration policy. This State Strategy for Regional Development will capture the recovery, restoration, reconstruction and modernization needs of subnational authorities, in particular local self-government. Sectoral strategies should be harmonised with the State Strategy for Regional Development.

2) at the regional level: regional development strategies and action plans for their implementation, and comprehensive oblast (regional) recovery programmes;

3) at the local level: community development strategies, comprehensive plans for the spatial development of the territorial communities, comprehensive territorial community recovery programmes, and community recovery and development plans.

The synchronisation of planning documents with the Ukraine Plan will help to ensure the synergy of efforts, establish conditions to properly account for the needs of regions and territorial communities in accordance with the principle of subsidiarity, and determine priorities at the state, regional and local levels.

Clearly formulated strategic goals and priorities of the recovery, reconstruction and modernisation process will serve as a basis for medium-term budget planning and will ensure strategic allocation of the available financial resources both at the central and local levels, which will be determined in the Budget Declaration and medium-term estimates of the local budgets. This will require reflection, to the greatest extent possible, in the respective budgets of all available funding from various sources and through different mechanisms, including international financial and technical assistance funds.

Prioritisation, financial sustainability and efficiency of public investments for recovery, reconstruction and modernisation will require the introduction of strategic planning for public investments in close connection with the medium-term budget planning, as well as the integration of investment management into the budget process. To this end, the Government has embarked on the review of the existing public investment management procedures and approved the reform roadmap. In particular, this roadmap focuses on:

– taking decisions on public investments within a framework of strategic and medium-term budget planning;
– unifying approaches to the assessment and selection of public investment projects, regardless of the sources and mechanisms of funding, and creation of a single project pipeline to obtain access to the funding;
– using digital solutions when planning and managing public investments to increase the transparency and accountability of their implementation.

The integration of documents digitised with the help of IT platforms such as DREAM, E-Construction, a unified geographic information system for monitoring and evaluating the development of regions and territorial communities, will be an important step in ensuring transparency, accountability and efficiency in the use of financial resources.

4. Improving the institutional environment for investment and recovery

Ukraine is working on a number of legislative initiatives aimed at strengthening the administrative capacity to implement public investment projects aimed at recovery, reconstruction and modernization in cooperation with stakeholders.

5. Principles of recovery, reconstruction and modernization.

All aspects of the recovery, reconstruction and modernisation of Ukraine should be based on the priority needs and principles of integrity, accountability, sustainability, subsidiarity, efficiency and transparency, as well as building trust between the Government, citizens, private sector and financial institutions:

1. **Build back better** approach to ensure resilient, sustainable, inclusive, and effective solutions for the recovery of communities affected by the war.

Build back better covers multiple dimensions and many specific policy areas. The motivation behind applying the build back better approach to all investments under the Ukraine Plan and in the Ukraine's recovery is to reduce well-being losses caused by the war and to rebuild with a focus on a sustainable, inclusive, competitive and future-ready economy. Key dimensions of building back better will be enshrined into the overall framework for mobilisation of resources, including to help meet critical infrastructure needs to support economic growth, while ensuring that such infrastructure is sustainable and resilient. This approach largely integrates the principles of the New European Bauhaus, where appropriate. The build back better approach will be also reflected in sectoral and regional policies, in particular to make the territorial communities stronger and more resilient.

Ensuring compatibility with the EU standards and delivering on key reforms on the path towards the EU accession will further improve the sustainability of the recovery, reconstruction and modernisation process and contribute to Ukraine's approximation with the EU.

The build back better approach will be further elaborated by the Government accounting for EU regulatory framework and reconstruction needs in Ukraine as identified by the rapid assessment of damage from the invasion and needs for recovery (RDNA). This includes but is not limited to integration of the build back better approach in the Public Investment Management system that will take into account best practices of the EU, recommendations of the World Bank, the IMF as well as Ukraine's specific needs of rapid recovery and post-war reconstruction across various sectors of the economy.

The new procedures will integrate the build back better approach into various sectors of the economy. They will be designed to ensure:

– prioritisation: directing resources to the most important needs for the Ukrainian society, as reflected in strategic documents;
– efficiency: choosing the most rational mechanisms for the implementation of investment projects from the point of view of costs and benefits and achieving the planned results;
– timeliness: synchronisation of decisions to implement public investment projects with the budget process;
– climate and environmental sustainability, in line with the 'do no significant harm' principle as defined in the Ukraine Facility Regulation (compliance to the extent possible in a context of war or post-war recovery and reconstruction), diversity, inclusivity and accessibility;
– fair recovery: tackling poverty and mobilising support to 'leave no one behind';
– transparency of the decision-making process and accountability, including clear assignment of responsibilities to ensure the implementation of projects on time, within the budget and in accordance with established goals.

Implementation of the building back better principle should be considered in connection with the considerable backlog of the reconstruction projects that can be seen from all RDNA assessments, their selection and prioritisation for funding.

2. **Financial sustainability** implies that the state can afford its investments, both from the perspective of them being fully funded and from the perspective of the maintenance of created assets throughout their entire life cycle.

The challenges posed to public finances by the armed aggression, in particular, the rapid reduction of fiscal space and growing risks to debt sustainability, require more effective attraction and use of financial resources for recovery, reconstruction and modernisation. This will require, inter alia, the development of criteria and guidelines for the selection of the most effective financial instruments and mechanisms for the implementation of public investment projects in terms of costs, benefits and risks, including fiscal ones, both at the central and local levels. The mechanisms used to finance the recovery, reconstruction and modernisation of Ukraine should be consistent with the principles of integrated management of public investments and ensure compliance of the priority projects with the medium-term budget framework while maintaining fiscal and debt sustainability.

The Government intends to assess the potential of mobilisation of private sector capital and work on enabling business environment via adopting policy decisions in line with macrofinancial stability considerations, as reflected in this Plan. The aim will be to optimise the use of scarce public resources in cases where there is no alternative to mobilise. The Government will also continue engaging with the development partners to facilitate the development of appropriate de-risking mechanisms, including insurance and improved access to financial instruments.

3. **Transparency and accountability of recovery, reconstruction and modernisation processes**, including transparency of decision-making and accountability for the funds used and progress achieved.

The ‘everyone sees everything’ principle has become fundamental for the management of public projects since the launch of Prozorro digital procurement system in Ukraine. The monitoring process of investment projects and defined roles in governance in all stages of the public investment cycle is an integral part of the public investment framework to be implemented by the Government based on the adopted Public investment management Roadmap as described in the dedicated chapter on management of public finance.

The Government strives to introduce digital solutions to ensure a unified approach to managing all recovery and reconstruction processes (including registering damages and the compensation mechanism), comprehensive planning of investment projects and monitoring of their implementation, as well as the real-time access to information by the general public. In addition, the expanded use of digital solutions that are based on the methodologies and guidelines approved by the Government will contribute to better informed decision-making at all levels and will help, at least partially, to compensate for the limited capacity to manage the investment projects.

Proper recording and verification of the damaged and destroyed property is an integral part of the recovery planning process to ensure further assessment of and compensation for losses to citizens and businesses. To this end, the Government developed the State Register of Property Damaged and Destroyed As a Result of Hostilities, Terrorist Acts, Sabotage Caused by the Armed Aggression of the Russian Federation. As of January 2024, the Register contains verified information on more than 270 000 damaged and destroyed facilities.

Further systematisation of this information, development of projects and building of a single project pipeline will take place on the basis of the reviewed methodology for public investment management and will provide for an interface between the aforementioned State Register, the DREAM ecosystem, the Unified Geographic Information System for Monitoring and Evaluating the Development of Regions and Territorial Communities, Diia, the Unified State Register, the Unified State Electronic System in the Field of Construction, Prozorro, Spending.gov.ua, Open Budget, LOGICA, which is the information and analytical system used to manage the planning and implementation of local budgets, as well as other digital solutions developed by the Government to ensure transparency and accountability of the public spending.

A sound public investment management with clear roles and responsibilities for the main stakeholders will play into attracting development partners, encouraging competitive and transparent project selection. Clearly stipulated strategic priorities for public investment and a pipeline of appraised investment projects will provide guidance to development partners and ensure more efficient use of resources during the reconstruction. A robust project monitoring framework with a high degree of digitalisation, including using new budget planning and monitoring IT system and DREAM, will be implemented to provide real-time information on project implementation, allowing for transparency, timely identification of bottlenecks and making of necessary adjustments.

The use of the ProZorro system will be mandatory for all procurements within the framework of the implementation of public investment projects and the legislation in the field of public procurement will be brought in accordance with the relevant EU directives with appropriate changes introduced to the Prozorro system.

Arrangements on the control over recovery, reconstruction and modernisation processes in Ukraine include respective authorities with audit powers within the public investment framework. At the same time, the State audit service will be responsible for analysis and verification of legality and effectiveness of implementation of investment projects using funds from state and local budgets, state support, state and/or local guarantees.

6. Participatory democracy and stakeholder engagement

Participatory democracy and stakeholder engagement provide the mechanisms and methods for stakeholder engagement in general planning, Government accountability to society, and private sector involvement in the recovery, reconstruction and modernisation processes.

eDem module of the DREAM ecosystem is designed to ensure a transparent, efficient and democratic recovery process. The module is designed on four levels of public participation in accordance with the recommendations of the Council of Europe and includes notifications about events, interactive information submission, and public presentations of project ideas, which are pivotal for citizen activation. It also allows for proposal submissions, enabling organised citizen teams to contribute their ideas, enhancing the diversity and quality of recovery projects.

An innovative aspect of the eDem module is the facilitation of project team formation, allowing stakeholders to create or join teams, share ideas, and coordinate efforts. This not only fosters collaboration but also promotes a sense of community and collective responsibility, focuses on education and the exchange of best practices.

Further, the eDem module provides public oversight mechanisms, such as monitoring project progress and addressing any discrepancies, ensuring accountability and transparency. E-voting and surveys are integral parts of this module, facilitating wider participation in decision-making on critical issues related to recovery projects and budgets.

Complementing the multi-level coordination mechanism outlined in the chapter on Regional Policy and Decentralization, the eDem module ensures continued and substantial involvement of stakeholders in the

Plan. This is achieved through its various functions like public control, proposal submissions, and e-voting, engaging different stakeholders in the decision-making and implementation processes.

Regarding the participation of Ukrainian businesses and business associations, the eDem module facilitates their involvement through transparency and trust enhancement. They can participate as investors or contractors in recovery projects, providing a platform for equal engagement opportunities and contributing their expertise. This involvement not only strengthens the recovery projects but also enhances the competitiveness of these businesses by adapting products and services to meet market needs.

Territorial Community participation in the management of local affairs, openness of the local self-government bodies and transparency of their work are important elements of good democratic governance, which is the main objective of local self-government reform. Decentralisation involves not only the transfer of powers and resources to sub-national level, but also strengthening the accountability of local self-government bodies to the members of local communities for the implementation thereof. The trust of local community members in the authorities can be ensured, first of all, by establishing effective communication, introducing effective mechanisms for holding public consultations on the development of programme documents and on taking decisions that are of importance to the community, reporting and making public the information on the activities of local self-government bodies and their officials.

The process of public consultations on the draft acts of the Cabinet of Ministers is regulated by the Procedure for Public Consultations on the Formation and Implementation of the State Policy. The relevant ministries organise public consultations on the draft acts of the Cabinet of Ministers that have public significance and define the rights and obligations of citizens of Ukraine.

Ukrainian businesses, business associations and civil society organisations played an important role in the preparation of the Ukraine Plan and contributed to the formation of a vision for the development of key sectors of the Ukrainian economy through special working groups headed by the Ministry of Economy. A continuous dialogue with the representatives of the Ukrainian and international private sector and civil society will be of crucial importance for the success of recovery, reconstruction and modernisation efforts, including in the context of the Ukraine Plan implementation and in a much broader context of the EU integration efforts. The dialogue will be exercised through both ad-hoc and institutionalised engagement and coordination formats, including, i.a., via the Multi-Agency Donor Coordination Platform for Ukraine, UN Global Compact Ukraine, business associations etc.

7. Funding for recovery, reconstruction and modernisation

The allocation of funding by the Government for recovery, reconstruction and modernisation will align with Ukraine’s strategic priorities and medium-term budget planning and be based on the reviewed public investment management procedures, which will apply to all sources of funding. A single project pipeline, which includes public investment projects that are positively assessed according to established procedures, will serve as a basis for funding. At least 20% of non-repayable financial support under the Pillar I of Ukraine Facility will be allocated to the needs of recovery, reconstruction, and modernization of local government bodies in Ukraine.

The procedures for project implementation monitoring and reporting on the results will also be strengthened. The assessment of fiscal risks and strengthening of the financial stability of public investments will be ensured by the Ministry of Finance. These aspects will be further detailed in the PIM Action plan and will apply to investments foreseen in the Plan.

The recovery, reconstruction and modernisation of Ukraine will be financed by Ukraine's own resources, from development partners of Ukraine, and by mobilising private sector investment as well as by using frozen and immobilised assets of the aggressor country. The Government's efforts, aimed at further increasing the resilience and efficiency of the public finance management system in general and of the public investment management as its important component in particular, will contribute to strengthening the confidence of Ukrainian and international stakeholders, involved in the reconstruction and recovery efforts, in the intended use of resources provided. To speed up the recovery process, Ukraine will seek private-sector investments. The attraction of private investments will require, in particular:

– determination of priority sectors of the economy, which, with the inflow of private capital, will contribute to the creation of added value and new jobs;
– implementation of reforms, including those covered by the Ukraine Plan, which will ensure the creation of a conducive environment for private investment and for the recovery, reconstruction and modernization of the country;
– development of guarantee instruments to cover the private investment risks and of PPP instruments.

In the context of the Ukraine Facility, Pillar II — the Ukraine Investment Framework — designed to attract private and public investments, will become a key instrument in Ukraine's recovery. By setting up the governance structures that include the Government, the European Commission, the EU Member States and partner financial institutions, the Ukraine Facility will create an avenue for investment coordination. Proper investment planning and prioritisation in the public and private sectors is a key instrument that the Government will use to attract additional investments to the country.

Investments should seek to build back better, emphasising green and digital technologies to build resilient businesses with products and processes aligned to EU standards. Support to all types of business, including efforts to facilitate access to credit, targeted support to the SMEs and larger more capital-intensive investments in key industries (such as green metallurgy, machine building, other processing sectors, etc.) through de-risking instruments and co-financing facilities with donors backing, should remain a priority. Direct technical assistance, potentially focused on sectors critical to growth like agribusiness, metallurgy, machine building, and IT, could help firms enter new markets, move into higher-value-added products, and adapt more sustainable practices. Firms owned and managed by women could be targeted for financial and nonfinancial support.

The following priorities will be important to boost investment potential of the country:

– Devise and deploy de-risking instruments and financial support to improve interest rates affordability across all sectors.
– Provide financial support to high-value manufacturing and agroindustry, and export-oriented enterprises in the form of loans, grants, and guarantees.
– Boost war-risk insurance and increase risk coverage for new investments.
– Support for the business in the regions severely impacted by the war.
– Support for the SMEs, in particular small businesses owned by women, displaced persons and veterans.
– Promote project finance and development finance, as a way to catalyse equity investments
– Rebuild the logistics infrastructure needed for access to inputs and markets.
– Build technical assistance capacity to identify projects with high private capital mobilisation potential, and with significant multiplier effects beyond initial investment.t.

– Ensure private sector participation in reconstruction efforts and promote linkages with SMEs in priority sectors for recovery and investment, such as construction, transport, and logistics.

The Pillar II should engage Ukrainian authorities in its governance, and the Ministry of Economy shall ensure alignment of efforts with the Steering Board established according to the Ukraine Facility Regulation. The Ministry of Economy shall establish a coordination mechanism between the Government of Ukraine and the European Commission for:

– regular review of the single public project pipeline;
– periodic review of the implementation status and future pipeline of support provided to the private sector by international financial institutions, European development finance institutions, bilateral European financial institutions, export credit agencies, and others.

The Ministry of Economy, with the support of the Ministry of Finance and the Ministry for Infrastructure, will ensure that the single project pipeline, comprising public investment projects positively assessed according to established procedures, serves as the basis for funding under the Pillar II for the public sector.

The Ministry of Economy will maintain a continuous dialogue with representatives of the Ukrainian and international private sector, as well as civil society. This dialogue is crucial for the success of recovery, reconstruction, and modernization efforts. Engagement and coordination will occur through ad-hoc and institutionalised formats, including the Multi-Agency Donor Coordination Platform for Ukraine. Regular reviews of the implementation status and future pipeline of support provided to the public and private sector under Pillar II will ensure alignment of fund allocation with Plan priorities, as well as the priorities identified in the preparation of RDNA reports.

8. Absorption capacity

Capacity-building measures to map, coordinate and direct the available resources to strengthen the ability of Ukrainian institutions across government levels to manage the task of rebuilding the country will be defined by the Public investment management roadmap adopted by the Government with linkages to the public administration reform (PAR) ensured where appropriate.

The measures to address insufficient capacity will rely on the complex approach and close coordination between the key stakeholders of the public investment management framework and will include:

– update the entire methodological base of public investment management for all stages of the investment cycle (preparation, prioritisation, evaluation, selection, implementation, etc.) by the Ministry of Economy, together with the Ministry of Finance and the Ministry for Infrastructure.
– development of approaches to assessing the feasibility of attracting public investments, ensuring the selection of the optimal financing mechanism, and assessment of fiscal risks related to public investments by the Ministry of Finance.
– creation of the knowledge bases on the websites of the relevant ministries, and the Ministry of Economy training programs and training programs for public investment management specialists and training plans will be developed together with the National Agency of Ukraine on Civil Service.
– creation and strengthening of units for public investment management in bodies at the central and local levels. To support their work the Ministry of Economy will develop a template for position and functions and an integrated IT system of public investment project management will enable work, technical tools for preparation, evaluation and analysis of the implementation of investment projects.

– creation of centres of expertise on public investment management within the Government and development of mechanisms for attracting external expertise, primarily at the stage of project preparation, both with the use of international technical assistance and at the expense of budget funds.

The implementation of public investment projects will be the subject of the expenditures reviews conducted by the key administrators of budget funds in accordance with the methodology determined by the Ministry of Finance, which would aim to increase the efficiency and effectiveness and determine the level of attainment of the state policy goals.

9. Cooperation with development partners, financial institutions and existing coordination structures

To ensure coordination and mobilisation of support provided by the international partners to address Ukraine's immediate macroeconomic needs, the priority needs for the recovery, reconstruction and modernisation of Ukraine, the Multi-Agency Donor Coordination Platform for Ukraine (hereinafter referred to as the Platform) was launched.

Among other things, the Platform ensures coordination of verified data on needs and commitments for macroeconomic support, priority recovery needs and longer-term economic recovery, reconstruction and modernisation collected by the Government, as well as facilitates mobilisation of financial assistance from international partners across different sources and established instruments for financing.

The Platform is used for continuous dialogue, the regular exchange of information among international partners with Ukraine on progress made in meeting Ukraine's priority needs for recovery and the amount of financial assistance provided to address them. The Platform focus also lays on enabling future economic recovery and reconstruction efforts as well as facilitating regular exchange on the progress made with regard to the implementation of reforms and coordinating around short- and medium-term priority needs, including those outlined in the RDNA, the Ukraine Plan and other strategic planning documents for recovery and development.

The Platform is also a forum for coordinating existing donor cooperation mechanisms, such as G7 Finance Track, G7 Energy Infrastructure Coordination Group, IFI Coordination Group. In addition, the Platform strives to bring the efforts of the Platform and the broader range of partners represented and working in Ukraine closer together, including with the objective to improve sector-wide coordination around Ukraine's recovery needs and projects as well as reforms to enable long-term recovery.

Ukraine will use digital tools (eg. Ministry of Finance systems, Ministry for Infrastructure DREAM ecosystem etc) to guarantee collection and presentation of accurate and verified data on needs, recovery projects, payments and disbursements with different levels of granularity based on partners requests. Based on this data, Ukraine will regularly inform partners on its recovery needs as well as the current stage of recovery projects implementation and funding absorption.

SECTION 2.

CHAPTER 1. PUBLIC ADMINISTRATION REFORM

1. State of play

The public administration sector in Ukraine is one of the largest employers in the country, with some 206 151 positions and some 159 904 actual civil servants in all branches of government. They work in 107 different institutions, including ministries and their subordinate bodies under the Cabinet of Ministers, as well as other organisations not directly managed by the Cabinet of Ministers, their territorial offices, oblast and regional administrations, and courts at various levels (around 600 in total). Civil servants constitute the majority of the actual employees working in these institutions.

The public administration system in Ukraine has been undergoing reform since 2016, when the Public Administration Reform Strategy was adopted. A year later, the Public Finance Management Reform Strategy was also launched. Both strategies share the common goal of bringing Ukraine's public administration in line with the European principles of public administration set out by the OECD/SIGMA programme. They contribute to the decentralisation reform, which aims to bring decision-making and service delivery closer to the people, as well as to the ongoing efforts to digitise all aspects of public administration.

Nevertheless, the civil service faces significant challenges due to the impact of the war on public finance and politics, as well as long-standing structural obstacles that have persisted over the past decade. For example, staff turnover in the civil service is still high, which negatively affects institutional stability and institutional memory.

Table 10. Civil service turnover by category and year (in %)

Category	2019	2020	2021	2022	2023
Category A (top managers)	41%	45%	42%	24%	29%
Category B (middle managers)	28%	16%	19%	14%	20%
Category C (specialists)	38%	16%	25%	20%	27%

Considering the ongoing staffing challenges and deficiencies in the civil service pay system, approximately 19% of civil service positions remain vacant. As of the end of 2023, the vacancy rate stood at 23% for top management, 16% for middle management, and nearly 20% for specialists within the civil service.

As of the end of the fourth quarter of 2023, the actual number of working civil servants amounted to 159,904 people, including 213 of category A, 40,737 of category B, and 118,954 of category C.

The actual number of working female civil servants amounted to 119,808 thousand people (75%), including by position category: category A - 67 people (31%), category B - 27,021 people (66%), category C - 92,720 people (78%).

By age groups, the following distribution of women civil servants actually working was observed:

- under 35 years (inclusive) - 23,942 people (20%), of which category A - 9 people, category B - 2,522 people, category C - 21,411 people;
- 36-60 years old - 90,607 people (75%), of which category A - 56 people, category B - 22,893 people, category C - 67,658 people;
- 61-64 years old - 4,836 people (4%), of which category A - 2 people, category B - 1,458 people, category C - 3,376 people;
- 65-70 years old - 423 people (up to 1%), including category A - 0 people, category B - 148 people, category C - 275 people.

The actual number of working male civil servants amounted to 40,096 people (25%), including by position category: category A - 146 people (69%), category B - 13,716 people (34%), category C - 26,234 people (22%).

By age groups, the following distribution of men civil servants actually working was observed:

- under 35 years (inclusive) - 9,707 people (24%), of which category A - 16 people, category B - 1,934 people, category C - 7,757 people;
- 36-60 years old - 27,587 people (69%), of which category A - 118 people, category B - 10,811 people, category C - 16,658 people;
- 61-64 years old - 2,264 people (6%), of which category A - 5 people, category B - 779 people, category C - 1,480 people;
- 65-70 years old - 538 people (1%), including category A - 7 people, category B - 192 people, category C - 339 people.

These staff shortages disproportionately affect institutions in public administration with historically limited financial resources. They face the most significant difficulties in retaining valuable staff members and attracting suitable replacements for those who leave. This situation is especially detrimental when considering the challenges of EU accession, the delivery of reforms needed for the economic recovery and growth, and complex national recovery projects, both of which demand highly capable and motivated civil servants, as well as robust institutional capacity.

At the same time, in 2022, given Russia's full-scale invasion of Ukraine, the Government was forced to take appropriate measures for good governance, including optimization of state budget expenditures, in particular, its expenditures on labour remuneration. Thus, by its decision[10] as of April 01, 2022, № 401 the Government reduced labour costs in 2022 and transferred them to the reserve fund. The percentage of reduction was up to 10%. When forming the expenditures of the State Budget of Ukraine[11] for 2023, taking into account the current situation with state budget revenues and expenditures, the Government decided to reduce labour costs by another 10%. Overall, labour costs have been reduced to 20% in 2023 compared to 2021. Given the reduction in labour costs and inflation rates (according to the NBU's inflation reports[12]), which amounted to about 27% between 2022 and mid-2023, the income of individual employees in government authorities decreased to 50% during the period.

Merit-based recruitment and selection has been suspended, and there are fewer opportunities for proper induction training and upskilling of civil servants. Unprecedented challenges faced by civil servants, including work on occupied and de-occupied territories, difficulties in accessing workplaces, resource

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[10] https://zakon.rada.gov.ua/laws/show/401-2022-%D0%BF#Text
[11] https://zakon.rada.gov.ua/laws/show/2710-20#Text
[12] https://bank.gov.ua/ua/monetary/report

depletion, inadequately equipped online work infrastructure and cybersecurity threats and challenges have further aggravated the situation.

2. Overall reform agenda in 2024-2027

Strong capacity of public administration is crucial for the successful implementation of the Ukraine Plan, vital for EU accession process, the successful delivery of reforms needed for the economic recovery and growth, and key to the reconstruction process. A functioning administration is needed for effective policy planning and coordination, handling of citizens' and businesses' requests (e.g. granting permits, handling public registers etc.) and generally has a strong impact on the overall ease of doing business in the country.

While the Ukrainian public administration system has proved to be highly resilient during the full-scale Russian invasion, the reform of this sector has slowed in a number of sectors, in particular as regards merit-based recruitment and selection, civil servants' remuneration reform, as well as digitalisation of internal business processes such as HRM. As to the state's interaction with the citizens, the digitalisation of service delivery ('State in a Smartphone') reached a high level of development and will continue to expand. A clear and transparent procedural framework, i.e. implementation of the Law on Administrative Procedure, is needed to create reliable, simplified and standardised procedures, which will reduce corruption risks, earn public trust and result in a better business environment.

To ensure a successful public administration reform, key PAR measures shall focus on the implementation of a comprehensive salary reform, gradual restoration and effective implementation of a merit-based recruitment and selection process in the civil service, implementation of the Law on Administrative Procedure and digitalisation of the civil service management functions, in addition to overall digitalisation of public service delivery.

These measures will be complemented by a temporary boost to the public administration's capacity provided via the Ukraine Reform Architecture and various technical assistance. The normalisation of civil service employee retention rates and capacity development resulting from the mentioned reforms will enable the gradual phasing out of the Reform Support Teams, while also aiming to engage in the public administration the capabilities established within these teams.

These reform measures will run in parallel with other actions foreseen by the implementation of the Public Administration Reform Strategy, including enhancements to policy making process. Additionally, efforts will be made to strengthen the capacity for EU accession, encompassing coordination mechanisms and institutional capacity, as well as other measures highlighted in the 2023 European Commission's Enlargement report on Ukraine.

It is also necessary to further strengthen the capacity of the public service for the successful process of Ukraine's European integration. Professional development of civil servants responsible for planning, coordination, monitoring and reporting on the implementation of Ukraine's commitments in the field of European integration, training of highly qualified specialists for the effective implementation of the negotiation process on Ukraine's accession to the EU can be carried out on the basis of the National Agency on Civil Service in cooperation with the High School of Public Governance.

2.1 Reforms to be pursued under the Pillar I of the Ukraine Facility

Reform 1. Civil Service Remuneration Reform

State of play and context: Since 2016, when the Law 'On Civil Service' entered into force, there have been no significant revisions to the remuneration system for civil servants. Apart from uncompetitive basic salaries, structural dysfunctions of the remuneration system are characterised by the lack of a functional classification of positions, existing substantial salary disparities for similar positions across institutions, a complex salary structure with significant variability based on excessive managerial discretion, substantial seniority allowance, a high number of vacant positions etc.

According to the results of the National Agency on Civil Service monitoring of remuneration over the past three years, salary variations of up to 43% were found for the same positions (specialists) in the civil service in different ministries. As for middle management (directors of department), the variation is up to 54%. Such fluctuations are observed under the same starting conditions. The gap between the management and the executive level, depending on the ministry, ranges from 43% to 69%.

This is also due to the lack of a unified approach to the formation of the salary fund, as the analysis of such funds (Annex 3 to the Law of Ukraine 'On the State Budget of Ukraine for 2023') shows a difference of up to 50% between ministries in calculating average salaries.

Variable remuneration, which is largely based on managerial discretion as well as the availability of resources, remains a significant part of the salary, leading to a low level of stability and predictability of individual salaries.

There is a need to establish a transparent, unified and fair remuneration system within the civil service, to increase the level of remuneration for positions and institutions in the civil service that are currently underpaid, and to increase the fixed basic salary of the civil servants' total salary.

At the end of 2023, the Parliament adopted the Law of Ukraine 'On the State Budget of Ukraine for 2024', which stipulates that in 2024, civil servants will be paid based on the classification of positions. This is an interim solution that is a step forward but cannot be considered a full-fledged reform. This law defines other conceptual approaches to civil servants' remuneration in 2024, including the types and jurisdictions of government authorities and components of civil servants' salaries. This decision is based on the requirements of time and the capacity of the State Budget of Ukraine for 2024.

Separate government decisions have launched the implementation of remuneration conditions for civil servants based on the classification of positions in 2024. The first stage was the introduction of the classification of civil service positions in accordance with the Resolution of the Cabinet of Ministers № 1109 as of October 23, 2023 'On Preparation for the Introduction of Remuneration Conditions for Civil Servants based on the Classification of Positions in 2024'. The second stage was the approval of the scheme of official salaries for civil service positions, taking into account families and levels of positions, jurisdiction and types of government authorities, and the list of typical civil service positions within the levels of positions in accordance with Resolution of the Cabinet of Ministers № 1409 'On Remuneration of Civil Servants based on the Positions Classification in 2024'.

Description of the reform: The reform should amend the principles and conditions of remuneration, introduce a reasonable functional classification of positions, and establish a salary monitoring and review system based on accurate data. The reform will be implemented on the basis of a clearly defined financial framework in combination with an effective headcount.

The reform will pay attention to the status of independent bodies and ensure that the new salary formation rules set in these institutions, such as anticorruption bodies, do not undermine the effectiveness and independence of these bodies, which can lead to an outflow of professional staff and corruption risks.

There are a number of key steps to the reform consisting of the necessary legislative amendments to the Law ‘On Civil Service’ as well as the adoption of relevant secondary legislation.

The amendments to the Law ‘On Civil Service’ are aimed at introducing uniform remuneration approaches based on position classification, in particular by:

- Introducing remuneration based on the position classification by functional area.
- A separation of wages into a fixed or guaranteed part (not less than 70% annually) and a variable part (not more than 30% annually).
- Reduction of the seniority supplement from 50% to 30%.

The secondary legislation will regulate the classification of civil service positions based on the functional principle and the principle of equal pay for equal work, establish a clear system of official salaries guaranteeing that at least 70% of the total annual salary of civil servants is fixed. The secondary legislation will provide for determining the list of job families and levels of civil service positions for classification of civil service positions; describing the main functions of typical civil service positions within the position families and levels; defining classification codes of civil service positions; defining general requirements for position classification; describing the stages and procedure for position classification; defining the procedure for sending the results of position classification for approval, etc.

The National Agency on Civil Service and the Ministry of Finance are responsible for this reform.

Potential impact of the reform: The implementation of the reform will result in the establishment of a transparent and fair remuneration system based on position classification, stable and predictable salaries for civil servants, with at least 70% of annual net income pay guaranteed, and thus, the reduced discretion of managers in determining civil servants’ total annual salary. This will also result in the increased competitiveness of salaries of civil servants in the labour market. By making the civil servants’ remuneration more transparent and fairer, this reform will help to attract new talent, mitigate the trend of high turnover and outflow of civil servants, and will strengthen the state's role as an employer.

Reform 2. Merit-based recruitment and selection procedure for the civil service

State of play and context: A professional and capable civil service is key to the reconstruction process. The civil service is one of the largest employers in Ukraine, but it is hampered by multiple challenges such as the temporary suspension of merit-based recruitment and selection procedures due to martial law, a shortage of qualified specialists in the labour market as many Ukrainians are temporarily residing abroad, and a high staff turnover rate.

Open competitions were suspended during the COVID-19 pandemic, then briefly restored, and formally suspended again under martial law due to security concerns. At the same time, many institutions of public administration are using merit-based recruitment and selection practices on their own initiative during this time.

The resumption of a meritocratic recruitment and selection procedure for civil servants will be crucial to ensure public trust and attract highly professional staff to the civil service. The Civil Service Law of 2015 is a sufficient legal basis for HR management in public administration, including merit-based recruitment through open competition.

But there is space to improve the quality of recruitment and selection procedures as part of a process leading to the renewal of merit-based recruitment and selection in civil service. The pre-martial law procedure of conducting competitions for civil service positions has been generally brought into line with European standards, but it still needs further improvement.

Therefore, the Government will pursue further improvement of the selection methods based on European principles of public administration, best practices of professional merit-based recruitment and lessons learnt from successful examples of recruitment in Ukraine. This will be done in parallel to preparing for restarting of the merit-based recruitment and selection process for all civil servants.

Description of the reform: The reform consists of three consecutive steps related to the restoration of merit-based selection and recruitment procedures:

- Adoption and amendment of the necessary legislation to improve the procedures for entering, passing and leaving the civil service based on meritocratic principles;
- Gradual restoration of competitive selection procedures based on merit and abilities of candidates for all categories of civil servants (starting with category A and continuing with categories B and C) in the territories controlled by Ukraine, and where there are no hostilities;
- Appropriate methodological support for this process.

As part of this reform, Ukraine will gradually improve previous merit-based selection procedures, taking into account the experience gained and following the OECD/SIGMA recommendations, as well as adapting the procedures to ensure an uninterrupted selection process and taking into account security concerns.

The key directions of updating the competitive selection procedure are:

- aligning recruitment and selection procedures with OECD/SIGMA Principles of Public Administration and putting in place necessary institutional capacities to implement such procedures;
- practical implementation of the principle of integrity during the competition;
- automation of the competitive procedure;
- improved recruitment and search of potential candidates;
- ensuring openness and transparency of the competitive procedure by improving interaction with candidates;
- ensuring accessibility of the competitive procedure for employment of civil service positions for persons with disabilities;
- professional training of members of competitive commissions and employees of personnel management services to conduct competitions for civil service positions.

Potential impact of the reform: The establishment of transparent merit-based selection and recruitment procedures is essential for building trust and transparency in the civil service. Moreover, rethinking and improving recruitment will be crucial for attracting the best talents and will help prevent nepotism and corruption in the civil service.

The National Agency on Civil Service is responsible for this reform.

Reform 3. Digitalisation of civil service and human resources management

State of play and context: Ukraine's reconstruction and recovery will require a lot of capacity building in civil service and availability of accurate HR data will be the core element. It will be important to optimise the outdated procedures in the civil service and digitalisation will facilitate this process. From a practical point of view, digitalisation involves the transformation of paper-based personnel management operations into digital ones. Digitalisation is needed to complement the civil service remuneration reform, which will rely on accurate data and a unified payroll system.

Ukraine has been implementing three digital tools related to the digitalisation of the HR function in public administration. Human Resource Management Information System (HRMIS) has been developed and launched as the main instrument for the digitalisation of the HR management functions in civil service, including for the payroll. HRMIS system has been developed and rolled out by NACS, leading to connecting the majority of public administration bodies to it. A single civil service vacancy portal was operational before the war and provided with a single window for all candidates to civil service posts to search and apply. Since the beginning of the full-scale war, the work of the Unified Vacancy Portal has been suspended for security reasons. The single vacancy portal needs upgrading from the point of view of functionality, interoperability with various registers and systems, including HRMIS, and cyber security. The Government has recently started work on the cooperation of Unified State Web Portal of Electronic Services DIIA with HRMIS. This will allow the use of convenient services and capabilities of Unified State Web Portal of Electronic Services DIIA to identify civil servants and exchange work information between them.

Modernisation of the Unified Civil Service Vacancy Portal will also facilitate merit-based recruitment and selection. In addition, this initiative will contribute to the development of HR policy in the civil service, which will contribute to increasing transparency and accountability. Gradually the functionality of the Portal will expand to ensure merit-based recruitment and selection in local self-government bodies.

Description of the reform: The main components of the reform are the continuation of the implementation of the HRMIS and restoration of functioning of the Unified Civil Service Vacancy Portal (career.gov.ua or its modified versions) and further expanding its functionality to local self-government authorities.

As a result of the reform, usage of the HRMIS, including its payroll function, will be operational and used in all ministries and all operating/acting other central executive authorities and their territorial bodies.

The Unified Civil Service Vacancy Portal (career.gov.ua) will be modified so that it can generate transparent data and statistics on all types of selection procedures and open vacancies. The updated functionality of the Unified Portal will allow to extend its functionality to be able to publish open vacancies of local self-government bodies.

The Ministry of Digital Transformation and the National Agency on Civil Service are responsible for this reform.

Potential impact of the reform: The implementation of the reform will lead to the digitalisation of activities of the government authorities, including in terms of personnel management. This, in turn, will ensure the provision of accurate HR data for better decision-making and policy-making process.

3. Overall investment needs and opportunities in 2024-2027

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4. Coherence with the objectives of the Ukraine Facility

This chapter proposes reforms and investments that are a coherent, comprehensive, and adequately balanced response to the general and specific objectives of the Program for Ukraine. In particular, they will gradually bring Ukraine closer to the rules, standards, policies and practices of the EU in the field of public administration, as well as strengthen the efficiency of public administration and promote transparency. The proposed reforms are in line with UN Sustainable Development Goals #16 ‘Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels’. Local and regional authorities, partners and civil society organisations were all consulted on the reforms and investments proposed under this chapter and their input was included in the final version.

The objectives and measures of this section are consistent with the Action Plan for the implementation of the recommendations of the European Commission presented in the Report on Ukraine's Progress under the EU Enlargement Package 2023, approved by the Order of the Cabinet of Ministers № 133 as of February 09, 2024 (as provided for in paragraphs 4, 5, 6 of the Action Plan).

On February 13, 2023, in the framework of the civil servants' remuneration system reform, the Round Table on ‘Civil Servants' Remuneration System Reform as a Component of Ukraine's European Integration’ was held jointly with the Verkhovna Rada Committee on Organization of State Power, Local Self-Governance, Regional Development and Urban Planning. The participants discussed the status of the reform, the draft law on amendments to the Law of Ukraine ‘On Civil Service’ on the introduction of unified approaches to remuneration of civil servants based on the classification of positions (№ 8222 of 23 November 2022) and the roadmap for the reform. On June 14, 2023, together with the above-mentioned Committee of the Verkhovna Rada, the ‘Discussion of the Position of SIGMA programme and Key Ukrainian Stakeholders on the Implementation of Unified Approaches to Civil Servants Remuneration through the Prism of Draft Law № 8222’ was held. The event was attended by a wide range of stakeholders, representatives of the public, members of the Ukrainian Parliament, government officials, and representatives of international organisations, including Good Governance and Rule of Law Cooperation Program of the EU Delegation to Ukraine, the Support for Improvement in Governance and Management (SIGMA), and the EU-funded Project ‘Support to Comprehensive Public Administration Reform in Ukraine’ (EU4PAR).

In the area of digitalization of civil service and human resources management, working meetings, technical coordination meetings with representatives of the World Bank on the implementation of HRMIS, and approval of the necessary documents for Phase II of the HRMIS project implementation are held on a regular basis.

5. Table of reforms and investments covered under Pillar I

Reforms and investments	Objectives and growth potential	Corresponding chapters of the EU Enlargement report	Name of the step (quantitative and qualitative steps to implement reforms/investments)	Agency responsible for implementation	Outcome	Timeframe
Reform 1. Civil service remuneration reform	Implementation of the reform will result in: - introduction of the transparent and fair labour remuneration system based on the functional classification of positions; - ensuring stable and forecastable salaries for civil service positions; - reducing the possibility of discretion of managers in determination of the civil servants salary; - increased competitive ability of salaries of civil servants in the labour market	Fundamentals - Public administration reform	Entry into force of the legislative changes to the civil service remuneration reform	National Agency for Civil Service, supported by Ministry of Finance	Entry into force of legislation (including the adoption of the necessary secondary legal and normative acts), which complies with the relevant OECD SIGMA principles of public administration. The entry into force of the specified legislation will ensure: - Introduction of remuneration based on the functional classification of positions. - A clear separation of wages into fixed or guaranteed (not less than 70% annually) and variable (not more than 30% annually) parts. - Reduction of seniority supplement from 50% to 30%	Q1 2025
Reform 2. Merit-based recruitment and selection procedure for the civil service	The reform will be implemented via review of selection procedure and its alignment with OECD/SIGMA Principles of Public Administration to ensure gradual restoration of merit-based selection of civil servants. Implementation of the reform will bring the following results: - improvement of pre-war selection procedure based on European principles of public administration, best practices and experience gained from successful selection practices in Ukraine; - gradual resumption of merit-based selection based on revised procedures, starting with civil service positions of category ‘A’ and moving on to restoring merit-based selection of vacant positions for all civil servants	Fundamentals - Public administration reform	Entry into force of the legislative changes to improve the procedure for entering, passing, and terminating civil service	National Agency for Civil Service	Entry into force of legislation (including the adoption of the necessary secondary legal and normative acts) to improve the procedure for entering, passing, and terminating civil service. Specified legislation should comply with the OECD/SIGMA principles of public administration related to merit-based recruitment	Q3 2025
			Reinstating merit-based recruitment in the civil service	National Agency for Civil Service	Restoration of merit-based selection for vacant positions for all civil servants will be implemented gradually in three stages: 1) for civil service positions of category ‘A’ 2) for civil service positions of category ‘B’ (in the territory controlled by Ukraine where no hostilities are taking place); 3) for civil service positions of category ‘C’ (in the territory controlled by Ukraine where no hostilities are taking place)	Q3 2026
Reform 3. Digitalization of civil service and human	This reform is aimed at digitalizing the civil service HR functions, focusing on the. human resources management information system (HRMIS) and Unified Civil Service Vacancies Portal.	Fundamentals - Public administration reform	Full-fledged launch and usage of the human resources management information system (HRMIS)	Ministry of Digital Transformation, supported by National Agency for Civil Service	The Human Resources Management Information System (HRMIS) is in operation and used in all ministries and all operating/acting other central executive authorities and their territorial bodies	Q1 2026

resources management	The reform: addresses the functionality and technical concerns of human resources management information system (HRMIS) users to ensure it is fully functional, operational and secure. is targeted at the full roll-out and use of the human resources management information system (HRMIS), including the payroll module, in state institutions. is targeted at performing the HR operations in state institutions in HRMIS and gradual updating of the legacy HR IT systems.		Restoration and modernization of the Unified Civil Service Vacancies Portal (career.gov.ua)	National Agency for Civil Service	The Unified Civil Service Vacancy Portal (career.gov.ua) is restored and fully functional and can generate statistics on all vacancies and appointments	Q1 2026

CHAPTER 2. PUBLIC FINANCIAL MANAGEMENT

1. State of play

Having an effective public finance management system is vital for implementing structural economic reforms and accelerating Ukraine’s socio-economic recovery, particularly in moving towards an inclusive and resource-efficient economy. Since Russia’s full-scale armed invasion started in 2022, the public finance management has faced extraordinary challenges, but Ukraine has shown remarkable resilience and adaptability to ensure stability. External support, together with the revitalisation of the domestic debt market, has enabled the government to cover a significant budget deficit without resorting to emission financing. The state budget deficit in 2022 increased to over UAH 914.9 billion in 2022 (about 17.5% of the GDP), financed by international grants and concessional financing totalling about EUR 29.5 billion. The state and state-guaranteed debt in 2022 increased by EUR 18.2 billion (77.8% of GDP). The state debt in 2022 increased by EUR 19 billion or UAH 1,352.4 billion (70.9% of GDP), and the state-guaranteed debt decreased by EUR 0.75 billion (6.9% of GDP). The war has severely affected the stability of public finances by impairing revenue due to shrinking economic activities, and structural and policy changes. At the same time, it led to an increase in defence spending putting additional pressure on the budget. Going forward, Ukraine will need to address the damages to the critical infrastructure and housing and from humanitarian crises.

The macroeconomic stability achieved in the years before the war, the fiscal measures taken, and the financial support of external partners allowed Ukraine to pass through this extremely difficult period with an acceptable budget deficit. However, to ensure further recovery and economic growth, as well as the implementation of the European integration course post-war, Ukraine will return to a prudent fiscal policy, increase the efficiency of expenditures and tax administration, reduce the role of the state in the economy and improve the investment climate.

Tax revenues of the state budget in 2022 decreased by 14.2%, whereas expenditures grew by 81.4%. All this while Ukraine lost access to international capital markets. The war reversed the gains from the considerable fiscal consolidation that had been achieved since 2017, during which state and state-guaranteed debt had decreased from around 81% of GDP in 2016 to 49% in 2021. Driven by the sizable borrowing but also reflecting the decline in nominal GDP, total state debt reached 77.8% of GDP at end-2022. Going forward, Ukraine will need to ensure adequate liquidity buffers, meet its financing needs, and restore debt sustainability in the medium term. The urgent need for rapid recovery in the priority areas identified by the Government of Ukraine, the World Bank, the European Commission and the UN joint report RDNA3, amounted to about EUR 13.9 billion. The financing needs of the State Budget through 2024-2026 are as high as EUR 115 billion. In 2024-2026, Ukraine will continue to focus on attracting long-term concessional external financing and maximising the share of official sector grants. Thus, it is planned to attract concessional external loans in the amount of EUR 87 billion.

Ukraine agreed a four-year support programme with the IMF worth SDR 11.6 billion (about EUR 14.4 billion) to consolidate policies that maintain fiscal, external, price and financial stability and support economic recovery, while improving governance and strengthening institutions to promote long-term growth in the context of post-war reconstruction and Ukraine's path to accession to the European Union.

There are several ongoing reforms as Public Finance Management (PFM) has progressed significantly since the first PFM strategy was adopted in 2013. The adoption of the latest 2022-2025 PFM Strategy and Action Plan marked another important step forward, as it aligns with the Public Expenditure and Financial Accountability (PEFA) methodology, EU standards and international best practices. The introduction of the medium-term budget planning in 2018 laid the foundation for fiscal stability and sustainability. The approval of the three-year budget declaration for 2022-2024 with application to the 2022 budget is a demonstration of commitment to longer term fiscal planning. Since 2017, Ukraine has continuously improved budget transparency, achieving the 23th position in the 2021 Open Budget Index rating among 120 countries and joining the group of countries with substantial budget information available and adequate budget oversight. As part of the IMF EFF programme, conditionality authorities reinstated the medium-term budget framework, medium-term debt strategy and fiscal rule on guarantees. The legislative framework and the supreme audit institution ensure oversight throughout the budgetary process. Building on the commitments under the Association Agreement with the EU, Ukraine enhanced domestic revenue mobilisation through tax and customs. Some gaps remain in terms of alignment of legislation on VAT and excise duties and anti-avoidance rules. Customs procedures need further alignment while the IT infrastructure of the customs administration needs to be updated to the level of compatibility with EU IT systems. Public investment management is improving but needs to address issues such as fragmentation, reduced due diligence, and institutional arrangements. The Roadmap for reforming public investment management was adopted by the Government on December 22, 2023, and currently, we are working on drafting the Action Plan for the implementation of the Roadmap for reforming public investment management.

2. Overall reform agenda in 2024-2027

The reform needs in PFM are multifaceted and span various aspects of fiscal governance and administration. They aim to enhance Ukraine's macro-economic and financial resilience, ensure efficient use of public funds, align with EU standards, and promote sustainable growth. The significant progress achieved by Ukraine in this area starting from 2017, was significantly hampered by the war, with many reform measures, such as full-fledged implementation of medium-term budget planning, strategic planning and performance-based budgeting, put on hold together with the necessary capacity building. Therefore, the key priorities going forward will be to restore the PFM processes and practises paused by the war and lay the foundations for the large-scale reconstruction of the country.

The reforms in this area are guided by three main comprehensive strategic documents: PFM Reform Strategy for 2022-2025, National Revenue Strategy for 2024-2030 and Medium-Term Public Debt Management Strategy for 2024-2026.

Key reforms include implementing a National Revenue Strategy to bolster tax revenue, restoring medium-term budget planning to provide stability and resource allocation efficiency, regular spending reviews to increase the efficiency of budget expenditures and public service delivery, the introduction of fiscal risk management for local budgets to reduce financial vulnerabilities, and comprehensive public investment management reform aimed at strategic alignment and transparent project selection. Further reforms target the strengthening of transparency and accountability in resource utilisation. The development of a Medium-Term Public Debt Management Strategy seeks to manage debt efficiently and sustainably while supporting Ukraine's recovery and market integration efforts. Ukraine will also advance the customs reform, including the further harmonisation and digitalisation of the customs procedures. These reforms collectively contribute to addressing the social, economic, and environmental consequences of the war, fostering resilience, aligning with EU standards, and promoting good governance and sustainability, as outlined in the objectives of the Ukraine Facility.

Additionally, important reforms in the area of PFM will include:

- Harmonising VAT and excise tax regimes with the EU *acquis* - EU taxation rules cover value-added tax, excise duties and certain aspects of corporate taxation. They also deal with cooperation between tax administrations, including the exchange of information to prevent tax evasion. EU accession requirement the harmonisation of the VAT system would facilitate Ukraine's participation in the EU single market. Aligning the excise laws with the EU *acquis* would likely lead to higher revenue due to higher rates and broader tax bases on energy products. Bringing Ukraine's tax legislation in line with the requirements of the EU legislation on counteracting tax avoidance (Anti-Tax Avoidance Directive (ATAD)). As part of the implementation of the NRS, Ukraine will adopt the new Customs Code aligned with the EU Customs Code.

- Digitalisation of the State Tax Service and State Customs Service, by adopting and implementing digitalisation plans for these two administrations.

- Implementing a single window for customs and electronic data interchange (EDI) with EU countries, to facilitate trade.

- Develop and ensure the implementation of a comprehensive customs reform including harmonisation of legal frameworks with EU legislation (including criminalisation of large-scale smuggling), digitalisation of the customs rules, and introducing anti-corruption tools.

- Complete ethical and professional attestations of those to be hired in (and re-attestations of those working in) the Customs Service. Revamp the selection process for SCS leadership to ensure a transparent and merit-based process that includes meaningful participation of international experts. Create a credible disciplinary committee and replace staff who do not meet ethical and professional standards. Overhaul and increase staffing of the SCS's internal affairs unit.

- Improving the HR and compensation policies, developing centres of excellence within State Custom Service for different functional tasks, moving the verification/checking of customs documents from border crossings to inland offices, etc. The groundwork for these reforms has already been laid by IMF technical assistance being provided in 2023 as well as a tax perception survey conducted in December 2022.

- Continued improvement of financing mechanisms for social protection, healthcare, education, business support, including based on the results of conducted spending reviews. This will include reforming the pension system, disability benefits, higher education, etc., also to ensure their fiscal sustainability. Ukraine prepared a concept note for social protection reform in January 2023 under the IMF program conditionality and with technical support from the World Bank. Proposed reforms related to social protection will be aligned with the IMF and WB operations.

- Introducing a Roadmap for reforming public investment management, based on the recommendations of WB's PIMDA. The Roadmap will strengthen the institutional framework for public investment management, clearly defining the roles of all participants at all stages of the investment project cycle. It will ensure that the Ministry of Finance plays a clear gatekeeping role, ensuring that only projects appraised and selected according to the established rules are subject to budget financing. The Roadmap will streamline the decision-making procedures, unifying approaches to the project evaluation and selection regardless of the financing sources ensuring the creation of a single project pipeline and enhancing reporting and oversight. An IT environment will be created for a transparent project management cycle that can be scrutinised by the public and allow 1) electronic applications 2) monitoring of funding 3) ensuring the audit trail. OLAF should receive access on request within the framework of fulfilling its investigative mission.

- Improving financial control systems, and ensuring complementarity and synergy between various types of audit and control activities.

- Strengthening the effectiveness and professionalism of SAS, based on a functional review.

- Develop an integrated IT platform for accounting in the public sector which would provide for a unified free accounting software for the public sector entities, availability of analytical tools to increase the quality of decision-making, as well as availability of primary accounting information in the unified system to facilitate the consolidation of financial statements.

- Strengthen the monitoring of fiscal risks, in a first step focusing on public guarantees and contingent liabilities in state-owned enterprises (SOEs). The reform aims to strengthen the gatekeeper function of the Ministry of Finance to monitor and assess fiscal risks in a forward-looking manner. The first step would entail the areas of state guarantees and liabilities linked to the SOEs. Fiscal risks associated with SOEs require active risk management. To achieve this, the Government will take measures which include bolstering the framework for risk assessment and management related to guarantees for SOEs, as well as enhancing the overall SOE governance framework.

- Broaden the monitoring of fiscal risks to public-private partnerships (PPPs), demographic trends, etc. Public-private partnerships could play a key role in ensuring sufficient resources are available for reconstruction and recovery. Given the potential fiscal costs and contingent liability risks arising from PPPs, both with a view to individual projects as well the PPP portfolio, they should be subject to coherent and systematic fiscal risk monitoring. Moreover, the framework of fiscal risk monitoring needs to be flexible enough and have adequate capacity within the Ministry of Finance to accommodate newly identified drivers of substantial fiscal risks, such as but not limited to demographic trends. A better integration of the fiscal risk management framework and the budgetary framework throughout the entire budget cycle is also critical, starting from the initial phase where both central and local governments are formulating their expenditure plans.

- Further implementation of fiscal decentralisation to strengthen the financial stance of local governments. This includes a clear delineation of powers between different levels of government to avoid any ambiguity to be followed by the revision by the Ministry of Finance of a horizontal equalisation system in line with new realities. Also, a new model for the distribution of personal income tax will be designed to improve the financing mechanism for delegated powers and strengthen the resource base of local budgets. Implementation of these measures will require the availability of accurate data on the actual population of territorial communities. At the same time, increased powers and resources of local governments will require increased accountability for their use, to which end the system of financial control over local budgets will be streamlined, including strengthening of internal control and audit at the local level.

- Ensuring better efficiency and targeting of budget expenditures through continued monitoring and verification of state payments by the Ministry of Finance. This process is established by the law and provides for verifying the grounds for the assignment of various types of payments and benefits from the budget and eligibility of their recipients using the dedicated IT platform. The coverage of the current verification process, which focuses mostly on social payments, will be expanded to include payments under the program of medical guarantees, as well as direct business support programs, etc. This will provide an additional layer of controls for budget spending, including that financed using external assistance.

- Increasing the completeness and reliability of financial reporting data in the public sector through further alignment of the national public sector accounting standards with the international ones and improvement of the methodology of drawing up consolidated financial statements taking into account best international practices.

2.1. Reforms to be pursued under the Pillar I of the Ukraine Facility

Reform 1: Improved revenue management

State of play and context: Ukraine will ensure macroeconomic and financial stability while continuing to align with EU requirements. To mobilise tax revenues during martial law and further increase tax collection after its termination or cancellation, it will find ways to increase domestic budget revenues on a sustainable basis, improve tax collection by closing existing loopholes, enhancing compliance and addressing the shadow economy. Sustained tax revenue will be required for priority wartime expenditures as well as immediate recovery, reconstruction, and modernisation. Moreover, Ukraine will introduce international taxation standards to prevent tax base erosion and profit shifting. It shall continue the harmonisation of the national tax and customs legislation with the EU.

Description of the reform: Ukraine will adopt a National Revenue Strategy for 2024-2030. The Strategy will include, among others, measures amending the national tax legislation in line with the requirements of the EU on VAT, excise taxes and anti-avoidance rules, in line with the Anti-Tax Avoidance Directive (ATAD), as well as measures amending the national legislation on personal income taxation. The Strategy aims to improve domestic revenue mobilisation, by closing existing loopholes (addressing tax expenditures and exemptions), enhancing compliance, and addressing the shadow economy. The NRS will include a proposal for a strategic plan for digital development, digital transformation and digitalisation of the State Tax Service (IT Strategy for STS), and measures to reform property taxation.

Ukraine will adopt a long term national strategic plan for digital development, digital transformation and digitalisation of State Tax Service (IT Strategy for STS), in line with the recommendations of the National Revenue Strategy for 2024-2030, by Q4 2024. As part of the NRS, Ukraine foresees the adoption by Q2 2024 of a long-term national strategic plan for digital development, digital transformation and digitalisation of the State Customs Service (IT Strategy for SCS), based on the EU multi-annual strategic plan for customs (MASP-C), a management and planning tool setting out EU-wide electronic customs systems developments. The implementation of the IT Strategy for the customs administration shall include developing functional and technical specifications for new electronic systems based on the EU best practices, rolling out of the New Computerised Transit System (NCTS). The Ministry of Finance and State Customs Service will be responsible for the fulfilment of the reform.

Potential impact of the reform: Adoption of the National Revenue Strategy of Ukraine will contribute to the achievement of fiscal targets and medium-term budget planning, which are focused on reducing state debt, reducing the budget deficit and maintaining a downward trend in their percentage of GDP. The NRS will also serve as a guiding tool for the Government in budgeting, as well as a communication tool for all stakeholders on the development of tax and customs policy and administration. The adoption of the NRS demonstrates the intentions of the Government to find ways to increase budget revenues on a sustainable basis by closing existing opportunities for tax evasion and combating the shadow economy. The NRS aims to improve the attitude of the public and taxpayers towards the completeness of tax and customs payments, as well as their perception of tax and customs administration. In addition, the implementation of plans for the digitalization of the Tax and Customs Services will create conditions for improving the provision of services, as well as reducing risks.

Reform 2: Improved public financial management

State of play and context: Ukraine's public finance management saw significant advancements during 2018-2021, including the implementation of medium-term budget planning and the transformation of tax administration in line with EU legislation. The Ministry of Finance and the relevant authorities have already started the gradual resumption of the PFM reform processes suspended in 2022 in order to further strengthen the sustainability of public finances and increase the efficiency of public expenditures to ensure recovery opportunities and to further align with the EU membership criteria.

Description of the reform: The Public Finance Management Reform Strategy for 2022-2025 aims to build a modern, sustainable, and efficient public finance management system, ensure the financial stability of the state and create conditions for the sustainable growth of a socially inclusive economy by increasing the efficiency of mobilising and spending public funds.

The PFM Reform Strategy foresees restoring medium-term budget planning starting from 2024 to ensure the predictability of budget policy, which is crucial because it provides the necessary fiscal predictability and stability, enabling effective allocation of resources, and supporting long-term economic sustainability and growth. In line with the PFM Strategy for 2022-2025, Ukraine will renew the medium-term budget planning at the central level. The Government will adopt the Budget Declaration for 2025-2027 in Q2 2024. It will also include a Fiscal Risk Statement on key fiscal risks emerging from SOEs, public guarantees, contingent liabilities, and PPPs.

The PFM Strategy aims to increase the efficiency of budget expenditures and public service delivery and their coherence with the goals of state policy through regular spending reviews. In line with the Strategy, the Government adopted a Decision to conduct spending reviews on a yearly basis, based on the methodology developed in line with OECD standards. The areas where spending reviews will be conducted will be defined clearly in advance, focusing on those areas that have the most significant impact on public expenditures, including social protection, education, healthcare, business environment/SME support, agriculture, energy etc. The spending reviews will be carried by key spending units determined by the Government's Decision in the respective year. Improving the process and conducting regular spending reviews of the state budget is necessary in particular to fully integrate into the budget process and establish the frequency of reviews, increasing the responsibility and engagement of key spending units in conducting reviews. The rationale of these reviews would be to unlock fiscal space for additional domestically funded public investment and priority current expenditure.

The PFM Strategy also envisages improving fiscal risk management, in determining the procedure and methodology for managing fiscal risks of local budgets to complement the work already conducted on building the framework for managing fiscal risks of the state budget related to SOEs, government guarantees, and contingent liabilities. This will require the adoption and entry into force of a law amending the Budget Code of Ukraine to define the procedure for managing fiscal risks of local budgets. The law will include provisions establishing the entities responsible for management of fiscal risks related to local budgets, setting out the procedure for cooperation between entities of managing local budgets-related fiscal risks. This step should be completed by Q4 2026.

The PFM Strategy foresees measures digitalising the accounting system in the public sector, by developing and operationalising an integrated IT platform for accounting to streamline accounting practices in all public sectors. The Ministry of Finance will be responsible for this step.

Potential impact of the reform: The result of the reform should be a more efficient public finance management system, which together with the reformed public administration system will contribute to the sustainable socio-economic development of the state, the competitiveness of the economy and the dynamic integration of Ukraine into international markets, including the single market of EU member states. This reform should also promote alignment with the EU *acquis* on budgetary frameworks which governs the availability of fiscal data, budgetary preparation processes, fiscal rules, etc.

Reform 3: Improved public debt management

State of play and context: External support, together with the revitalisation of the domestic debt market, has enabled the Government to cover a significant budget deficit without resorting to emission financing. International assistance reached EUR 39.7 billion by the end of 2023. According to the Commission forecast, the state debt and state-guaranteed debt will gradually increase until 2025. Given the significant budget deficits for several years in a row and their financing primarily by debt obligations, as well as the reduction of grant support in the medium term, the debt will approach 100% of GDP in 2025. The existing Medium-Term Debt Management Strategy dates as of October 27, 2023.

Description of the reform: The Government will adopt an updated Medium-Term State Debt Management Strategy, which will identify the main tasks and measures for public debt management in the medium term, with a view to increasing the transparency of state debt management policy and the efficiency of state debt management. It will also envisage the analysis of state debt management mechanisms that will allow Ukraine to implement measures aimed at ensuring the country's debt sustainability and mitigation of risks, while meeting the financing needs of the budget and enabling the bond market to play an active role in the reconstruction phase.

Going forward, pre-war priorities such as increasing the share of state debt denominated in local currency and ensuring a smooth payment profile will remain important.

This reform will entail development by the Ministry of Finance of the State Debt Management Strategy for 2026-2028 and its approval by the Government. This measure will be implemented by Q4 2025.

Potential impact of the reform: Sustainability of state debt is an important prerequisite for overall macro-financial stability and creation of an enabling environment for public and private investment.

Reform 4: Improved public investment management

State of play and context: Public investment will become increasingly important to support recovery and rapid post-war reconstruction, enhance resilience and long-term growth, and meet public infrastructure investment needs. Public investment management remains one of the areas that needs significant strengthening. In its 2022 Investment Management Diagnostic Assessment Report (PIMDA), the World Bank identified major shortcomings, such as fragmentation, low capacity to carry out adequate due diligence, corruption risks, lack of strategic orientation and weak institutional arrangements, and issued recommendations for improvement. The Roadmap for reforming public investment management developed in close cooperation with the WB and adopted by the Government on December 22, 2023. Currently, the Ministry of Finance is working on drafting the Action Plan for the implementation of a Roadmap for reforming public investment management. The development of this Roadmap is part of the structural benchmarks under the IMF EFF programme.

Description of the reform: This reform will entail adopting the Action Plan for the implementation of the newly adopted Roadmap for reforming public investment management, based on the recommendations of WB's PIMDA, by the Q2 2024. Ukraine will prioritise planning of public investments based on strategic priorities and the medium-term budget perspective and transparent and economically justified selection of investment projects, primarily for the recovery. The implementation of the Roadmap will strengthen the institutional framework for public investment management, clearly defining the roles of all participants at all stages of the investment project cycle. It will ensure that the Ministry of Finance plays a clear gatekeeping role, ensuring that only projects appraised and selected according to the established rules are subject to budget financing. This should streamline the decision-making procedures, unifying approaches to the project evaluation and selection regardless of the financing sources and enhancing reporting and oversight.

To operationalize the Roadmap, the Ministry of Finance will develop an Action Plan which will include the sequencing and timeframe for measures aimed at introduction of strategic planning for public investment in close connection with budget planning, definition of the roles of all participants at all stages of the investment project cycle, establishment of unified approaches to the selection, evaluation and monitoring of investment projects, regardless of the sources of funding to enable the preparation of single project pipeline, definition of prioritisation criteria that capture defined needs, maturity of projects, and alignment with sectoral and/or regional strategies in the context of the public investment management. This measure will be completed by Q2 2024.

The digital solutions will be used to support the overall project cycle with the aim to increase transparency and accountability of the public investment process. At the first stage of digitalization, Ukraine will develop and implement the digital management tool, which provides public access to data on reconstruction projects at all stages, including planning, financing, procurement, construction and commissioning, to enable a public and transparent monitoring of project implementation and better coordination of reconstruction efforts between sectors. The Ministry of Communities, Territories and Infrastructure Development will complete this measure by Q3 2025.

Potential impact of the reform: A sound public investment management with clear roles and responsibilities for the main stakeholders will play into attracting foreign and local investors, encouraging competitive and transparent project selection. Clearly stipulated strategic priorities for public investment and a pipeline of appraised investment projects will provide guidance for all types of investors and ensure more efficient use of resources during the reconstruction. Robust project monitoring framework with high degree of digitalisation, including using new budget planning and monitoring IT system and DREAM, will be implemented to provide real-time information on project implementation, allowing for transparency, timely identification of bottlenecks and making of necessary adjustments.

The importance of coordinating and stimulating the recovery process is highlighted by the European Commission's Report on Ukraine in the framework of the EU's 2023 Enlargement Policy, published on 8 November 2023, namely Cluster 1. Basic Principles of the EU Accession Process and Title 22 Regional Policy and Coordination of Structural Instruments.

Reform 5: Improved audit and financial control systems

State of play and context: The development of an audit and financial control system following international standards and best practices is stipulated in the Association Agreement and is one of the important conditions for Ukraine's accession to the European Union. The proper functioning of public internal financial control system will contribute to the effective and efficient operation of public sector institutions, which in turn will help create conditions for sustainable economic growth. The further development of the public internal financial control system is part of the PFM reform strategy and is closely linked to other reforms in this area, as well as to the public administration reform.

Description of the reform:

Adoption and entry into force amendments to the resolutions of the Cabinet of Ministers or other legislation on state financial control, which will focuses in particular on the following areas:

- Enabling for the State Audit Services to ensure that the institution has the means to protect the financial interests of the EU, in particular for the funds used under the Pillar I of the Ukraine Facility, based on the international audit standarts;
- Strengthening measures for monitoring the procurement procedures.

The reform will increase the efficiency and quality of the work of the State Audit Service, in line with EU practices, and SIGMA principles on financial inspection. Based on an analysis of the legal framework governing the functions of the SAS, and considering the SIGMA principles of public administration, legislative amendments will be introduced to ensure a better definition of the SAS mandate. The institutional independence of SAS will be preserved. The Ministry of Finance and SAS will be responsible for the implementation of this reform and it will be accomplished by Q4 2025.

Potential impact of the reform: This reform will help ensure complementarity and synergy of various types of audit and control activities related to public money. Strong financial control system builds trust in taxpayers and investors that public funds are used rationally and for intended purposes. Necessary safeguards and controls at all stages together with increased managerial responsibility will help prevent misuse and increase the effectiveness of investment.

3. Overall investment needs and opportunities in 2024-2027

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4. Coherence with the objectives of the Ukraine Facility

The proposed reforms in the PFM area contribute to the general objectives of the Facility, notably in addressing the social, economic, and environmental consequences of the war, fostering resilience and integration into global markets, aligning with EU standards, and contributing to Ukraine's stability and sustainability.

These measures meet and are necessary to achieve the specific objectives of the Facility, notably in helping maintain the macro-financial stability of the country, fostering the transition to a sustainable and inclusive economy and a stable investment environment, supporting Ukraine’s integration into the single market, but also promoting digital transformation as an enabler for sustainable development and inclusive growth.

The implementation of the National Revenue Strategy for 2024-2030 will contribute to Ukraine’s fiscal sustainability, but also promote the fight against tax evasion and tax fraud. The implementation of measures under the PFM Strategy for 2022-2025 will help ensure - macro-financial stability and strengthen good governance and public financial management, and progress towards further alignment with the EU *acquis*.

5. Table of reforms and investments covered under Pillar I

Reforms and investments	Objectives and growth potential	Corresponding chapters of the EU Enlargement report	Name of the step (quantitative and qualitative steps to implement reforms/investments)	Agency responsible for implementation	Outcome	Timeframe
Reform 1: Improved revenue management	Maintaining the level of tax revenue mobilisation during martial law and strengthening its mobilisation after its termination or cancellation, including the introduction of international taxation standards to prevent tax base erosion and profit shifting, as well as harmonisation of Ukraine's tax and customs legislation with EU legislation. In addition, it is proposed to improve the administration of taxes, duties and customs payments based on an analysis of the activities of the controlling authorities, including by strengthening compliance with tax legislation through the application of compliance risk management. Improving the digitalisation and use of data in the tax and customs authorities will be one of the key parts of this Strategy. Proper resources will be required for priority wartime expenditures as well as immediate recovery, reconstruction and modernization	Chapter 16 Taxation Chapter 29 Customs union	Adoption of the National Revenue Strategy for 2024-2030	Ministry of Finance	Adoption of the National Revenue Strategy for 2024-2030. The Strategy includes measures such as: - proposals for amending Ukraine's tax legislation in line with the requirements of EU legislation (in terms of taxation on value added tax and excise taxes, measures to combat tax evasion, etc.); - proposals for amending Ukraine's tax legislation to improve personal income taxation; - proposal for a IT Strategy of the State Tax Service; - measures to address the informal economy; - measures to reform property taxation measures to address tax expenditures and exemptions	Q1 2024
			Adoption of the strategic plan for digitalisation of the State Tax Service	Ministry of Finance, State Tax Service	The strategic plan for digital development, digital transformation and digitalisation of State Tax Service is adopted, in line with the recommendations of the National Revenue Strategy for 2024-2030	Q4 2024
			Adoption of the plan for the digitalisation of the State Customs Service	Ministry of Finance, State Customs Service	The long-term national strategic plan for digital development, digital transformation and digitalisation of the State Customs Service is adopted	Q2 2024
Reform 2: Improved public financial management	The goal of the Public Finance Management Reform Strategy for 2022-2025 is to build a modern, sustainable and efficient public finance management system aimed at ensuring the financial stability of the state and creating conditions for sustainable growth of a socially inclusive economy by	Fundamentals - public administration reform, Chapter 16 Taxation Chapter 17 Economic and monetary policy	Approval of the Budget Declaration for 2025-2027	Ministry of Finance	The Budget Declaration for 2025-2027 is approved, acquired the status of an official document and submitted to the Parliament. The Declaration will foresee: - key macroeconomic projections of economic and social development of the country; - key budget indicators (revenues, expenditures, budget deficit, public debt);	Q2 2024

	improving the efficiency of mobilising and using public funds. Its implementation should result in a more efficient public finance management system, which, together with the reformed public administration system, will contribute to the sustainable socio-economic development of the state, economic competitiveness and dynamic integration of Ukraine into international markets, including the EU's common market	Chapter 32 Financial control			- public policy priorities by spheres and expenditure ceilings for each key spending unit; - relations between the state budget and local budgets, including necessary guidance for preparing medium-term forecasts of local budgets; - fiscal risks assessment	
			Conduction of spending reviews of the state budget	Ministry of Finance, Key spending units determined by the Government's decision to conduct reviews in the respective year	Spending reviews of the state budget are conducted annually based on the Government decision and the methodology aligned with best OECD practices in particular in the priority areas, such as including social protection, education, healthcare, energy, business support	Q4 2026
			Entry into force of the Law on Amendments to the Budget Code of Ukraine to Define the Procedure for Managing Fiscal Risks of Local Budgets	Ministry of Finance	The Law on Amendments to the Budget Code of Ukraine to Define the Procedure for Managing Fiscal Risks of Local Budgets is adopted and enters into force. The Law will include measure such as: - determining entities responsible for managing fiscal risks of local budgets; - establishing the procedures for cooperation between various entities responsible for managing fiscal risks of local budgets; - defining the methodological frameworks for managing fiscal risks of local budgets	Q4 2026
Reform 3: Improved public debt management	Ensuring state debt sustainability while advancing the recovery will be another priority for the GoU. The Medium-Term State Debt Management Strategy will identify the main tasks and measures for state debt management in the medium term, with a view to increasing the transparency of state debt management policy and the efficiency of state debt management. It will also envisage the analysis of state debt management mechanisms that will allow Ukraine to implement measures aimed at ensuring the country's debt sustainability and mitigation of risks, while meeting the	—	Adoption of the medium-term state debt management strategy (MTDS)	Ministry of Finance	The medium term state debt management strategy (MTDS) for 2026-2028 is adopted by the Government, providing, in particular, for: - analysis of current public debt structure and trends; - targets to ensure debt sustainability; - measures for the development of domestic government securities market	Q4 2025

	financing needs of the budget and enabling the bond market to play an active role in the reconstruction phase. Going forward, pre-war priorities such as increasing the share of state debt denominated in local currency and ensuring a smooth payment profile will remain important					
Reform 4 : Improved public investment management	Public investment will become increasingly important to support recovery and rapid post-war reconstruction, enhance resilience and long-term growth, and meet public infrastructure investment needs. Rational management of public investment with clear roles and responsibilities of key stakeholders, and competitive and transparent project selection will help attract foreign and local investors	Chapter 22 Regional policy and coordination of structural instruments	Adoption of the Action Plan for the implementation of the Roadmap for reforming public investment management	Ministry of Finance	Action Plan for the implementation of the Roadmap for reforming public investment management is adopted. The action plan will include the sequencing and timeframe for such measures as: - introduction of strategic planning for public investment in close connection with budget planning; - definition of the roles of all participants at all stages of the investment project cycle; - establishment of unified approaches to the selection, evaluation and monitoring of investment projects, regardless of the sources of funding (budget revenues, international donors, state (local) guarantees, concessions, PPPs) to enable the preparation of single project pipeline; - definition of prioritisation criteria that capture defined needs, maturity of projects, and alignment with sectoral and/or regional strategies in the context of the public investment management; - introduction of an independent assessment of large public investment projects	Q2 2024
	Public investment will become increasingly important to support recovery and rapid post-war reconstruction, enhance resilience and long-term growth, and meet public infrastructure investment needs. Rational management of public investment with clear roles and responsibilities of key stakeholders, and competitive and transparent project		Implementation of the Roadmap for reforming public investment management	Ministry of Communities, Territories and Infrastructure Development	Development and implementation of the digital management tool for the reconstruction of Ukraine, which provides public access to data on reconstruction projects at all stages, including planning, financing, procurement, construction and commissioning, to enable a public and transparent monitoring of project implementation and better coordination of reconstruction efforts between sectors	Q3 2025

	selection will help attract foreign and local investors					
Reform 5: Improved audit and financial control systems	The proper functioning of audit and public internal financial control system will contribute to the effective and efficient operation of public sector institutions, which in turn will help create conditions for sustainable economic growth.	Chapter 32 Financial control	Adoption and entry into force amendments to the resolutions of the Cabinet of Ministers on state financial control.	Ministry of Finance, State Audit Service	Adoption and entry into force amendments to the resolutions of the Cabinet of Ministers or other legislation on state financial control, which will focuses in particular on the following areas: - Enabling for the State Audit Services to ensure that the institution has the means to protect the financial interests of the EU, in particular for the funds used under the Pillar I of the Ukraine Facility, based on the international audit standarts; - Strengthening measures for monitoring the procurement procedures.	Q4 2025

CHAPTER 3. JUDICIAL SYSTEM

1. State of play

The organisation of the judiciary and the administration of justice in Ukraine, which operates on the basis of the rule of law, in accordance with European standards, and ensures the right of everyone to a fair trial, is regulated by the Law of Ukraine ‘On the Judicial System and the Status of Judges’. In particular, the provisions of this Law define the legal framework for the organisation of Ukrainian courts and the administration of justice, establish the system of courts, the procedure for forming the corps of professional judges and organisational forms of judicial self-government in accordance with the provisions of the Constitution of Ukraine.

According to the provisions of this Law, the courts of Ukraine form a unified system. The establishment of extraordinary and special courts is not allowed. The judicial system consists of: local courts; courts of appeal; and the Supreme Court.

In accordance with this Law, the judicial system has high specialised courts (the High Anti-Corruption Court) to consider certain categories of cases. The unity of the judicial system is ensured by the following: unified principles of organisation and operation of courts; unified status of judges; rules of procedure established by law, that are binding for all courts; unity of court practice; binding nature of court decisions in Ukraine; unified procedure for organisational support of courts; funding of courts exclusively from the State Budget of Ukraine; resolution of issues of internal operation of courts by judicial self-government bodies.

Courts specialise in civil, criminal, commercial, administrative cases, as well as cases of administrative offences. In cases determined by law, as well as by decision of the meeting of judges of the relevant court, specialisation of judges in consideration of specific categories of cases may be introduced.

As of 12 February 2024 757 Local Courts and Courts of Appeal (663 Local General Courts, 27 Local Commercial Courts, 26 Local Administrative Courts, 26 General Courts of Appeal, 7 Commercial Courts of Appeal, and 8 Administrative Courts of Appeal).

There are 597 operating local courts and courts of appeal (515 Local General Courts, 24 Local Commercial Courts, 23 Local Administrative Courts, 22 General Courts of Appeal, 6 Commercial Courts of Appeal, and 7 Administrative Courts of Appeal).

The territorial jurisdiction of 160 Local Courts and Courts of Appeal has been changed (148 Local General Courts, 3 Local Commercial Courts, 4 General Courts of Appeal, 1 Commercial Court of Appeal, and 1 Administrative Court of Appeal (taking into account courts whose jurisdiction was transferred during the war period from 2024 to 2022 - 84 Local Courts and Courts of Appeal, including 36 in the Autonomous Republic of Crimea and the City of Sevastopol, 31 in Donetsk Oblast, and 17 in Luhansk Oblast).

Number of vacancies in the judiciary as of 12 February 2024: Supreme Court: 38; High specialised courts: 55. As of February 12, 2024, there are 915 vacancies in Courts of Appeal, and 2,500 in Local Courts.

According to Article 14 of the Law of Ukraine ‘On the Prosecutor's Office’, the total number of employees of the prosecutor's office is not more than 15,000 people, in particular, the total number of prosecutors is not more than 10,000 people.

The number of vacant and temporarily vacant positions of prosecutors in the prosecution authorities of Ukraine (except for administrative ones) as of 21 February 2024:

- Vacant: 451 in the Office of the Prosecutor General, regional and equivalent prosecutor's offices; 820 in district and equivalent prosecutor's offices.
- Temporarily vacant: 60 in the Office of the Prosecutor General, regional and equivalent prosecutor's offices; 207 in district and equivalent prosecutor's offices.

Also, according to the RDNA3, the amount of damage to the judicial system (mainly courts) is EUR 107.6 million, and the recovery needs are EUR 225.9 million.

On 9 December 2023, the Verkhovna Rada adopted Law of Ukraine № 3511-IX ‘On Amendments to the Law of Ukraine ‘On the Judiciary and the Status of Judges’ and Certain Legislative Acts of Ukraine on Improving the Procedures for Judicial Career’, which entered into force on 30 December 2023. The Law provides, inter alia, for the reduction of the stages of the selection procedures for the position of a judge and competition procedures.

Thus, in accordance with the provisions of Article 70 of the Law of Ukraine ‘On the Judiciary and the Status of Judges’, the selection of a local court judge (selection of a judge) is carried out in accordance with the procedure established by this Law and includes the following stages:

1) Announcement of the selection for the position of a judge;
2) Submission of applications and documents by persons who have expressed their intention to become a judge to participate in the selection for the position of a judge;
3) Admission to participation in the selection for the position of a judge;
4) Passing the qualification exam;
5) Conducting a special verification provided for by this Law;
6) Conducting an examination of the personal moral and psychological qualities of candidates for the position of a judge (if the High Qualification Commission of Judges (HQCJ) determines that such a need exists);
7) Approving the rating of candidates for the position of judge;
8) Enrollment of candidates for the position of judge in the reserve for vacant judicial positions.

According to the Law of Ukraine ‘On the Judiciary and the Status of Judges’, the HQCJ conducts a competition for vacant positions:

1) Local court judges - based on the rating of candidates for the position of judge and judges who have expressed their intention to be transferred to another local court;
2) Judges of an appellate court, a higher specialised court or judges of the Supreme Court - on the basis of the rating of candidates by the results of the qualification assessment and taking into account the other specifics provided in the Law.

The competition for a vacant position of a judge of the Supreme Court shall be held for a vacant position in the relevant cassation court.

The competition for a vacant position of a judge of the High Anti-Corruption Court shall be held with due regard to the specifics provided for by the Law of Ukraine ‘On the High Anti-Corruption Court’.

The final stage is the issuance of a decree by the President on the appointment of a judge - if the High Council of Justice submits a motion to appoint a judge to the position.

The selection of candidates for the position of a prosecutor is carried out from among persons who meet the requirements set forth in Article 27 of the Law of Ukraine ‘On the Prosecutor's Office’ and begins after the Qualification and Disciplinary Commission of Public Prosecutors makes a relevant decision, which is published on its official website. Main stages of the selection of candidates for the position of a district prosecutor of the district prosecutor's office:

1) Adoption of the decision of the Qualification and Disciplinary Commission of Public Prosecutors on the selection process;
2) Submission of documents by persons wishing to become prosecutors, including verification of their compliance with the requirements established by the Law of Ukraine ‘On the Prosecutor's Office’;
3) Conducting a qualification exam to test the level of theoretical knowledge in the field of law, European standards in the field of human rights protection and proficiency in the state language, as well as to test analytical skills, and performing a practical task;
4) Organising a special test;
5) Determining the rating of candidates;
6) Forming a reserve to fill vacant positions;
7) Holding a competition for appointment as a trainee prosecutor of the district prosecutor's office;
8) Submission to the head of the regional prosecutor's office of a proposal for the appointment of a candidate as a trainee prosecutor of the district prosecutor's office;
9) The prosecutor-in-training of the district prosecutor's office undergoes special training;
10) Submission to the head of the regional prosecutor's office of a proposal to appoint a prosecutor-intern of the district prosecutor's office who has successfully completed the special training to the position of a prosecutor of the district prosecutor's office.

Regarding the functioning of e-justice, the State Judicial Administration, in accordance with its powers: organises information and regulatory support of judicial activity and the functioning of the Unified Judicial Information and Telecommunication System (UJITS); approves the General Classification of Judges' Specialisations and Categories of Cases; provides courts with the necessary technical means of recording the judicial process within the funds provided for in the State Budget of Ukraine for financing the respective courts; ensures the implementation of electronic court; takes measures to organise the exchange of electronic documents between courts and other state bodies and institutions. Article 15-1 of the Law of Ukraine ‘On the Judicial System and Status of Judges’ stipulates that the Unified Judicial Information and Telecommunication System operates in courts, the High Council of Justice, the High Qualifications Commission of Judges, the State Judicial Administration, their bodies and subdivisions. Over 330 thousand users are registered in the eCourt subsystem and more than 2,287 thousand electronic documents have been submitted. The videoconferencing subsystem enables participants in a case to participate in a court hearing via videoconference outside the courtroom using their own technical means, in a pre-trial detention facility, penitentiary or medical institution using technical means available at the respective institution. Now, more than 106 thousand users are registered in the videoconferencing subsystem and more than 1,507 thousand court hearings have been held. Also, with the support of the United Nations Development Programme in Ukraine, the eCourt subsystem was adapted for mobile devices (the 'eCourt' mobile application was introduced). At the same time, it should be noted that further work on the development and/or revision of other UJITS subsystems (modules) has been suspended from 2020 to 2023, as the State Budget of Ukraine has not provided budget allocations for the construction of UJITS in the respective years.

Since the Revolution of Dignity in 2014, Ukraine undertook a series of reforms in the justice sector aimed at the consolidation of the rule of law and making the judiciary more independent, transparent, and efficient. The Constitution and legislation on judiciary were amended, which allowed to streamline the court system from a four to a three-tier one. A new Supreme Court was created in 2017. Judges of this court were selected following a more meritocratic and transparent process than before. Constitutional amendments also imposed a qualification evaluation (vetting) procedure for all sitting judges, which led to the resignation of more than one quarter of the judicial corps - about 2000 judges. Judicial appointments were opened to the entire legal profession and a more transparent judicial selection system was introduced. An important addition to the judicial system was the establishment in 2019 of the High Anti-Corruption Court following a highly transparent selection process with the involvement of independent international experts. Procedural and Bankruptcy codes were modernised, a new profession of private bailiffs was established. These reform efforts were largely guided by the 2015-2020 Justice Sector Reform Strategy.

In June 2021, Ukraine approved the Strategy for Development of the Justice System and Constitutional Justice for 2021 – 2023. The adopted Strategy aimed at improving transparency, independence, integrity, efficiency and effectiveness of the judiciary, including the Constitutional Court (CCU), judicial governance bodies, the Bar and the Prosecution. In July 2021, the reform laws on the re-establishment of the High Qualification Commission of Judges and the vetting of High Council of Justice (HCJ) with a meaningful involvement of international experts were adopted. In 2023, the new HCJ and the HQCJ were successfully re-established. They will now have to resume their key functions, such as the selection of new judges, disciplinary procedures against judges, qualification evaluation of some 2000 judges that were not evaluated at the previous stages. In 2023, with the involvement of independent experts, Ukraine adopted a law providing for a competitive selection procedure for candidates for the position of CCU judge, including integrity and professionalism checks, and has started its implementation. Also, according to this law, candidates for the positions of judges of the CCU will be selected by the Advisory Group of Experts, which consists of 6 persons: one person appointed by the President; one person appointed by the Verkhovna Rada; one person appointed by the Council of Judges; one person appointed by the Cabinet of Ministers on the proposal of the Venice Commission; two persons appointed by the Cabinet of Ministers on the proposal of international and foreign organisations. On 12 November 2023, the first meeting of the Advisory Group of Experts was held, which was formed to assist in assessing the moral qualities and level of competence in the field of law of candidates for the position of judge of the CCU.

In November 2021, the new Law on Mediation was also adopted, as well as the Law of Ukraine on Administrative Procedure in February 2022. To deal with the systemic problem of non-enforcement of domestic court decisions, in 2020, the Government adopted a Strategy on the Resolution of Non-Enforcement of Court Decisions where a state entity or state-owned enterprise is a debtor, and subsequently adopted an action plan for its implementation, which in 2023 was prolonged to 2025. The Cabinet of Ministers also approved and submitted to the Parliament the draft law on Amendments to Certain Laws of Ukraine on Digitalisation of Enforcement Proceedings, which provides for the modernisation of the stages of enforcement proceedings.

At the end of 2019, a reform of the prosecution service was launched. Its core element was the vetting of more than 11,000 prosecutors at the central, regional and local levels based on professionalism and integrity criteria. About one quarter of the prosecutors failed the attestation and had to leave the service. In 2021, the Prosecutor General successfully piloted a new procedure for a transparent and merit-based selection of management-level prosecutors, but this procedure was discontinued in autumn 2021 when the interim reform period ended, and the prosecutorial governance bodies resumed their operation.

2. Overall reform agenda in 2024-2027

A well-functioning justice system that ensures the rule of law and protection of human rights is a key enabler of swift recovery, economic growth and attraction of investment. The reforms of the justice sector that started after the Revolution of Dignity must therefore continue in line with the European standards and best practices, while taking into account Ukraine's wartime and post-war context. To bring sustainable results, the reforms in the justice sector over the 2024-2027 period should follow a holistic approach, building on the lessons learnt and achievements since the Revolution of Dignity and adjusting the reform agenda to the current war-induced challenges and opportunities.

The main reform directions for 2024-2027, also covered under Pillar I of the Ukraine Facility, will focus on the continuation of the judicial reform aimed at the restoration of public and business trust in the judiciary, in particular, by resuming a transparent and meritocratic selection of judges, completing the selection and appointment of judges of the CCU in line with the new legal framework, resuming and completing the qualification evaluation of sitting judges and ensuring strong disciplinary responsibility system, along with the establishment of a new administrative court to handle cases involving central government agencies and reinforcing existing judicial integrity tools. It is also important to focus on court administration through business process reengineering supported by digital transformation to improve efficiency, quality, and access.

The corruption risks in the Supreme Court and other courts will be effectively addressed, including by strengthening the system of verification of integrity declarations of judges. It is also important to further improve the selection of new Supreme Court justices by enhancing the procedure of integrity checks and meaningful involvement of independent experts.

To ensure the functioning of the market economy and favourable business environment, it is also important to continue the reforms of insolvency and the enforcement of court decisions, in particular by aligning bankruptcy legislation with the EU *acquis* and good practices, and building institutional capacities to properly apply it.

Further digitalisation of the justice sector will be key for ensuring access to justice and efficient operation of justice sector institutions in wartime conditions where large parts of the population and companies have been displaced as well as in the context of the future reconstruction of Ukraine. It will also help to alleviate administrative burden and reduce the costs for processing of the case.

The continuation of the reform of the prosecution service will be key for ensuring a strong criminal justice system that effectively tackles crime, while preventing pressure on businesses and abuse of power on the side of prosecutors and law enforcement agencies. This will include a revised legislative framework for the selection of management-level prosecutors and a revised legislative and institutional framework for disciplinary procedures against prosecutors. It is also important to complete ethical and professional attestation of people to be hired in the prosecution service and to establish a system for case weighting to align with prioritisation in the distribution of cases.

2.1 Reforms to be pursued under the Pillar I of the Ukraine Facility

Reform 1: Enhancing the accountability, integrity and professionalism of the judiciary

State of play and context: An accountable, integer and professional judiciary that enjoys public trust is one of the key prerequisites for the rule of law and the functioning of the market economy in any country.

This is also one of the fundamental requirements for the EU candidate countries within the EU accession framework. Despite multiple reforms, there are still serious challenges within the judicial system that need to be overcome, including at the legislative level. In August and September 2023, two laws were adopted for resuming disciplinary proceedings against judges and foreseeing the establishment of an independent service of disciplinary inspectors with the involvement of independent experts. In December 2022, the Parliament adopted a law liquidating the Kyiv district administrative court. The reform aims to address this important gap by establishing a new court to hear administrative cases involving the central government bodies. Also, in December 2023 the Verkhovna Rada adopted a new law streamlining the selection of judges. On 19 December 2023, the HCJ announced a competition for the 24 positions of the Head of the Service of Disciplinary Inspectors - Deputy Head of the Secretariat of the High Council of Justice, deputy of the Head of the Service of Disciplinary Inspectors of the High Council of Justice, and disciplinary inspectors of the High Council of Justice. On 14 February 2024, the acceptance of documents from candidates ended, a total of 539 applications from 415 candidates were submitted (some candidates applied for several positions).

This reform corresponds to EC recommendations of Ukraine 2023 Report accompanying the 2023 Communication on EU Enlargement policy, namely to fill the open vacancies in the Constitutional Court in line with the adopted legislation; relaunch the selection of ordinary judges on the basis of the improved legal framework, including clear integrity and professionalism criteria and the strong role of the Public Integrity Council; resume the evaluation of the qualification of judges (vetting), which was suspended in 2019.

This reform also takes into account the proposals received from civil society organisations during the Ministry of Economy's organised solicitation of proposals to the Ukraine Facility, which lasted from 31 October 2023 to 06 November 2023, namely in relation to further implementation and strengthening of the judicial reform, which provides for the effective and independent work of the HCJ, including the full launch of the service of disciplinary inspectors; completing the selection of judges; conducting examination of judges' declarations of integrity; establishing a High Administrative Court to consider cases against higher public authorities with both instances and competitive selection of judges.

Description of the reform: In order to consolidate the results of the judicial reform and build public trust in the judiciary, it will be necessary to take a set of inter-connected measures. In particular, the renewed HQCJ should resume the selection of new judges for filling at least 20% judicial vacancies. HQCJ should also complete the qualification evaluation (vetting) of 50% of sitting judges, so that all judges in Ukraine are duly vetted in line with the 2016 Constitutional amendments. The system of declarations of integrity of judges and their verification should be further strengthened. A new court to hear administrative cases involving national state agencies will also be established in a transparent and meritocratic manner.

The reform includes several steps including:

Improvement of the selection of judges and launch of the procedure for the selection of judges based on improved mechanisms

At least 20% of judicial vacancies available as of 16 October 2023 (a total number of 2 205 positions) are filled on the basis of amended legislation, which will include the following elements:

- Streamlined stages of selection and shortened mandatory initial judicial training periods;
- Consistent application of clear and duly published assessment criteria and scoring methodology for assessing professional competence and integrity of judicial candidates;

- Involvement of the Public Integrity Council in assessing the integrity of judicial candidates whenever the law requires it.

This measure will be completed by Q3 2025.

Establishment of a new court to consider administrative cases involving national state bodies, staffed by properly vetted judges

A new court to hear administrative cases involving national state agencies that is composed of first and appeal instances and whose judges are selected following a credible integrity and professionalism check with the involvement of independent experts will be established by the end of Q3 2025.

Ensuring predictability, stability and openness of disciplinary practice against judges

Qualification evaluation (vetting) in respect of 50 % of judges who still had to undergo it as of 30 September 2016 in line with the established procedures and with the involvement of the Public Integrity Council will be completed by Q4 2025.

The High Council of Justice will establish the Selection Commission on Conducting Competition to the High Council of Justice Service of Disciplinary Inspectors and will launch the competition for its Head, Deputy Head and Disciplinary Inspectors by Q1 2024.

20% of old disciplinary proceedings (complaints) not considered as of 31 December 2023 will be resolved with the involvement of the Disciplinary Inspectors Service by Q4 2025 and on the basis of the criterias for prioritisation of disciplinary complaints consideration, provided for in clause 13.7 of the Rules of Procedure of the HCJ (as amended on 21 November 2023, № 1068/0/15-23) that are published on the official website of the HCJ.

Additionally, the law and the bylaws of the HQCJ revising the declarations of integrity of judges and their verification process will enter into force by Q2 2025.

These legal acts shall focus on:

- Clarification of the content of the integrity declarations and the grounds for initiating the verification;
- Expansion of the time period covered by the verification;
- Improvement of the verification procedure by specifying the verification mechanisms and deadlines, defining the rights and obligations of the persons and entities involved in the verification process, clarifying the legal consequences of the verification.

Potential impact of the reform: Resuming the selection of judges based on an improved legal framework will ensure that the state fulfils its international obligations and promptly fills significant judicial vacancies based on the criteria of professional competence and integrity, as well as the principle of gender equality and non-discrimination, which will increase the possibilities of realising the right to access to justice and a fair trial for women and men of different social groups, advancing the qualification evaluation of sitting judges, along with the resumption of an improved disciplinary system for judges and the verification of declarations of integrity will help to boost judicial integrity.

Reform 2: Reforms of insolvency and enforcement of court decisions

State of play and context: Insolvency proceedings represent key indicators for investors, businesses and financial institutions for measuring the efficiency of the justice system and the level of protection of property rights. Improvement of the insolvency procedures in accordance with the fundamental principles of the EU Directive 2019/1023 on preventive restructuring frameworks will help to create a more robust insolvency system in Ukraine, while also advancing Ukraine's alignment with EU *acquis* in the justice sector. Creating an effective legal and institutional framework for preventive restructuring will also allow solvent debtors that experience financial difficulties to preserve their economic viability and the value for creditors in the supply chain, thus playing a favourable role for the overall economic growth and recovery. Ukraine already prepared a draft law for aligning its insolvency legislation with EU *acquis* as part of EU Macro-Financial Assistance Plus programme.

Enforcement of court decisions is another key element for the functioning of a market economy and the rule of law. In order to address the systemic problem of non-enforcement of national court decisions against the state, the Government adopted a separate strategy in September 2020 and an action plan to implement it in March 2021. In September 2023, the Government extended the implementation of the strategy and action plan until 2025.

Description of the reform: In the insolvency area, the implementation of the reform will entail, first of all, the adoption of legislation improving the insolvency regime and introducing insolvency prevention system and the early warning tool for legal and natural persons in line with EU *acquis*, in particular the EU Directive 2019/1023 on preventive restructuring frameworks. In addition, legislation will be adopted for introducing simplified insolvency procedures for Micro, Small, And Medium Enterprises (MSMEs).

As regards the enforcement of court decisions in Ukraine, first of all, a roadmap will be developed for the reform of the enforcement of court decisions and the improvement of the activities of state and private bailiffs, taking into account the current situation, and a package of draft laws will be adopted to improve the enforcement of court decisions on property and non-property obligations and further digitalisation of executive proceedings. In particular, it will make it possible to: expand the functionality of the automated system of enforcement proceedings; introduce interaction between the Unified Debtors' Register and other registers in order to prevent the alienation of property by the debtor; improve the automated seizure of debtors' funds, etc.

The reform includes several steps including:

Improvement of regimes of bankruptcy of legal entities (corporate bankruptcy) and insolvency of natural persons

The Law on Improvement of the insolvency regime and the relevant secondary legislation enter into force by Q4 2024, introducing an insolvency prevention system and the early warning tool for legal entities and entrepreneurs in line with the principles of the EU Directive 2019/1023 on preventive restructuring framework. The new legislation will focus on:

- Prevention of bankruptcy and restoration of solvency of debtors;
- Early detection of signs of crisis in the company;
- Identification of additional opportunities for restoring solvency of companies;
- Availability of information for the companies about the mechanisms for preventing insolvency and early warning.

The legislation for simplified insolvency procedures for MSMEs in line with the principles of the EU Directive 2019/ 1023 on preventive restructuring framework will enter into force. The legislation will be drafted based on a regulatory impact assessment with the involvement of EU experts. This measure will be implemented by Q1 2026. The legislation will focus on:

- Simplified out-of-court and bankruptcy procedures for MSMEs (including individual entrepreneurs);
- Availability of insolvency tools and services of insolvency practitioners for MSMEs;
- Prevention of abuse of insolvency procedures tools by MSMEs.

Moreover, annual reports presenting the implementation of the roadmap for capacity building on bankruptcy procedures will be published on the website of the Ministry of Justice at the end of calendar years 2024, 2025, 2026.

Advancement of the enforcement of court decisions

The Law on the enforcement of court decisions related to monetary and non-monetary obligations and further digitalising the enforcement proceedings will enter into force by Q2 2025.

The reform will include two digitalisation measures:

1) A data collection system on the enforcement of court decisions will become operational by Q4 2025.
2) The upgraded IT system for enforcement facilitating enforcement process, debtor asset tracking, bank account freezing and debt recovery will become operational by Q2 2026.

Potential impact of the reform: The result of the reform should be more efficient and effective insolvency procedures, better aligned with EU *acquis*, and more efficient enforcement procedures. It will help Ukraine to improve its international reputation as a reliable jurisdiction for doing business. Removing barriers to effective pre-emptive restructuring of solvent debtors in financial difficulty aims to minimise job losses and cost to creditors in the supply chain, preserves production and technology, and therefore benefits the economy as a whole.

Reform 3: Digitalisation of the judicial system

State of play and context: The Ukrainian Unified Judicial Information and Telecommunication System is in need of a major overhaul, as currently only some of its modules are operational. They lack modern functionalities and are not user-friendly. Available hardware and software solutions are largely obsolete and in need of replacement. The IT management and maintenance system is inefficient. Interoperability with other relevant government agencies and state registers is low.

This reform corresponds to one of the EC recommendations to the subsection Functioning of the judiciary of the Chapter 23 'Judiciary and fundamental rights' of Ukraine 2023 Report accompanying the 2023 Communication on EU Enlargement policy, in particular to adopt and start implementing a roadmap to modernise IT in the judiciary, including the development of the new case management system.

Description of the reform: This reform will entail a comprehensive renewal of UJITS. It will be based on the findings and recommendations stemming from the technical and functional audit of the IT systems in the judiciary. To ensure a proper prioritisation and sequencing of the reform steps, a roadmap for the modernisation of the UJITS will be developed. It will foresee the necessary legislative, institutional and IT-related changes, and facilitate cooperation between the relevant state and non-state stakeholders. On the basis of the Roadmap, UJITS modules will either be replaced or substantially upgraded and new IT systems will be introduced, where necessary.

The reform includes several steps including:

Digitalisation of the judicial system

The functional audit of the IT systems in the judiciary will be completed and accepted by the responsible public institution by Q3 2024.

A roadmap for the modernisation of the UJITS that foresees the necessary legislative, institutional and IT-related changes, on the basis of the technical and functional audit results, will be adopted by Q4 2024.

And relevant IT solutions replacing and/or upgrading UJITS modules/introducing new IT systems implemented on the basis of the roadmap for the modernisation of the Unified Judicial Information and Telecommunication System (UJITS) will become operational by Q4 2027.

Responsible body for the reform implementation is the State Judicial Administration, supported by the Ministry of Digital Transformation.

Potential impact of the reform: Digitalisation of the judiciary will allow enhancing access to justice in wartime, increase the transparency, efficiency, and effectiveness in the operation of courts, save operational costs, and enable an evidence-based policy making in the judiciary.

Reform 4: Reform of the Prosecution Service

State of play and context: The Public Prosecution plays a key role for maintaining the rule of law. It is also key for tackling abuse of power and pressure on businesses and investors on the side of the law enforcement agencies, a widespread phenomenon in Ukraine. For the public prosecution service to play its positive role, it needs to be composed of prosecutors of high integrity and professionalism, and any violations of prosecutorial ethics and discipline must be effectively handled. Moreover, the criminal justice institutions need a modern e-Case Management System that enables a transparent, effective and efficient handling of criminal cases and prevents abuse of power and corruption on the side of law enforcement agencies and prosecution offices.

This reform corresponds to EC recommendations to the subsection Functioning of the judiciary of the Chapter 23 'Judiciary and fundamental rights' of Ukraine 2023 Report accompanying the 2023 Communication on EU Enlargement policy, in particular to introduce a transparent and merit-based selection of management-level prosecutors by amending the legal framework and taking the necessary institutional measures and to strengthen the disciplinary system for prosecutors by improving the existing legal and institutional framework.

Description of the reform: This reform will firstly entail the improvement of the legal and institutional framework to enable a transparent and merit-based selection of management-level prosecutors, taking into account the positive experience and lessons learnt from the 2019-2021 prosecutorial reform period. Secondly, the legislation regulating the disciplinary system for prosecutors will be upgraded. The institutional capacities of the Qualification and Disciplinary Commission of Prosecutors will also be strengthened to ensure proper implementation of the revised legal framework. Lastly, a modern e-Case Management System in the criminal justice chain enabling digital processing of criminal cases and gradually replacing/significantly upgrading the outdated Unified Register of Pre-Trial Investigations will be launched.

The reform includes several steps including:

Carrying out an independent, transparent and objective procedure for the selection of management-level prosecutors

Legislation enabling transparent and merit-based selection of management-level prosecutors will enter into force by Q1 2026. This legislation will include:

- Clear assessment criteria, including professional competence and integrity/ethics.
- Transparent, competitive and meritocratic selection procedure that includes a credible professionalism and integrity check.
- strengthening the institutional capacity and powers of the Prosecutor's Office and self-government bodies, in particular Council of Prosecutors, in terms of selecting prosecutors for senior positions.

Improvement of the system of bringing prosecutors to disciplinary responsibility

The relevant legislation improving the disciplinary system for prosecutors will enter into force and the institutional capacity of the Qualification and Disciplinary Commission of Prosecutors will be strengthened by Q3 2026.. The improved legal and institutional framework aimed at implementing recommendations of the Group of States against Corruption (GRECO) will contain the following elements:

- Specification of disciplinary offences related to the conduct of prosecutors and their compliance with ethical standards, and expansion of the list of available disciplinary sanctions to increase their proportionality and effectiveness;
- Amending the provisions on the composition of the Qualification and Disciplinary Commission of Prosecutors to ensure that the majority of seats are held by prosecutors elected by their colleagues and conducting an independent and objective procedure for the pre-selection of all candidates for members of the QDCP, which includes verification of their integrity;
- Increasing the efficiency of disciplinary proceedings by extending the statute of limitations.

An e-Case Management System in the criminal justice chain will become operational by Q4 2026 enabling digital processing of criminal cases and gradually replacing/significantly upgrading the outdated Unified Register of Pre-Trial Investigations.

Potential impact of the reform: The reform will, on the one hand, reinforce integrity, meritocracy and professionalism within the prosecutorial ranks and prevent corruption in the criminal justice chain, thus consolidating the results of the prosecutorial reform that was launched in 2019. On the other hand, the digitalisation of the criminal justice system will boost transparency, efficiency and evidence-based management and criminal policymaking. This should foster a more favourable business environment.

3. Overall investment needs and opportunities in 2024-2027

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4. Coherence with the objectives of the Ukraine Facility

The proposed reforms in the justice sector will contribute to the general objectives of the Ukraine Facility. In particular, a well-functioning justice system that guarantees the rule of law and protection of human rights will help to foster social and economic resilience and progressive integration into the EU and global markets, as well as the alignment of legislation with EU *acquis* with a view to Ukraine's future EU membership.

The proposed measures for justice sector reform will be essential for reaching a number of specific objectives of the Ukraine Facility, in particular, further strengthening the rule of law, democracy, the respect of human rights and fundamental freedoms, including through promoting an independent judiciary, reinforced security, the fight against fraud, corruption, organised crime and money laundering, tax evasion and tax fraud, as well as compliance with international law.

Continuation of judicial reform, in particular, the establishment of the new administrative court and digitalisation, will reinforce the effectiveness of public administration and foster transparency and good governance, including in the areas of public financial management, public government procurement and State aid.

In addition, the justice sector reforms, including in the areas of insolvency and enforcement of court decisions, will foster the transition to a sustainable and inclusive economy and a stable investment environment, Ukraine’s integration into the single market, economic and social development but also act as an enabler for sustainable development and inclusive growth.

The reforms proposed are in line with the Sustainable Development Goal adopted by the United Nations (UN’s SDG) 5 ‘Achieve gender equality and empower all women and girls’ and 16 ‘Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels’.

Task of UN’s SDG 5 provides for comprehensive and real participation of women and equal opportunities for them for leadership at all levels of decision-making in political, economic and social life.Task of UN’s SDG 16 aims to increase confidence in the judiciary and ensure equal access to justice. The reforms outlined above, once successfully completed, will directly contribute to the implementation and achievement of this target towards the achievement of UN’s SDG 5 and 16.

5. Table of reforms and investments covered under Pillar I

Reforms and investments	Objectives and growth potential	Corresponding chapters of the EU Enlargement report	Name of the step (quantitative and qualitative steps to implement reforms/investments)	Agency responsible for implementation	Outcome	Timeframe
Reform 1. Enhancing the accountability, integrity and professionalism of the judiciary	Improvement of the procedure for selecting judges by regulating selection stages and changing their order, by reviewing the duration of the mandatory initial training period of judges will ensure that the state will fulfil its international commitments and enable prompt filling of judicial vacancies based on the criteria of professional competence and integrity, which will fully ensure the right to access to justice and a fair trial. An important part of the reform is also the establishment of a new court to hear administrative cases involving national state agencies in a transparent and a meritocratic manner. The reform steps are aimed at consolidating the results of the judicial reform and building public trust in the judiciary	Chapter 23: Judiciary and fundamental rights	At least 20% of judicial vacancies are filled in	High Qualification Commission of Judges (by consent)	At least 20% of judicial vacancies available as of 16 October 2023 (a total number of 2205 positions) are filled on the basis of amended legislation, which will include the following elements: - Streamlined stages of selection and shortened mandatory judicial training periods; - Consistent application of clear and duly published assessment criteria and scoring methodology for assessing professional competence and integrity of judicial candidates; - Involvement of the Public Integrity Council in assessing the integrity of judicial candidates whenever the law requires it	Q3 2025
			Establishment of a new court to consider administrative cases	Ministry of Justice High Qualification Commission of Judges (by consent)	A new court to hear administrative cases involving national state agencies that is composed of first and appeal instances and whose judges are selected following a credible integrity and professionalism check with the involvement of independent experts is established	Q3 2025
	The adoption and implementation of the respective laws will help to increase the level of trust in the judiciary authorities and to ensure efficient disciplinary practices for judges		Qualification evaluation (vetting) is completed ensuring predictability, stability and openness of disciplinary practice against judges	High Qualification Commission of Judges (by consent)	Qualification evaluation (vetting) is completed in respect of 50 % of judges who still had to undergo it as of 30 September 2016 in line with the established procedures and with the involvement of the Public Integrity Council	Q4 2025
			Start of work of the Selection Commission on Conducting Competition to the High Council of Justice Service of Disciplinary Inspectors Competition for its Head, Deputy Head and Disciplinary Inspectors	High Council of Justice (by consent)	The High Council of Justice establishes the Selection Commission on Conducting Competition to the High Council of Justice Service of Disciplinary Inspectors and launches the competition for its Head, Deputy Head and Disciplinary Inspectors	Q1 2024

			has launched and continues according to established procedure			
			20% of old disciplinary proceedings (complaints) not considered as of the end of 2023 are resolved	High Council of Justice (by consent)	20% of old disciplinary proceedings (complaints) not considered as of 31 December 2023 are resolved with the involvement of the Disciplinary Inspectors Service and on the basis of the criterias for prioritisation of disciplinary complaints consideration, provided for in clause 13.7 of the Rules of Procedure of the High Council of Justice (as amended on 21 November 2023, № 1068/0/15-23) that are published on the official website of the High Council of Justice	Q4 2025
			Entry into force of the legislation revising the declarations of integrity of judges and their verification process	High Qualification Commission of Judges (by consent)	The law and the bylaws of the HQCJ revising the declarations of integrity of judges and their verification process enter into force. These legal acts shall focus on: - Clarification of the content of the integrity declarations and the grounds for initiating the verification - Expansion of the time period covered by the verification - Improvement of the verification procedure by specifying the verification mechanisms and deadlines, defining the rights and obligations of the persons and entities involved in the verification process, clarifying the legal consequences of the verification.	Q2 2025
Reform 2. Reforms of insolvency and enforcement of court decisions	Improvement of the insolvency procedures in accordance with the fundamental principles of Directive (EU) 2019/1023 on preventive restructuring frameworks. Elimination of obstacles to efficient preventive restructuring of solvent debtors that experience financial difficulties is aimed at mitigating loss of working positions and value for creditors in the supply chain, preserves production and	Chapter 23: Judiciary and fundamental rights	Entry into force of the legislation on the improvement of the insolvency regime	Ministry of Justice	The Law on the improvement of insolvency regime and the relevant secondary legislation enter into force, introducing insolvency prevention system and the early warning tool for legal entities and entrepreneurs in line with the principles of the EU Directive 2019/1023 on preventive restructuring framework. The new legislation focuses on: - Prevention of bankruptcy and restoration of solvency of debtors - Early detection of signs of crisis in the company	Q4 2024

	technology and is therefore of general use for the economy. The reform is also aimed at the advancement of the enforcement of court decisions through improved legal, institutional and IT framework, which is crucial for the functioning of the market economy and the rule of law, and a prerequisite for an effective bankruptcy system				- Identification of additional opportunities for restoring solvency of companies - Availability of information for the companies about the mechanisms for preventing insolvency and early warning	
			Entry into force of the legislation for simplified insolvency procedures for Micro, Small, and Medium Enterprises	Ministry of Justice	The legislation for simplified insolvency procedures for Micro, Small, And Medium Enterprises (MSMEs) in line with the principles of the EU Directive 2019/ 1023 on preventive restructuring framework enters into force. The legislation will be drafted based on a regulatory impact assessment with the involvement of EU experts. The legislation focuses on: - simplified out-of-court and bankruptcy procedures for MSMEs (including individual entrepreneurs); - availability of insolvency tools and services of insolvency practitioners for MSMEs; - prevention of abuse of insolvency procedures by MSMEs	Q1 2026
			Advancement of the enforcement of court decisions Entry into force of the Law on digitalisation the enforcement proceedings	Ministry of Justice	The Law on the enforcement of court decisions related to monetary and non-monetary obligations and further digitalizing the enforcement proceedings enters into force	Q2 2025
			An upgraded IT system for enforcement of court decisions is operational.	Ministry of Justice	The upgraded IT system for enforcement facilitating enforcement process, debtor asset tracking, bank account freezing and debt recovery is operational.	Q2 2026
			A data collection system on the enforcement of court decisions is operational	Ministry of Justice	A data collection system on the enforcement of court decisions is operational.	Q4 2025
Reform 3. Digitalisation of the judicial system	Digitalisation of the judiciary will allow enhancing access to justice in wartime, increase the transparency, efficiency and effectiveness in the operation of courts, save operational	Chapter 23: Judiciary and fundamental rights	New IT solutions in the judicial system are in place	State Judicial Administration, supported by Ministry of Digital Transformation	IT solutions replacing and/or upgrading UJITS modules/introducing new IT systems implemented on the basis of the roadmap are operational.	Q4 2027

	costs, and enable an evidence-based policy making in the judiciary.					
Reform 4. Reform of the Prosecution Service	Public Prosecution plays a key role for maintaining the rule of law. Increasing the accountability and integrity of the Prosecution Service is key for tackling abuse of power and pressure on businesses and investors on the side of law enforcement agencies, a widespread phenomenon in Ukraine. For the public prosecution service to play its positive role, it needs to be composed of prosecutors of high integrity and professionalism, and any violations of prosecutorial ethics and discipline must be effectively handled. Moreover, the criminal justice institutions need a modern e-Case Management System that enables transparent and effective handling of criminal cases and prevents abuse of power and corruption on the side of law enforcement agencies and prosecution offices	Chapter 23 Judiciary and fundamental rights	Entry into force of the legislation enabling transparent and merit-based selection of management-level prosecutors	Office of the Prosecutor General (by consent) , supported by Council of Prosecutors (by consent) , Qualification and Disciplinary Commission of Prosecutors (by consent)	Legislation enabling transparent and merit-based selection of management-level prosecutors enters into force. This legislation will include: - clear assessment criteria, including professional competence and integrity/ethics; - transparent, competitive and meritocratic selection procedure that includes a credible professionalism and integrity check;. - strengthening the institutional capacity and powers of the Prosecutor's Office and self-government bodies, in particular Council of Prosecutors, in terms of selecting prosecutors for senior positions.	Q1 2026
			Entry into force of the legislation improving the disciplinary system for prosecutors and increasing the capacity of the Qualification and Disciplinary Commission of Prosecutors	Office of the Prosecutor General (by consent) , supported by Council of Prosecutors (by consent) , Qualification and Disciplinary Commission of Prosecutors (by consent)	Legislation improving the disciplinary system for prosecutors enters into force and the institutional capacity of the Qualification and Disciplinary Commission of Prosecutors is strengthened. The improved legal and institutional framework aimed at implementing GRECO recommendations will contain the following elements: - specification of disciplinary offences related to the conduct of prosecutors and their compliance with ethical standards, and expansion of the list of available disciplinary sanctions to increase their proportionality and effectiveness; - amending the provisions on the composition of the Qualification and Disciplinary Commission of Prosecutors to ensure that the majority of seats are held by prosecutors elected by their	Q3 2026

					colleagues and conducting an independent and objective procedure for the pre-selection of all candidates for members of the QDCP, which includes verification of their integrity; - increasing the efficiency of disciplinary proceedings by extending the statute of limitations.	
			An e-Case Management System in the criminal justice is in place	Office of the Prosecutor General (by consent)	An e-Case Management System in the criminal justice chain enabling digital processing of criminal cases and gradually replacing/significantly upgrading the outdated Unified Register of Pre-Trial Investigations, is operational	Q4 2026

CHAPTER 4. FIGHT AGAINST CORRUPTION AND MONEY LAUNDERING

1. State of play

Fight against corruption is a key demand of the Ukrainian people and a critical pre-requisite for EU accession. Significant progress has already been made in reducing the space for corruption in several sectors (e.g. banking, energy, healthcare). The opening of public registers, the electronic asset declaration system and the award-winning public procurement platform Prozorro have increased transparency in the public sector. A strong anti-corruption legal framework has been developed and specialised anti-corruption bodies have been established. In June 2022, the Anti-Corruption Strategy for 2021-2025 was adopted, followed by the State Anti-Corruption Programme for 2023-2025 developed by the National Agency on Corruption Prevention (NACP). These documents aim to strengthen institutional mechanisms for preventing and combating corruption, eliminate corrupt practices in various sectors, and promote integrity based on OECD recommendations.

In September 2019, the High Anti-Corruption Court was established as the main court to hear high-level corruption cases involving public officials that are investigated and brought to court by the National Anti-Corruption Bureau and the Specialised Anti-Corruption Prosecutor's Office (SAPO). The HACC is constantly improving its overall operational efficiency, but additional judges are needed, selected in a transparent manner, based on integrity checks, with the involvement of the Public Council of International Experts.

The EU's decision to grant Ukraine candidate status was an additional impetus for further reforms. In July 2022, Ukraine appointed a new head of the SAPO, and in March 2023, a new director of the NABU was appointed with the involvement of international experts. Since the appointment of the new head, the SAPO has intensified its activities. Further strengthening of the independence and capacity of Ukraine's key anti-corruption institutions will contribute to the full institutionalisation of functions and sustainable results in the fight against corruption.

On 8 December 2023, the Verkhovna Rada adopted laws to increase the NABU staffing, lift restrictions on the NACP to continue verification of property that has already passed the preliminary verification procedure and property acquired by declarants before entering public service, and strengthen the SAPO's institutional capacity to implement the EC recommendations set out in the Enlargement Report 2023.

The fight against corruption is closely connected to effective anti-money laundering and countering the financing of terrorism system. Effective anti-money laundering and countering the financing of terrorism system is also key for tackling economic crimes in the context of reconstruction and maintaining financial stability. Anti-money laundering and countering the financing of terrorism is crucial in the context of EU accession, being part of the ‘fundamentals’ in the EU accession process. Ukraine’s anti-money laundering and countering the financing of terrorism legislation partially reflects FATF standards and relevant international legislation, but there are some outstanding recommendations from the Council of Europe’s Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL). Further reforms are needed to improve Ukraine’s compliance with FATF standards, in particular in the areas of virtual assets, in terms of targeted financial sanctions, financial investigations.

2. Overall reform agenda in 2024-2027

The reform agenda will focus on increasing human resources in key anti-corruption institutions, including the HACC, and updating the Criminal Code and the Code of Criminal Procedure, to increase the efficiency and outcomes in corruption cases. The implementation of the State Anti-Corruption Programme for 2023-2025 and the adoption of the subsequent State Anti-Corruption Strategy and Programme are important reform steps that will further reduce the scope for corruption in various spheres of public life. Such measures to combat and prevent corruption will help to increase public confidence in the Ukrainian state and its institutions and will play an important positive role in improving the overall investment and business climate. The reforms will increase the SAPO's capacity to regulate its organisational activities, including budgetary and personnel issues.

At the same time, accountability and disciplinary mechanisms for SAPO management will be strengthened. The NACP will be able to take on fully, without any undue restrictions, its crucial role in the deterrence and detection of corruption, through the verification of asset declarations from public officials.

A comprehensive reform of the National Agency for Finding, Tracing and Management of Assets Derived from Corruption and Other Crimes (ARMA) will be implemented, including a system for the transparent selection of ARMA’s head, based on the findings of the technical analysis of the agency. It is also important to ensure new competition for ARMA’s leadership based on an open, competitive and merit-based approach.

Before the finalisation of the Plan, Ukraine will ensure transition from the existing role of the National Contact Point for Liaison with the European Anti-Fraud Office and the European Court of Auditors to the independent Anti-Fraud Coordination Service, which will keep the Commission informed of the progress of any administrative proceedings in the cases of suspected fraud or corruption. The provision of information to the Commission is ensured by electronic means with a help of the Commission’s Irregularity Management System. To that end, the law enforcement agencies can use the IMS directly or transfer the required information to the relevant national authority in Ukraine having access to the IMS. The aforementioned notification is without prejudice to the national authorities’ right to directly inform OLAF of the allegations of fraud in accordance with Article 4 of Annex XLIII to the EU-Ukraine Association Agreement.

Ukraine will evaluate what legislative changes are needed to provide OLAF with access to information on suspected fraud or corruption affecting the financial interests of the EU when necessary to carry out its investigative mission, as well as to introduce a mechanism to enable competent national authorities to effectively assist OLAF in its investigative activities in Ukraine, including on-site inspections and access to information relevant to the investigation contained in national databases.

In the field of anti-money laundering and countering the financing of terrorism, it is crucial to focus on improving the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) regulatory framework by developing relevant legislation and making progress in developing necessary institutional capacities. The reforms will focus on the alignment of Ukrainian legislation with EU *acquis* and FATF standards, including in terms of targeted financial sanctions, virtual assets, and financial investigations. Also beneficial ownership and the supervision of designated non-financial businesses and professions are particularly important areas in this regard, as they are important elements for a sound AML framework. A unified register of bank accounts will be established, which will substantially improve the prevention and repression of money laundering and financing of terrorism. To improve the track record of investigation, prosecution and adjudication of money laundering and other financial crime cases, the institutional capacities of the prosecutorial and law enforcement agencies to conduct financial investigations will be further strengthened. A roadmap is adopted for building the institutional capacities and common methodological guidance of the law enforcement agencies and the prosecution service to carry out financial investigations when investigating proceeds-generating offences is adopted by a joint order of the Prosecutor

General and the heads of the law enforcement agencies. Alignment with the Directive on the fight against fraud affecting the Union’s financial interests (PIF Directive), the two Directives on money laundering and the forthcoming Directive on corruption, will strengthen the cooperation with the EPPO.

The appearance of virtual assets with the lack of their legal regulation is a negative factor that can contribute to the spread of fraudulent activities, laundering of criminal proceeds and terrorist financing, as well as tax evasion. Therefore, it is extremely important to implement effective regulation of the virtual asset market. The Verkhovna Rada adopted the Law of Ukraine on Virtual Assets dated 17 February 2022 № 2074-IX, which never entered into force due to the peculiarities provided for in its final provisions. As a result of the analysis of the mentioned Law, many issues were revealed that emphasised the imperfection and insufficient legal certainty of its norms. In order to resolve the above-mentioned issues, as well as taking into account Ukraine's acquisition of the status of a candidate for membership of the European Union which entails the obligation to bring the national legislation into compliance with the legislation of the European Union, it is necessary to adopt a draft law on amendments to the Tax Code of Ukraine and on improving the norms of the Law of Ukraine on Virtual Assets, the development of which should be based on the norms of European legislation, in particular Regulation (EU) № 2023/1114 of 31 May 2023 on virtual asset markets, which establishes uniform rules for the regulation of the virtual asset market for the European Union and is designed to promote technological development, ensure financial stability and investor protection.

2.1 Reforms to be pursued under the Pillar I of the Ukraine Facility

Reform 1: Developing the institutional capacity of the anti-corruption infrastructure

State of play and context: The main anti-corruption institutions still need to further strengthen their independence and capacity to ensure full institutionalisation of their functions and sustainable performance.

Overview of the main anti-corruption institutions:

1. The HACC is a permanent high specialised court that began exercising its powers in 2019. The HACC is tasked with administering justice to protect individuals, society and the state from corruption and related criminal offences and with judicial control over the pre-trial investigation of criminal offences, as well as the observance of the rights, freedoms and interests of the persons involved. Over the years of its operation, the HACC has undergone legislative changes that have expanded the court's powers by adding civil cases on the recognition of unjustified assets and their recovery as state revenue, as well as cases in administrative proceedings on the application of sanctions to individuals or legal entities under paragraph 11 of part one of Article 4 of the Law of Ukraine ‘On Sanctions’. The HACC is currently actively addressing the issues related to the need to increase the number of judges and staff, etc. In addition, further expansion of the HACC's jurisdiction remains on the agenda and is planned in regulatory documents, in particular, in the State Anti-Corruption Programme for 2023-2025.

2. The SAPO is a part of the prosecution system of Ukraine and is a separate legal entity of public law (until 2024, it is an independent structural unit of the Prosecutor General's Office, established in 2015). The SAPO has the following functions: to oversee compliance with the law in the course of operational and investigative activities and pre-trial investigations by detectives of the NABU, as well as to support public prosecution in relevant proceedings and represent the interests of a citizen or the state in court.

3. The NABU is a central executive body with a special status established in 2015 to prevent, detect, investigate and solve corruption and other criminal offences under its jurisdiction, as well as to prevent the

commission of new ones. Since its inception, the NABU has been headed by two directors, who were selected with the participation of international experts under transparent and competitive conditions.

The Law on NABU has a number of provisions that should be amended to enable the NABU to perform its functions effectively. Also, the level of material and technical support has somewhat decreased due to insufficient budget funding for the agency.

4. The NACP is a central executive body with a special status that ensures the development and implementation of the state anti-corruption policy.

The maximum number of NACP employees is set at 408.

In 2023, the NACP completed its first external independent audit, which helped to assess its performance and set directions for further development. For example, it identified the need to actively engage the public, increase the number of staff, etc. The latter became particularly important after the adoption of the Anti-Corruption Strategy for 2021-2025.

5. ARMA is a central executive body with a special status established in 2016 to formulate and implement state policy in the field of identifying and tracing assets that may be seized in criminal proceedings or in cases of recognising unjustified assets and recovering them for the state's revenue, as well as managing these assets.

Description of the reform: The reform is aimed at strengthening the main anti-corruption institutions in Ukraine; improving the overall effectiveness of the anti-corruption infrastructure; and ensuring a targeted, phased and systematic approach to improving the overall effectiveness of the state's anti-corruption policy. It also aims to strengthen the fight against corruption involving high-level officials through active and effective investigations. The purpose of the measures related to the staff of the SAPO and HACC is to provide these institutions with sufficient human resources to perform even more tasks and address wartime challenges, including those related to reconstruction. This is expected to improve the outcome of high-level corruption cases. The main goal of the NACP – related efforts is to ensure that a new head of the agency is selected in a timely manner through a transparent and meritocratic process before the current head's term expires in mid-January 2024. Previously, anti-corruption institutions have faced long periods of leadership absence due to delays in selection processes.

To increase the institutional capacity of the anti-corruption institutions, the reform envisages the following steps:

- The Specialised Anti-Corruption Prosecutor's Office is given the opportunity to increase its manpower to at least 15 % of the NABU's staff (Q3 2024);
- The personnel number of HACC judges has been increased by 60%, and the HACC apparatus number has been increased by 40% (Q1 2025).

In addition, a new head of the National Agency on Corruption Prevention is appointed following a selection process in line with the Law on the Prevention of Corruption. The Head of the National Agency shall be appointed in accordance with the results of an open competitive selection. The competitive selection shall be organised and conducted by the Competition Commission for the Selection of the Head of the National Agency (Competition Commission).

The Competition Commission for the Selection of the Head of the NACP shall consist of:

1) Three persons appointed by the Cabinet of Ministers;

2) Three persons appointed by the Cabinet of Ministers on the basis of proposals from donors who, within the last two years prior to the expiration of the term of office of the Head of the NACP or prior to the early termination of his/her powers, have provided international technical assistance to Ukraine in the field of preventing and combating corruption.

Organisational and technical support of the Competition Commission for the Selection of the Head of the NACP is provided by the Secretariat of the Cabinet of Ministers.

This measure will be implemented by Q2 2024.

This reform corresponds to EC recommendations of Ukraine 2023 Report accompanying the 2023 Communication on EU Enlargement policy, namely: ‘increase the number of judges of the High Anti-Corruption Court by reactivating the Public Council of International Experts and enable the court to adjudicate certain cases in single judge composition’.

This reform also takes into account the proposals received from civil society organisations during the Ministry of Economy's organised solicitation of proposals to the Ukraine Facility, which lasted from 31 October 2023 to 06 November 2023, namely in relation to strengthening the institutional capacity of the NACP by ensuring a transparent and timely competition for the position of the new head of the NACP.

Potential impact of the reform: The reform enables to increase the overall effectiveness of the anti-corruption infrastructure and the implementation of the state’s anti-corruption policy. Increasing the number of judges of HACC and other staff of SAPO enhances the capacity of these institutions to cope with the increased workload without delay and enables to improve the track record of the HACC in adjudication of high-level corruption cases.

On the other hand, the digital transformation of public administration processes, transparency of activities, and openness of data will become the basis for reducing corruption risks and practices, and the overall efficiency and level of public trust in the relevant authorities is expected to increase.

Reform 2: Improving the legal framework for a more effective fight against corruption

State of play and context: Institutional reforms to fight corruption have taken place, leading to an increase of cases. It is of crucial importance to improve and sustain the track record of investigations, prosecutions and convictions. For this aim various shortcomings in the legal framework concerning investigation, prosecution and adjudication of high-level corruption must be addressed. The overall objective is to streamline the criminal procedure and increase its efficiency in high-level corruption cases, while preventing instances of procedural abuse and undue interference in such cases.

For the effective investigation of corruption cases with the participation of high-ranking officials, it is extremely important to improve the procedures for agreements with the investigation and the individual consideration of individual cases by a judge of the HACC. In addition, the following Anti-Corruption Strategy and the State Anti-Corruption Programme for the period after 2025 should be developed. Also, the shortcomings related to asset recovery and management at institutional and procedural levels need to be assessed. The ARMA continues to face challenges to fully deliver on its mandate.

Description of the reform: The reform provides for amendments to the Criminal Code and the Criminal Procedure Code with regard to the improvement of the procedure for plea bargain, cancellation of the pre-trial investigation period from the time of the registration of the criminal proceedings until the notification of the suspicion and the possibility of individual examination of separate cases by a NACC judge. The reform also provides for the timely, inclusive and transparent development, adoption and implementation of the next Anti-Corruption Strategy and the State Anti-Corruption Programme for the period after 2025. It also provides for the adoption of the action plan for the implementation of the asset recovery strategy for 2023-2025. In addition, the law on the reform of the ARMA will be adopted with a view to ensuring a transparent procedure for the selection of the head of the agency, an independent external performance evaluation system, the improvement of management mechanisms and the sale of confiscated assets.

The reform envisages the following measures for the purposes of the reforms, namely:

1) The Laws of Ukraine on amending the Criminal Code of Ukraine and the Criminal Procedure Code of Ukraine will enter into force by Q3 2024 with the following provisions:

- Improving provisions regulation plea bargain;
- Cancellation of the pre-trial investigation period from the time of the registration of the criminal proceedings until the notification of the suspicion;
- Allowing to adjudicate certain cases by a single-judge of the High Anti-Corruption Court.

This reform corresponds to EC recommendations of Ukraine 2023 Report accompanying the 2023 Communication on EU Enlargement policy, namely: ‘revise the Criminal Procedure Code and the Criminal Code to enable higher efficiency and outcomes in high-level corruption cases, e.g. by preventing procedural delays, introducing reasonable time limits for pre-trial investigations, and improving the regulation of plea bargain agreements; increase the number of judges of the High Anti-Corruption Court by reactivating the Public Council of International Experts and enable the court to adjudicate certain cases in single judge composition’.

This reform also takes into account the proposals received from civil society organisations during the Ministry of Economy's organised solicitation of proposals to the Ukraine Facility, which lasted from 31 October 2023 to 06 November 2023, namely in relation to the cancellation of the investigation terms of criminal proceedings until the moment the person is notified of suspicion.

2) Also, a new law that will improve the selection procedures for the SAPO head and key officials, strengthen the institutional independence of SAPO by transforming it into a separate legal entity, and increase its level of procedural autonomy as well as establish robust mechanisms for external and internal control and discipline entered into force. The law will introduce safeguards to avoid violations of exclusive jurisdiction of NABU / SAPO.

This reform corresponds to EC recommendations of Ukraine 2023 Report accompanying the 2023 Communication on EU Enlargement policy, namely:‘enact legislation to improve the selection procedures for the SAPO head and key officials, to strengthen the institutional independence of SAPO by transforming it into a separate legal entity, and to increase its level of procedural autonomy as well as establish robust mechanisms for external and internal control and discipline’.

3) An Anti-Corruption Strategy and a State Anti-Corruption Programme for its implementation for covering the period after 2025 will be adopted by the Parliament and the Government respectively and published by Q2 2026.

To address the shortcomings related to asset recovery and management at the institutional and procedural levels, an Action Plan for the implementation of the Asset Recovery Strategy for 2023-2025 is adopted by the Cabinet of Ministers and published on the website of the Cabinet of Ministers by Q3 2024.

This reform corresponds to EC recommendations of Ukraine 2023 Report accompanying the 2023 Communication on EU Enlargement policy, namely: ‘adopt and start implementing a credible action plan for the implementation of the 2023-2025 asset recovery strategy’.

4) The Law reforming ARMA will enter into force by Q1 2025 and will focus on :

- A transparent and merit-based selection procedure for the head of the agency, including a credible integrity and professionalism check;
- An independent external performance assessment system;
- Transparent procedure for the management and sale of seized assets under the agency’s control.

This reform corresponds to EC recommendations of Ukraine 2023 Report accompanying the 2023 Communication on EU Enlargement policy, namely: ‘improve the legal framework and institutional capacities for financial investigations, asset recovery and management’.

Potential impact of the reform: The reform will help prevent delays in the process and violations of the exclusive jurisdiction of the NABU, SAPO and HACC. Strengthening the capacity and independence of key anti-corruption institutions will ensure better investigation, prosecution and adjudication of corruption cases, including those involving high-level corruption, and will contribute to improved sentencing dynamics. Strengthening the NABU and other key anti-corruption institutions also facilitates cross-border cooperation with the Member States and contributes to fight against international crime. In general, these reform steps will help minimise corruption risks and practices in Ukraine, increase the overall effectiveness of the anti-corruption system, and increase the level of trust of citizens and businesses in key anti-corruption institutions. The reforms will also have a positive impact on the overall business environment and investment climate in the country.

Reform 3. Anti-money laundering measures

State of play and context: Ukraine’s anti-money laundering and countering the financing of terrorism legislation partially reflects FATF standards and relevant international legislation, but there are still outstanding recommendations from MONEYVAL, in particular, in terms of the application of targeted financial sanctions.

Description of the reform: The main reform directions are establishing a unified registry of bank accounts for individuals and legal entities in accordance with EU standards; aligning legislation in the field of virtual assets with EU *acquis*; adopting a roadmap for building the institutional capacities and common methodological guidance of the law enforcement agencies and the prosecution service.

In order to establish a Unified Registry of bank accounts for individuals and legal entities in accordance with EU standards the following steps will be made:

- An internal order for establishing the inter-agency working group for launching the Unified Registry of bank accounts is adopted. The tasks of the inter-agency working group are as follows:
    - developing of the order of the Ministry of Finance ‘On The Approval Of The Regulation on the Unified Register of Accounts, the Procedure for Creation and Maintenance’ and other legal acts necessary for the implementation of the Law;
    - development of IT software and introduction of technical equipment of the Unified Register of Accounts of Individuals and Legal Entities;
    - ensuring the commissioning and functioning of the Unified register of accounts of individuals and legal entities.

- The expert council of the State Special Communications Service adopted a decision on the compliance of the created Comprehensive information protection system (CIS) of the Unified Register of Accounts of Individuals and Legal Entities to the requirements and the issuances of the Certificate of Compliance of the Register's CIS;
- The necessary legal framework for a unified registry of bank accounts for individuals and legal entities in accordance with EU standards enters into force that amends to the Tax, Banking, AML, capital market and payment services legislation;
- The necessary software and hardware for the Unified Registry of bank accounts is procured and becomes operational;
- The necessary legislative acts will enter into force on the introduction of regulation of the virtual assets market, which will determine the taxation regime of operations with virtual assets, and will also ensure the regulation of public relations related to the emission, public offer, admission to trading and turnover of virtual assets in accordance with the EU *acquis*.

This reform corresponds to EC recommendations of Ukraine 2023 Report accompanying the 2023 Communication on EU Enlargement policy, namely: ‘Continue the alignment of Ukrainian legislation and institutional practices with the FATF standards; Take steps to establish the Register for holders and beneficial owners of bank accounts, payment accounts and safe-deposit boxes’.

Potential impact of the reform: The anti-money-laundering and countering the financing of terrorism reforms enable to further align Ukraine’s legal framework with the EU *acquis* and FATF standards and to create an effective anti-money laundering and countering the financing of terrorism system in Ukraine. This enables to better tackle economic crimes and improves the overall business climate in Ukraine.

The introduction of effective regulation of the virtual assets market in accordance with the provisions of the European Union legislation will allow to minimise the factors contributing to the laundering of criminal proceeds and the financing of terrorism in Ukraine, as well as to increase the investment attractiveness of Ukraine, in particular by establishing clear and understandable rules for the regulation of the virtual assets market and increasing the degree of protection of the rights of investors - owners of virtual assets and customers of the providers of services related to the turnover of virtual assets. The measure will be completed by Q4 2025.

This reform is in line with the EU recommendations set out in Section 4 ‘Freedom of Capital Movement’ of the Ukraine's Progress Report under the EU's 2023 Enlargement Package, namely: ‘Bring Ukraine's legislation and institutional practices in line with the standards of the Financial Action Task Force on Money Laundering; take measures to create a register of holders and beneficial owners of bank accounts, payment accounts and safe deposit boxes’.

3. Overall investment needs and opportunities in 2024-2027

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4. Coherence with the objectives of the Ukraine Facility

The reforms proposed in this chapter support the general and the specific objectives of the Ukraine Facility. Pursuant to Article 3(1) b and c of the Regulation, the general objectives of the Ukraine Facility include progressive integration into the Union and global economy and markets and progressively aligning with Union rules, standards, policies, and practices with a view to future Union membership. The general objectives of Union external action as laid down in Article 21 of the Consolidated Version of Treaty on European Union, include respect for fundamental principles of the rule of law, including on anti-corruption.

Reforms in the field of anti-corruption and anti-money laundering proposed in this chapter are essential for Ukraine to come closer to the Union and to prepare for full assumption of the obligations stemming from the EU membership.

As highlighted in Article 3(2)d of the Regulation, the fight against corruption and money laundering are the specific objectives of the Ukraine Facility. The prevention, detection and correction of corruption is also crucial to protect the financial interests of the Union. The reforms therefore complement the measures to prevent, detect, investigate and correct irregularities and fraud affecting the EU's financial interests, which Ukraine commits to by receiving support under the Ukraine Facility.

Developing the institutional capacity of the anti-corruption infrastructure, improving the legal framework for a more effective fight against corruption and aligning Ukraine's anti-money laundering and countering the financing of terrorism legislation with EU *acquis* and international standards directly contributes into the fights against corruption and money-laundering in Ukraine.

The reforms proposed are in line with UN's SDG 16 'Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels'.

5. Table of reforms and investments covered under Pillar I

Reforms and investments	Objectives and growth potential	Corresponding chapters of the EU Enlargement report	Name of the step (quantitative and qualitative steps to implement reforms/investments)	Agency responsible for implementation	Outcome	Timeframe
Reform 1. Developing the institutional capacity of the anti-corruption infrastructure	The reform seeks to: - increase effectiveness of the anti-corruption infrastructure; - ensure a focused, gradual, and systematic approach to enhancing the overall effectiveness of the state's anti-corruption policy; - strengthen the fight against corruption, including at the high level, via active and efficient investigation. On the other hand, digital transformation of public administration processes, transparency of activities, and openness of data will serve as the foundation for reducing corruption risks and practices, and it is expected to increase the overall effectiveness and the level of citizens' trust in the respective institutions	Chapter 23 Judiciary and fundamental rights	Increased manpower for the Specialised Anti-Corruption Prosecutor's Office	Specialised Anti-Corruption Prosecutor's Office (by consent)	The Specialised Anti-Corruption Prosecutor's Office is given the opportunity to increase its manpower from 10% to 15% of the manpower of the National Anti-Corruption Bureau	Q3 2024
			Appointment of a new head of the National Agency on Corruption Prevention	Cabinet of Ministers , supported by Competition committee for the selection of the Head of the National Agency on Corruption Prevention	A new head of the National Agency on Corruption Prevention is appointed following a selection process in line with the Law on the Prevention of Corruption	Q2 2024
			Increased manpower for the High Anti-Corruption Court	High Anti-Corruption Court (by consent)	The personnel number of HACC judges has been increased by 60%, and the HACC apparatus number has been increased by 40%	Q1 2025
Reform 2. Improving the legal framework for a more effective fight against corruption	The overall objective of the reform is to strengthen the key anti-corruption institutions and to streamline the criminal procedure and increase its efficiency in high-level corruption cases, while preventing instances of procedural abuse and undue interferences in such cases. Inter alia, it is vital to ensure that the Criminal Procedure Code doesn't impose limitations on time period of pre-trial investigation prior to the notice of suspicion. The reform also the shortcomings related to asset recovery and management at institutional and procedural levels and improves the legislative framework reforming the National Agency of Ukraine for Finding, Tracing and Management of Assets Derived from Corruption and Other Crimes (ARMA)	Chapter 23 Judiciary and fundamental rights	Entry into force of the amended Criminal Code and of the Criminal Procedure Code	Ministry of Justice, supported by National Agency on Corruption Prevention, Specialised Anti-Corruption Prosecutor's Office (by consent)	The Laws of Ukraine on amending the Criminal Code of Ukraine and the Criminal Procedure Code of Ukraine enters into force. with the following provisions: - improving provisions regulation plea bargain; - cancellation of the pre-trial investigation period from the time of the registration of the criminal proceedings until the notification of the suspicion; - allowing to adjudicate certain cases by a single-judge of the High Anti-Corruption Court	Q3 2024
			Adoption of a new Anti-Corruption Strategy and a State Anti-Corruption Programme for the period after 2025	National Agency on Corruption Prevention	An Anti-Corruption Strategy and a State Anti-Corruption Programme for its implementation for covering the period after 2025 are adopted by the Parliament and the Government respectively and published	Q2 2026
			Adoption of an action plan for the implementation of the Asset Recovery Strategy for 2023-2025	National Agency for Finding, Tracing and Management of Assets Derived from	An Action Plan for the implementation of the Asset Recovery Strategy for 2023-2025 is adopted by the Cabinet of Ministers and	Q3 2024

				Corruption and Other Crimes	published on the website of the Cabinet of Ministers	
			Entry into force of the law reforming the National Agency for Finding, Tracing and Management of Assets Derived from Corruption and Other Crimes	Ministry of Justice, supported by National Agency for Finding, Tracing and Management of Assets Derived from Corruption and Other Crimes	The Law reforming ARMA enters into force. The law will focus on: -) a transparent and merit-based selection procedure for the head of the agency, including a credible integrity and professionalism check; - an independent external performance assessment system; - transparent procedure for the management and sale of seized assets under the agency's control	Q1 2025
Reform 3. Anti-money laundering measures	Mitigating the threats of money laundering and terrorist financing requires targeted and coordinated efforts of all the participants of the system for prevention of and counteraction to legalisation (laundering) of the proceeds from crime, terrorist financing and financing of proliferation of weapons of mass destruction. Implementation of applicable international standards, including the FATF standards and standards equivalent to the ones adopted by the Union is stipulated in the Association Agreement and is one of the important conditions for Ukraine's membership with the European Union	Chapter 24 Justice, freedom and security	Adoption of the Action Plan for addressing the risks identified in the third round of the National Risk Assessment	Ministry of Finance supported by other authorities (according to their competence)	Approval and entry into force of the Government Order on Approval of the Action Plan aimed at preventing and/or mitigating the negative consequences of risks identified in the third round of the National Risk Assessment in the field of prevention and counteraction to legalisation (laundering) of proceeds of crime, terrorist financing and financing of proliferation of weapons of mass destruction for the period up to 2026	Q1 2024
			Conducting the next National Risk Assessment	State Financial Monitoring Service, supported by Ministry of Finance National Bank (by consent) Ministry of Justice National Commission on Securities and Stock Market (by consent) other central authorities (according to their competence)	Preparing and conducting the next National Risk Assessment in accordance with the updated Methodology for the National Assessment of money laundering and terrorist financing risks in Ukraine	Q4 2025
	The creation and implementation of the Unified Register of Accounts of Individuals and Legal Entities will contribute to increasing the transparency of the financial system of Ukraine and will allow timely information to be obtained for the detection and investigation of criminal offences, as well as to prevent the commission of these offences. In		Entry into force of the legislation for a unified registry of bank accounts	State Tax Service, supported by Ministry of Finance State Financial Monitoring Service, National Bank (by consent) National Commission on Securities and	The necessary legal framework for a unified registry of bank accounts for individuals and legal entities in accordance with EU standards enters into force amending the Tax, Banking, AML, capital market and payment services Ukrainian legislation	Q2 2027

	particular, it will allow the implementation of measures for the prompt identification and blocking of assets of persons associated with terrorism, collaborative activities, assistance to the aggressor state, mercenary or treason, and sanctioned persons. The creation of the Registry will increase the effectiveness of measures to combat money laundering and terrorist financing and will contribute to the transparency of the financial system. The implementation of effective data management and control processes regarding the accounts of legal entities and individuals will ensure the implementation into national legislation of the requirements of Directive (EU) 2018/843 dated 30 May 2018 of the European Parliament and of the Council and Council (EU) 2019/1153 dated 20 June 2019 in terms of the introduction of centralised maintenance of the Unified register of accounts of individuals and legal entities			Stock Market (by consent)		
			The necessary software and hardware for the Unified Registry is in place	State Tax Service	The necessary software and hardware for the Unified Registry of bank accounts is operational	Q2 2027

CHAPTER 5. FINANCIAL MARKETS

1. State of play

Ukraine's financial sector is a major growth and stability factor for Ukraine's economy, but its full potential is yet to be realised. The financial sector is mainly bank-based, with banks' total financial assets making 51% of GDP. The state-owned banks (SOBs) are a major component of the banking system, with 5 SOBs holding 53.6% of all net assets. The two largest SOBs, Joint-Stock Company Commercial Bank 'PrivatBank' and Joint Stock Company 'State Savings Bank of Ukraine', account for more than half of the country's banking network. Non-Performing Loans (NPL) are a major legacy issue of the banking system in Ukraine that was further exacerbated by the war. Over 80% of the sector's NPLs are in SOBs loan portfolios. The share of financial companies that provide leasing, factoring, and short-term loans to the market is 8% of the sector, while the size of other financial institutions such as insurance companies, credit unions are even smaller and have-little influence on the overall health of the financial sector.

Cooperation in financial services between EU and Ukraine, established through the Association Agreement, has paved the ground for ongoing regulatory approximation with the EU *acquis* and international standards in various areas, including on financial services, necessary to establish a functioning market economy. Since 2014, the sector has undergone a comprehensive set of reforms – the country moved to a flexible exchange rate. The National Bank implemented the new monetary policy of inflation targeting and cleaned up the banking system from insolvent banks. The size of the banking sector shrank considerably relative to the overall economy in 2014-2016. Ukraine built a strong and independent NBU and a resilient banking sector, characterised by an advanced level of digitalisation and innovation. It also carried out an institutional reform, distributing the oversight of the financial market to the NBU and the National Securities and Stock Market Commission (NSSMC). Legislative changes have expanded the NBU's role to include the regulation of entities offering insurance services, with the majority of the new Insurance Law provisions set to take full effect in 2024.

Ukraine's insurance market is still emerging and aims to meet international standards and EU *acquis*, including Solvency II requirements. Ukraine has taken steps to align with EU legislation, including certain provisions of the EU Banking Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD), and the recommendations of the Basel Committee on Banking Supervision, the European Systemic Risk Board, in line with the Strategy of Ukrainian Financial Sector Development until 2025. There is some progress in aligning its financial market infrastructure with EU regulations. While significant efforts have been made, further progress is necessary to approximate Ukrainian Law with the EU Financial Services *acquis*, in areas such as central counterparties (European Market Infrastructure Regulation (EMIR)) and central securities depositories (Central Securities Depository Regulation (CSDR)) need further development. The legislation regulating the NSSMC's supervision of capital markets is to be brought into line with EU legislation and International Organization of Securities Commissions (IOSCO) principles.

The swift introduction of emergency measures in response to the extraordinary pressure on Ukraine's financial system resulting from the Russian invasion in February 2022 has been crucial to preserving financial stability and supporting government financing. These measures included maintaining an exchange rate peg as a nominal anchor, temporary cash withdrawal limits and some limited monetary budget financing via direct government bond purchases. As the situation gradually stabilises and external support continues, Ukraine has been transitioning away from these emergency measures. This transition will restore the full autonomy and institutional effectiveness of the NBU, financial stability, and fiscal sustainability. In preparation for a return to normality, a new Strategy of Ukrainian Financial Sector Development was adopted on 19 July 2023 to prepare for a safe and prompt unwinding of financial sector emergency measures, while restoring accounting and prudential norms. Furthermore, the NBU has taken actions as outlined in the Strategy for Easing FX Restrictions, Transitioning to Greater Flexibility of the Exchange Rate, and Returning to Inflation Targeting, including inter alia shifting from the fixed FX rate to managed flexibility of exchange rate on 3 October 2023 and adopting further easing measures on 3 November 2023.

The banking sector was resilient in the face of war. Thanks to swift emergency measures of market participants and the NBU, the sector remained stable, liquid, and profitable during the war, though risks and challenges remain significant. While the loan portfolios shrank, deposit growth has been positive, contributing to the liquidity of the sector. There is significant potential for financial deepening as the total stock of bank lending to the private sector stood at below 15% to GDP on net basis pre-war. The NPL ratio reached 37.4% by the end of 2023, increasing by 11 percentage points after the full-scale invasion. According to the NBU estimates, cumulative war-related losses of Ukrainian banks are expected to reach approximately 15% of the pre-war performing loan portfolio. Alternatives to bank financing are still limited and capital market infrastructure is fragmented, pointing to significant opportunities for the non-bank financial sector development.

2. Overall reform agenda in 2024-2027

The financial sector holds significant potential to drive growth and finance recovery, benefitting from prospects of EU accession. Being the backbone of economic activity, the sector faces both challenges and opportunities.

The financial sector must be healthy, capable, and transparent to be able to ensure sustainable support for the economy. Ukraine's reform agenda for the timeline of the Ukraine Plan will consist of a comprehensive set of measures aimed at realising the potential of the financial markets to support economic growth. This agenda starts with maintaining financial stability.

Ukraine aims to strengthen the regulatory framework in alignment with EU standards and implement proactive risk-based supervision, address the issue of NPLs, and assess and monitor the banking sector. Given the significant potential for deepening financial markets, and in view of creating optimal conditions for the financial system to support economic recovery, Ukraine aims to adopt measures encouraging businesses’ access to bank loans and financing from the non-bank financial sector. Provided that macroeconomic conditions become more favourable and stable, a gradual liberalisation of financial markets and a return of monetary policy to the inflation targeting regime with a floating exchange rate should boost public and business confidence in the financial sector and enhance sustainable economic growth in Ukraine.

Another important focus will be the modernisation of financial services and promotion of financial inclusion, strengthening the capacity of the financial sector regulators and the Deposit Guarantee Fund for individuals and further convergence with the EU.

Important reforms in the financial markets area will cover the following:

- Implementing a plan for gradual phasing out of extraordinary regulatory measures put in place during the war, replacing them with standard measures or refined laws and regulations to address the changing situation.

- Implementation of the Strategy of Ukrainian Financial Sector Development that provides for the reestablishment of regular resilience assessments, such as an Asset Quality Review (AQR) arranged and overseen by the NBU, along with stress tests under adverse scenarios, requiring banks to present plans on necessary recapitalisation to meet prudential requirements, as necessary. Using these results, an assessment of individual institutions' viability on a forward looking basis should be conducted.

- An independent AQR will be carried out, when conditions allow. The key results of the AQR for relevant institutions will be shared with the Ministry of Finance. The NBU will publish the Resilience Assessment of the largest banks in the banking system (in terms of assets) including stress testing under the adverse scenario and the results of the independent Asset Quality Review.

- Based on the results of the independent AQR and viability analysis, the Ministry of Finance will update the general state-owned banks strategy and subsequently, strategies for individual state-owned banks, with a view of the overall objective to reduce state ownership in the banking sector in an orderly manner. The strategy will include a well-articulated framework guiding the progressive reduction of state ownership in the banking sector, and individual strategies for each of the SOBs containing, among other things, an action plan detailing specific procedures for SOBs privatisation.

- Measures improving the corporate governance in state-owned banks.

- The legislation on the sale of SOBs, namely, the Law of Ukraine 'On Divesting State-Owned Shareholdings in the Charter Capital of Banks that Have Undergone Recapitalization by the State' № 4524-VI dated 2012, has been updated and enters into force. The revised legislation should facilitate the sale of varying ownership stakes in SOBs, while also providing the flexibility for complete acquisition.

- Development and approval of a strategy for resolution of non-performing loans:

  Strengthening of the prudential requirements for the NPL recognition and workout;

  Exchange of data on the NPLs and other relevant market data to improve NPL workout.

- Improvement of the legislative framework for NPL restructuring, bankruptcy procedures, temporary moratoria, development of NPL markets or mechanisms and strengthening the resolution options for distressed assets, strengthening out-of-court debt restructuring in order to increase lending capacity to the economy.

- Advance the alignment with the banking regulation to EU standards, notably by improving the requirements for assessment of risks covered by capital. Adopting the regulation on the credit-risk weighting of assets (CR-SA), and the Regulation on settlement risk assessment, in line with the EU regulation on prudential requirements for credit institutions (EU regulation № 575/2013).

- Adoption of the regulatory acts to align the bank prudential framework with the EU *acquis*, building on the achievement to date, notably on alignment with the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), and other relevant laws on the EU *acquis*. The reforms will include enhancing supervision requirements and strengthening the supervisory capacity of the NBU, enhancing the regulatory framework and aligning it with international standards such as the Basel III accord; establishing a clear and efficient bank resolution framework; advancing transparency and disclosure requirements.

- Ensuring policy measures to align the Ukrainian legislative framework with the EU *acquis* and improve the protection system of depositors, addressing the weaknesses of the Deposit Guarantee Fund, including the funding level, lengthy compensation processes and the coverage limit.

- To strengthen the financial safety net, Ukraine will ensure the Deposit Guarantee Fund (DGF) has sufficient funds to cover insured deposits at banks with the highest likelihood of becoming insolvent, as well as develop and implement the DGF target fund methodology in line with international standards. The DGF funding needs will be considered as part of the country's broader funding needs, taking into account the Ministry of Finance's needs for funding, including fiscal policy, war related risks, and risks of lack of donor assistance.
- By the end of the second quarter of 2024, the maximum time frames, effective before the introduction of martial law, for approving new bank executives, including independent directors, will be reinstated. This will regulate the maximum decision-making period for the National Bank.and ensure predictability in the process of approving new bank executives by the National Bank.
- With the aim of transposing the Bank Recovery and Resolution Directive and other respective acts, Ukraine will develop a roadmap, shaping the agenda of reforms for further enhancing the public authorities capacities to regulate and manage crisis situations based on gained experience and global best practices. The choice of the institutional model of banks resolution shall be made with the focus on budgetary costs minimization and based on experience of the institution’s potential capacities.
- Strengthening the insolvency framework and designing financial support programs for corporates that have been affected by the war but remain viable if going through a comprehensive and orderly corporate restructuring program.
- Developing time-bound financial and de-risking support programs that target priority sectors and exporters using transparent rules and governance mechanisms.
- Further alignment with the EU’s Solvency II and motor insurance framework.
- Following up on the analysis of the ownership structure and compliance with prudential requirements of insurers that are currently active on the market, design and implementation of appropriate interventions in the institutions that do not comply with transparency and prudential requirements and adopt outstanding by-laws on the insurance sector and non-banking financial institutions.
- Adopting the necessary implementing acts for the laws on Financial Services and Financial Companies, on Insurance, and on Credit Unions.
- Enhancing the regulatory and enforcement powers of the National Commission on Securities and Stock Market (NSMMC), by amending the NSSMC law to strengthen its mandate in line with the standards and principles of the IOSCO, extend its powers, independence and institutional capacity, and its cross-border and domestic cooperation mandate.
- Development of a roadmap to align the legislative framework related to capital markets with the EU *acquis*. This would include an approximation of laws and regulations in the areas of financial market infrastructure, securities market, and investment services. Priority should be given to ensuring that legal and accounting/tax frameworks recognise instruments that are widely used in the EU to adjust the balance between debt and equity risks.
- Ensuring a modern and comprehensive regulatory framework on payments. Ukraine has adopted a set of new legislation on the payments system, in line with EU payment legislation (*inter alia* PSD2). There is a plan to implement a roadmap to promote cashless transactions through the development of payment solutions and new payment methods (such as instant payments), taking

steps to reduce the demand for cash transactions by users, including regulatory measures. The necessary steps to join the Single Euro Payment Area (SEPA), which can facilitate international trade for Ukraine, enhance investor confidence, and allow for modernization spillovers in other areas, have to be completed. The regulation to foster development of innovation in the financial services market beyond banking to introduce new Fintech market players will be improved.

- Improvement of the sustainable and digital finance frameworks. Ukraine will establish a regulatory framework on corporate sustainability reporting and work on ESG risk management at the level of financial institutions, taking into account the situation with implementation of the national ESG agenda and closing the gaps in legislation. Ukraine will also work on regulating crypto-assets and strengthening the resilience of the digital financial sector in line with EU and international best practices.
- Adopt a Roadmap for the RegTech development, to develop digital financial services infrastructure.
- Enhancing the protection of consumer rights in financial services, especially the non-banking financial services.
- Aligning state support for small and medium-sized enterprises (SMEs), including Ukraine's efforts and expenditures to improve SMEs' access to finance and financial markets, with Ukraine's fiscal responsibility. This reform, under the responsibility of the Ministry of Finance, aims to harmonise the Business Development Fund's (BDF) expansion, as well as the distribution of state support through it, with fiscal responsibility. The objective is to prevent and address issues such as inflationary pressures, inequitable support distribution, and structural imbalances in SME support, which could negatively affect the country's financial health. The Ministry of Finance's role involves managing and enhancing the BDF's institutional design, capacity, and strategic targeting, as well as BDF-related budgetary programs. This ensures that such programs are not only managed and controlled by the Ministry of Finance to improve SMEs' access to finance and financial markets but are also aligned with fiscal responsibility and Ukraine's broader financial policy.

2.1 Reforms to be pursued under the Pillar I of the Ukraine Facility

Reform 1. Assessment of the banking sector

State of play and context: Financial regulators' further efforts on strengthening of the regulatory framework, including continuous alignment with the EU framework, and proactive risk-based supervision, coupled with banks' prudence will ensure the financial stability and set the pace for subsequent recovery and modernisation. This reform aims to build a sustainable, efficient, competitive financial sector that is integrated into the global financial community, capable to face challenges and support economic growth. With NPLs bound to further rise during the wartime, a careful design of measures to address NPLs will be needed to re-start lending to the real sector. The NBU is conducting a banks' resilience assessment in 2023 to verify whether loan portfolio quality has been reflected correctly and whether provisions are adequate, and to evaluate the true size of regulatory capital. Based on the assessment's results, the NBU will set deadlines for capital recovery by the banks and make a schedule for the rollback of temporary regulatory forbearance measures.

Description of the reform: The Strategy of Ukrainian Financial Sector Development foresees returning to a regular assessment process disrupted by the war by carrying out a bank resilience assessment of the 20 largest banks in the banking system based on baseline scenario. By evaluating asset quality, the initiative aims to identify potential vulnerabilities and opportunities for strengthening major Ukrainian banks, paving the way for a more resilient banking system in Ukraine. Going further, the NBU will recover its regular Resilience Assessment that will include stress testing under adverse scenario. An independent AQR (if conditions allow to conduct it) will also be the base for the future resilience assessments and help building investor confidence in the Ukrainian banking sector.

By the end of Q1 2026, the National Bank will publish the Resilience Assessment with a stress testing under adverse scenario and (when conditions allow) the results of the independent Asset Quality Review, utilising methodology in line with international standards.

Potential impact of the reform: Key among its outcomes is the enhancement of financial stability, especially crucial in light of the rise in NPLs during wartime. The reform aims to build a sustainable, efficient, and competitive financial sector, better integrated into the global financial community and capable of supporting economic growth. The initiative's component, an independent Asset Quality Review (AQR), will significantly boost transparency, strengthen financial stability, and elevate confidence in the Ukrainian banking sector. This independent AQR will not only identify potential vulnerabilities within major banks but also highlight opportunities for fortification, paving the way for a more resilient banking system.

Reform 2. Reducing state ownership in the banking sector

State of play and context: In the current banking landscape, SOBs represent a substantial component, collectively holding a significant share of the sector's net assets (53.6% as of January 1, 2024) and a burden of over 80% of the sector's NPLs, a persistent issue exacerbated by the war. Addressing these challenges will necessitate a comprehensive overhaul of the strategy governing all SOBs, setting out the gradual reduction of state ownership in the banking sector and paving the way for potential investments, in line with international best practice, to strengthen the financial health and stability of SOBs, address issues related to non-performing loans, mitigate fiscal risks, and enhance overall bank governance and operational efficiency.

Description of reform: Central to this reform will be the issuance of a government resolution or equivalent legal act endorsing a new Strategy for SOBs. The strategy will outline a plan for the gradual reduction of state ownership in the banking sector, underscoring a commitment to bank value enhancement, long-term viability, and, where applicable, the initiation of steps toward privatisation. The strategy will provide for the future privatisation to be carried out in an orderly manner, avoiding a premature transfer of control on suboptimal terms for the state. The new managers will be subject to a thorough fit and proper assessment.

The Ministry of Finance will undertake the task of updating the general strategy for state-owned banks (SOBs), aiming for completion by Q2 2026. This update will be facilitated by the National Bank providing essential inputs: (i) the results of the independent Asset Quality Review (AQR), which is arranged and overseen by the NBU, (ii) a comprehensive strategy for NPL resolution across the banking sector, (iii) a broad strategy for rejuvenating bank lending, (iv) revised bank capital requirements aligned with EU *acquis*.

The next pivotal phase of this reform involves the Ministry of Finance's responsibility for crafting distinct strategies for each individual SOB. This process will unfold sequentially, drawing guidance from the overarching strategy for SOBs while also taking into account the unique strengths, weaknesses, opportunities, and characteristics of each public sector bank. The timing of these updates will be carefully coordinated and contingent on several factors. This includes whether the current independent members of supervisory boards maintain their positions in 2026 or if new appointments are in process, allowing adequate time for them to familiarise themselves with the respective SOBs.

A key element of this transformation will involve the revision of the legislation governing the sale of state-owned banks, ensuring that it adheres to international standards. The revised legislation should facilitate the sale of varying ownership stakes in SOBs, while also providing the flexibility for complete acquisition.

The fundamental principles guiding the sale of SOBs will be developed through collaborative discussions and in consensus with the international donors. The legislation will be updated and will enter into force by the end of Q1 2026.

Potential impact of the reform: The reform is designed to ensure the financial stability of public sector banks, which will contribute to the overall development of the Ukrainian economy. By aligning the banking sector with international best practices and implementing prudent business strategies, the reform endeavours to mitigate financial stability and fiscal risks. This, in turn, safeguards the fiscal health of the government. As state ownership is gradually reduced, private sector participation and competition are expected to intensify. This heightened competition will encourage banks to innovate, provide better services, and offer more favourable terms to consumers. Ultimately, it will result in a more dynamic and customer-oriented banking industry.

Reform 3: Improved resolution of non-performing loans

State of play and context: Russia's unprovoked and unjustifiable war against Ukraine disrupted the steady decline in Ukrainian banks' NPL ratio, a trend observed since 2018. Before 2022, NPLs had decreased by nearly UAH 300 billion, with their proportion in loan portfolios dropping from 55% to 27%. However, by January 2023, the NPL ratio had risen to 38%, with hryvnia NPLs increasing by UAH 127 billion to UAH 432 billion. State-owned banks account for approximately 80% of these NPLs, with PrivatBank holding the major portion. The war has led to asset damage, income loss, and deteriorating borrower solvency, impacting loan servicing capabilities and leading to a decline in loan portfolio quality. About 20% of the NPL portfolio is attributed to the economic crisis caused by the full-scale war. The overall pressure of the NPL portfolio on lending activities strengthens while effective management of this portfolio is limited due to lack of instruments and obstacles in regulatory frameworks. To bolster lending, significant pressures have been exerted on the Business Development Fund, a state-funded entity dedicated to supporting small and medium enterprises via subsidised loans. To mitigate the financial strain on the economy and the state budget, it is crucial to address NPLs and rejuvenate lending practices.

Description of reform: Following the 2023 resilience assessment Ukraine will develop a strategy addressing the NPLs. The results of the independent AQR (if conducted before that) will additionally inform the strategy. The strategy will define a restructuring methodology, ensure the allocation of adequate resources for efficient case management, progressive enhancement of bankruptcy and insolvency procedures. This part of the reform will be implemented by NBU by the end of Q2 2025. The authorities will ensure that the necessary capacities are in place within the judiciary system. The strategy will have as major objectives strengthening the prudential requirements for the NPL recognition and resolution, fostering robust NPL and market data exchange mechanisms, reviewing and addressing potential obstacles, accompanied by appropriate measures to improve the regulatory framework for NPL restructuring and resolution.

A subsequent step in this reform will be enacting legal acts addressing the recommendations of the strategy for the resolution of the NPLs and the improvement of the framework for NPL resolution. The implementation of this indicator will fall under the remit of the NBU and other Government Authorities, by the end Q1 2026.

Potential impact of the reform: New instruments for NPL resolution will be available.

Reform 4: Improved capacity of the financial supervisory authority

State of play and context: Ukraine's economic recovery and growth needs modern financial services, their promotion channels, as well as access to them, specifically in the de-occupied territories. Building a strong foundation for recovery will require strengthening the capacity of financial sector regulators, especially the Stock Market Commission (NSMMC), as well as further regulatory convergence with the EU. The legislation regulating the NSSMC's supervision of capital markets needs to be brought into line with EU legislation and International Organization of Securities Commissions (IOSCO) principles.

Description of reform: To strengthen the capacity of the financial sector regulators, and therefore create an innovation prone and trustful environment to develop modern financial services, Ukraine will strengthen the regulatory and enforcement powers of the NSMMC. This will require adoption of the draft law on the improvement of the state regulation for capital markets and organised commodity markets, aligning it with the standards and principles of IOSCO. This refers to the ability of the NSSMC to operate free from external influence, particularly from political or industry pressures, make decisions based on the law and the best interests of market integrity and investor protection, rather than external interests, and have strong enforcement mechanisms and international cooperation. The law will be adopted and will enter into force by Q4 2025.

Potential impact of the reform: Enhancing the capacity of the NSSMC holds significant potential for modernising financial services and capital markets. This reform will foster trust among investors, aligning Ukraine with global financial standards. Ultimately, it will facilitate better access to capital markets for Ukrainian businesses, vital for the growth and competitiveness of the economy.

3. Overall investment needs and opportunities in 2024-2027

Access to finance, de-risking instruments & guarantees

The Ukrainian economy suffers from increased risk of doing business due to the war. The level of deposits has grown since the start of the invasion, while the loan portfolio shrank in the domestic banking sector. This points to the need of de-risking instruments, in order to unlock the existing but unused liquidity in the market.

Targeting - specific segments of the economy with growth potential as well as underserved segments, including vulnerable groups and territories under distress are of particular importance. This can be achieved through an array of instruments, notably guarantees, targeted grants and interest rate subsidies that can improve the conditions of access to finance.

Ukraine has been working on various initiatives to support business development to support small and medium-sized enterprises (SMEs) to foster economic growth and job creation, notably the Affordable Loans at 5-7-9 programme.

The following priority investment areas should be considered:

Access to finance for vulnerable segments

- Access to finance for businesses suffering the consequences of the war, including companies operating close to the front-line and de-occupied territories, companies whose assets were damaged as a result of war, businesses that relocated due to the war, or are led by IDPs.
- Access to finance for companies involved in the reconstruction effort (production of construction materials, construction companies, engineering companies, etc.).

- Financial inclusion, providing access to financial services and products to underserved and marginalised populations, including social, women- and youth-led businesses, with special attention to reintegration of war veterans and IDPs. Social economy may play a key role in this respect.
- Access to local currency financing from IFIs involves developing various programs and instruments to address the impact of adverse exchange rate movements, expanding the availability of this financing to a wider range of Ukrainian businesses.

Developing of the war-risk insurance instruments

Ukraine's Insurance market, although severely affected, continues to function, and is being stable and solvent despite the war and the significant associated challenges. The insurance market shrank sharply between 2021 and 2022, given the economic and political situation, with both the life and non-life markets declining 20% in the period.

While the insurance companies gradually restore their traditional insurance offering, such as life or motor insurance, very few local insurers stopped offering cover against war related risks almost completely, as they are required to hold relevant risks at their own retention in view of refusal of global reinsurers to provide coverage to the Ukrainian insurers with the beginning of the military aggression of Russia to Ukraine. Market players stress that lack of war insurance puts a significant drag on economic activity.

Developing a comprehensive set of insurance products is crucial for supporting Ukrainian businesses in managing risks associated with conflict and geopolitical uncertainties. The following insurance mechanisms should be considered:

1) War Insurance for Businesses:
    - Introduce accessible war insurance mechanisms to help businesses reduce the risks of property destruction or loss due to hostilities.
2) De-risking Instruments:
    - Implement de-risking instruments, including insurance, war risk insurance for commercial inland, waterways, and sea-borne shipping.
    - Provide insurance for movable and immovable assets.
    - Offer investment insurance to boost economic activity.
3) Political Risk Insurance (PRI):
    - Broaden existing PRI programs provided by the Multilateral Investment Guarantee Agency (MIGA) and DFC.
    - Leverage donor funding to implement effective de-risking mechanisms, such as a first-loss layer.
4) Property and Freight Insurance:
    - Expand and introduce property insurance and freight insurance programs designed specifically to cover war risks for new investments and existing businesses.
5) Export Credit Agencies (ECAs):
    - Collaborate with ECAs to support insurance programs against war risks.
    - Access specialised insurance solutions through ECAs to mitigate the impact of geopolitical uncertainties on international trade and investments.

Entrepreneurship, seed and venture capital investment

Ukraine has a vibrant entrepreneurship ecosystem. Various initiatives have been launched to support startups, including tax incentives, grants, and programs to streamline business registration processes. (more details and initiatives are described in the chapter for Business Environment).

Fintech and digitalization of financial service

- Investment in deepening and expanding digital financial services, including fintech, digitalisation of MSMEs, digital innovation.

4. Coherence with the objectives of the Ukraine Facility

The comprehensive reform agenda outlined for Ukraine's financial sector is closely aligned with the objectives of the Ukraine Facility, reflecting a strategic commitment to addressing the country's pressing needs while advancing its long-term goals. The proposed reforms contribute directly to promoting economic recovery and modernisation, by taking crucial steps to restore the financial sector’s health and to strengthen the supervisors’ capacity to monitor financial markets. The reforms seek to integrate Ukraine into global financial markets, enhancing its capacity to attract public and private investment, by creating a conducive environment for businesses and individuals to access funding. The reform agenda demonstrates Ukraine's commitment to aligning its financial sector with EU regulations and practices, crucial for future EU membership. The reforms also align with and complement the efforts towards digital transition, by fostering innovation in financial services. While not explicitly mentioned, the reforms indirectly support local development by creating a robust and stable financial system.

5. Table of reforms and investments covered under Pillar I

Reforms and investments	Objectives and growth potential	Corresponding chapters of the EU Enlargement report	Name of the step (quantitative and qualitative steps to implement reforms/investments)	Agency responsible for implementation	Outcome	Timeframe
Reform 1. Assessment of the banking sector	Regular resilience assessment will include asset quality review and stress test under baseline and adverse scenarios. Independent AQR will be carried out by independent experts when security conditions allow. Until then, AQR may be carried out by the NBU and external auditors. Resilience assessment that includes an adverse scenario will bring additional clarity on further path of the banking sector development under different plausible developments and thus would help to identify potential capital needs	—	Published Resilience assessment in the banking system	National Bank (by consent)	The NBU publishes the Resilience Assessment of the largest banks in the banking system (in terms of assets) that includes stress testing under the adverse scenario and the results of an independent Asset Quality Review if conditions allow it to be carried out	Q1 2026
Reform 2. Reducing state ownership in the banking sector	The reform strategy for State-Owned Banks (SOBs) by the Ministry of Finance aims to gradually reduce state ownership in the banking sector. It focuses on improving financial health, managing non-performing loans, mitigating fiscal risks, enhancing governance, and preparing for privatisation. This strategic reform emphasises enhancing market efficiency and competitiveness in the banking sector of Ukraine	Chapter 9 Financial Markets	Entry into force of the legislation on the principles for the sale of state-owned banks	Ministry of Finance	The legislation on the sale of SOBs, namely, the Law of Ukraine 'On Divesting State-Owned Shareholdings in the Charter Capital of Banks that Have Undergone Recapitalization by the State' № 4524-VI dated 2012, has been updated and enters into force. The revised legislation should facilitate the sale of varying ownership stakes in SOBs, while also providing the flexibility for complete acquisition. The fundamental principles guiding the sale of SOBs will be developed through collaborative discussions and in consensus with the international donors	Q1 2026
			Adoption of the strategy for gradual reduction of state ownership in the banking sector	Ministry of Finance	Resolution of the Government or other legal act Government adopting the reform strategy for the SOBs, which sets out a gradual reduction in state ownership in the banking sector. The strategy for the SOBs focuses on these main areas: - financial health and stability; -management of non-performing loans; - mitigation of fiscal risks;	Q2 2026

					- enhancement of bank governance and operational efficiency; - bank value enhancement, long-term viability, and steps towards privatiation (when relevant)	
Reform 3: Improved resolution of non-performing loans (NPL)	Resolution of NPL portfolios held by the banks and introduction of tools and mechanisms to tackle the issue in future will result in unlocking potential of lending and reduce the risks of financial institutions	—	Adoption of the strategy for resolution of non-performing loans	National Bank (by consent), Ministry of Justice, State Property Fund, Ministry of Finance	The strategy for resolution of nonperforming loans in line with EU regulation force is approved. The strategy focuses on these main areas: - Strengthening of the prudential requirements for the NPL recognition and resolution; - Exchange of data on the NPLs and other relevant market data between the financial institutions and state agencies to improve NPL resolution; - Review of potential obstacles and development of measures to improve the framework for NPL restructuring and resolution	Q2 2025
			Entry into force of the legislation to improve resolution of non-performing loans	National Bank (by consent), other involved authorities	The legal acts implementing the recommendations of the strategy for resolution of nonperforming loans and improving the system of NPLs resolution, have entered into force.	Q1 2026
Reform 4: Improved capacity of the financial supervisory authority	Ukraine aims to implement IOSCO standards requiring that securities regulators be independent in their decision-making and operations and have robust institutional capacity to effectively oversee and regulate the securities market, which includes strong enforcement mechanisms and international cooperation. These elements are essential to maintain market integrity, protect investors, and reduce systemic risk in Ukraine	—	Entry into force of the Law on the improvement of the state regulation for capital markets and organised commodity markets	National Securities and Stock Market Commission (by consent)	Adoption and entry into force of the Law on the improvement of state regulation for capital markets and organised commodity markets, aligning it with International Organization of Securities Commissions (IOSCO) standards. This refers to the ability of the NSSMC to operate free from external influence, particularly from political or industry pressures, make decisions based on the law and the best interests of market integrity and investor protection, rather than external interests, and have strong enforcement mechanisms and international cooperation	Q4 2025

CHAPTER 6. MANAGEMENT OF PUBLIC ASSETS

1. State of play

Ukraine has managed a substantial portfolio of state-owned assets. According to the Ministry of Economy, as of the end of 2022, there were 3,293 SOEs at the government level; out of which 1,058 are operating, 1,552 are non-operating, 516 are lacking information, and 167 are in the annexed territory of the Autonomous Republic of Crimea. A significant portion of enterprises in strategic sectors of the economy, such as energy, infrastructure, and defence, are currently state-owned. More than half of the banking sector assets (including NPLs) are under state ownership. Additionally, 370 recreation facilities and 1,209 objects of unfinished construction are under the state's ownership.

Apart from the SOEs at the government level, there is also a large portfolio of municipally owned enterprises (MOEs). These MOEs are under the oversight of local authorities and are key recipients of state aid. Over the years, the number of MOEs has continued to increase to an estimated 15,000 currently. They are mainly active in the healthcare, administration, utilities, and transport sectors. The information on these enterprises is scattered as they were never mapped.

Despite the heavy losses and imminent danger to lives and security, most strategic SOEs have continued to operate during the war. The full-scale Russian invasion has compelled a review of the management strategy for SOEs to ensure stability in strategic sectors, containment of fiscal risks. Among the largest companies are Ukrenergo, Energoatom, Ukrzaliznytsia, which all suffered major losses from the war.

The poor performance of SOEs has been a long-standing issue. Among the operating companies, in 2022, 38% reported losses, amounting to UAH 114 billion, while 56% achieved a profit of UAH 22.6 billion, resulting in a total net loss of UAH 91.3 billion. The total amount of outstanding long-term debt of SOEs amounted to UAH 211 billion (around EUR 5.3 billion) at the end of 2022. The portion of profitable SOEs compared to the total number of all SOEs is 18% and has decreased steadily for several years (from 32% in 2018 to 25% in 2021).

Reform of the SOE sector is necessary to align the legislation and practices to the OECD Guidelines on Corporate Governance of SOEs. This would help reduce fiscal risks for the state, curb corruption, and attract private investments. Management of state-owned enterprises is complicated by the lack of a common vision of state policy that would define goals, institutions, and their clear mandates regarding the management of SOEs. Currently, less than 10 state-owned enterprises have supervisory boards with independent members, and overall SOEs are managed by 89 different agencies/entities, often resulting in overlapping of functions and responsibilities.

Furthermore, the legal status of the SOEs' assets is not always clearly defined, which makes it difficult to attract market financing. The special legal form for state unitary enterprises is archaic and incomprehensible to private investors. The current corporate governance structure of SOEs does not facilitate the attraction of strategic long-term investments. As a result, SOEs are undercapitalized and have limited access to credit.

According to the aforementioned challenges, Ukraine's strategic objectives in the management of state assets and privatisation in 2024-2027 are:

- Optimising the SOE portfolio and preparing the SOEs for privatisation.
- Improving corporate governance and performance of SOEs.

2. Overall reform agenda in 2024-2027

The government's vision on SOEs will be defined in an overarching ownership policy of SOEs, which will reflect priorities in the field of state ownership, clearly set and disclose the policy goals that SOEs are required to achieve, and describe the role of the state and its individual institutions in managing its enterprises. This policy will guide the state's decisions on which SOEs should be privatised, liquidated, or remain in state ownership. Based on the new policy, the SOE sector will be transformed, embarking on a large-scale process of corporatization and restructuring, while taking into account the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct and Supply Chain Management.

Improving governance practices is one of the key reforms for the enterprises that will remain in state ownership. This will require amending the SOE corporate governance legislation to bring Ukrainian legislation closer to the relevant OECD Guidelines, strengthening the independence of SOEs, the role of their supervisory boards in appointing or dismissing managers and adopting strategic documents. In addition, the bylaws will be amended to improve the vetting of candidates for the positions of heads of SOEs and their supervisory boards to ensure the quality and independence of candidates.

Legislative changes will be accompanied by continued setting up of corporate governance structures in top key SOEs. Supervisory Boards will be set up in top key SOEs with independent members having the majority, including in the energy sector, and then gradually rolled out to the rest of the SOEs as well. The Nomination Committee for SOEs will continue to be in charge of selecting both independent members and State representatives to the Supervisory boards. To understand whether the set of Supervisory Boards led to desired changes, the Government will regularly evaluate the Supervisory Boards in place, which will also further improve in this area.

Corporatising SOEs to modernise their structure will facilitate raising capital. The majority of SOEs in Ukraine operate under the archaic legal form of state unitary enterprises. Under this framework, their corporate governance norms often differ from those applicable to joint stock companies (JSCs) under the JSC law. For instance, state unitary enterprises may face limitations in raising capital or forming alliances through joint ventures as they do not own their assets and may not be subject to bankruptcy. Therefore, the focus will be on facilitating the change of legal form of SOEs from state unitary enterprises to Joint Stock Companies or Limited Liability Companies. By facilitating the transformation to LLCs can be particularly helpful to those small SOEs that cannot afford the costs to become a JSC.

In line with the EU internal market rules, more attention will be paid to ensure a level playing field between public and private companies. To ensure public resources are not used to subsidise commercial activities of SOEs that distort competition with the private companies, separation of financial accounts within SOEs between Public Service Obligations (PSOs), or, as defined in the EU, Services of General Economic Interest (SGEIs), and other activities performed by the same SOE is necessary. This reform will be implemented as a priority in the strategic SOEs.

Furthermore, the aid granted to SOEs should not distort competition in the internal market of the EU. As currently, state aid control in Ukraine is suspended due to martial law, state funds channelled to SOEs are neither reported nor controlled. Relaunching state aid control in the country is a priority and will go hand in hand with amending the current legal framework to align with the EU rules on state aid, including, but not exclusively, on PSOs/SGEIs. Until the control over state aid is restored and its rules are harmonised with EU legislation, the aid provided above certain thresholds will be registered in a special public register. Moreover, Ukraine will continue aligning its legislation on the transparency of its financial relations with

SOEs with the EU *acquis*. Furthermore, once the conditions allow, the Government will start looking into resolving the issue of debt moratoria for SOEs.

Consolidating management of SOEs is another priority. This is necessary to better fulfil the role of the owner of commercial state-owned enterprises and assets, and to reduce the conflict of interest between the state as manager of state-owned enterprises and the state as regulator. Before establishing the structure, the roles of the Cabinet of Ministers, Ministry of Finance and Ministry of Economy should be clearly defined, parliamentary oversight should be ensured, and public financial management aspects should be taken into account.

The Government will start looking into optimization of Municipally Owned Enterprises (MOEs). Steps needed include a mapping of all MOEs, measures to increase the transparency in their transactions and corporatisation strategies for all MOEs that have a strong rational of state ownership.

Optimisation of the SOE portfolio will be done in line with the state ownership policy. The relaunch of large-scale privatisations will take place once the conditions are right. It will be important to ensure smooth, transparent and fair processes, keeping in mind the need to attract strategic foreign investors which can also bring the right know-how and support technological spillovers. To ensure that privatization/sales of state assets and goods are in line with market conditions and exclude state aid, they will be carried out through competitive, transparent and non-discriminatory procedures in accordance with EU best practices and standards. If the state intervenes in the market, its actions will be qualified as granting an economic advantage if it does not act in the same way as a private operator under normal market conditions.

Non-operational SOEs will be liquidated. Many of these enterprises exist only on paper, others are indebted or have not paid their employees. The liquidation of non-performing assets would allow it to reduce the burden on the state budget, pay wage arrears to employees and create new projects using the property of unprofitable enterprises. If the moratorium on forced sales of SOEs assets is cancelled, updating the procedure for arrested property sales becomes crucial to protect creditors' rights. This requires ensuring a transparent and efficient sale of such property through the Prozorro. The state electronic auction system is presently used for bankruptcy and state property.

For the successful application of the relevant EU *acquis* in the application of these reforms, a task force will be set up to support the Government. The task force will analyse and give recommendations on how to undertake the reforms under this component in line with the EU rules and good practices, including the restructuring of SOEs, and their compliance with the relevant EU rules. The task force will include representatives of the European Commission, experts and politicians from Ukraine and partner countries. The task force will be in place after the State Ownership Policy is adopted in Q4-2024.

2.1 Reforms to be pursued under the Pillar I of the Ukraine Facility

Reform 1. Adopting a state ownership policy

State of play and context: The public sector has played a decisive role in the economy of Ukraine. The large SOE sector was often supportive to the economy and population in times of crisis, given its size. At the same time, SOEs have not been able to realise their potential in terms of valuation and investment attraction, unlike many successful examples in the Ukrainian private sector, and are often a drain on limited public resources. Furthermore, the existing model of state asset management has several fundamental flaws.

The Government has taken initial steps to address shortcomings in the governance model. In 2018, the Government approved the ‘Basic Principles of the Implementation of the Ownership Policy Regarding

Economic Entities of the State Sector of the Economy' ('Basic Principles'), the first document that looked at principles of owning state assets. This was followed by the first triage of SOEs, categorising enterprises into those that are strategic for the economy and to remain in the state ownership, those that are to be privatised, and those to be liquidated. The Basic Principles served as a basis for individual ownership policies subsequently approved for a few strategic SOEs. However, they appear ununified and, in many cases, have become irrelevant.

Developing a comprehensive state ownership policy that would reflect long-term priorities for state-owned assets, redoing the triage with the narrowed focus and determining the proper models for management of different types of state-owned assets is the next step. The need for such holistic document was emphasised in the OECD's Review of the Corporate Governance of State-Owned Enterprises in Ukraine completed in May 2021. The Review examined Ukraine's compliance with the OECD Guidelines on Corporate Governance of State-Owned Enterprises ('OECD Guidelines').

Description of the reform: According to the OECD Guidelines, the state exercises the ownership of SOEs in the interest of the general public. It should carefully evaluate and disclose the objectives that justify state ownership and subject these to a recurrent review, as well as disclose any PSOs the SOEs are required to discharge. Categorisation of SOEs according to these principles is needed a well.

The Resolution of the Cabinet of Ministers 'On Approving the State Ownership Policy' pursuant to the OECD Guidelines and the 'triage' of SOEs will be adopted, published and entered into force by Q4 2024. The State Ownership Policy ('SOP') will be focused on the following key aspects:

- Dividend policy, Remuneration policy for members of supervisory boards and managers;
- Definition of the overall rationale for keeping SOEs under state ownership and subjecting these rationales to regular reviews;
- Setting long-term and whole-of-government priorities;
- Listing the public policy objectives that SOEs are required to achieve;
- Describing the state's role in the governance of SOEs; how the state will implement its ownership policy; and the respective roles and responsibilities of those government authorities involved in its implementation.

The adoption of the SOP necessitates to renew the triage of SOEs. The triage of SOEs will lead to the following outcomes:

- A list of SOEs that will remain in state ownership as strategic;
- A list of SOEs that will be proposed for privatisation, also indicating all SOEs which are temporarily banned for privatisation during the martial law in a dedicated subsection;
- A list of SOEs which will be liquidated.

In order to implement the State Ownership Policy, the following steps will be taken outside of the Pillar I indicators:

- The list of state-owned enterprises with an absolute or partial ban on privatisation will be approved.
- The Government will transfer all SOEs to be liquidated and to be privatised, as per the new SOP and triage of SOEs, to the SPF, the entity in charge of privatisations and liquidation of SOEs.
- All SOEs which are meant to stay in the state ownership, as per the new SOP and triage of SOEs, will be transferred to new entities for centralised management of SOEs (elaborated under the Reform 3).

- The protocol decision to update the list of top key SOEs is approved by the government and published.

The institutions responsible for the steps are the Ministry of Economy, the Ministry of Finance, and the SPF.

Potential impact of the reform: The result of the implemented measures should be the informed strategy of the state asset management. The state will be able to expedite and ultimately finish the process of liquidation and privatisation of SOEs, hence radical reduction of the portfolio of state property, the reduction of the state's share in various fields of the economy, and the attraction of private investments.

At the same time, the triage and SOP will enable the centralised management of the strategic SOEs that remain in state ownership. Thus, the state will preserve and develop the assets, which exercise control of key natural monopolies or resources and protect national security (including energy independence). Moreover, the state will stimulate economic recovery through the strategic commercial SOEs.

Reform 2. Improved governance and management of SOEs

State of play and context:

Majority of state-owned companies currently operate under the legal form of state unitary enterprises. As of December 31, 2022, according to the organisational and legal form, the state owned:

2 835 (86% of total SOEs) state enterprises;

291 (9%) business associations (including joint stock companies and limited liability companies);

167 (5%) enterprises in the Autonomous Republic of Crimea.

According to the draft of the upcoming state ownership policy, among the SOEs that are recommended to remain in state ownership:

71 (68%) state enterprise;

19 (18%) another form of ownership (including state organization, state institution, state-owned (‘kazenne’) enterprise, scientific center, concern, agency);

14 (13%) business associations (including joint stock companies and limited liability companies).

In 2023, three large state enterprises are in the process of transformation: Ukroboronprom, Energoatom, and Guaranteed Buyer in the energy sector.

In recent years, the Government has implemented measures aimed at restructuring the organisational and legal form of SOEs to align with prevailing European and global practices. The objective of these measures is to shift away from the state unitary enterprise legal form and facilitate the transformation of SOEs into more commercially oriented forms, particularly joint-stock companies and limited liability companies. For SOEs not involved in commercial activities but fulfilling state functions, the plan is to convert them into state bodies. While the state has made significant progress in corporatising state-owned enterprises, this is a lengthy process that takes 18 months on average.

The efficiency of previously corporatized companies was increased and the regulatory framework for corporate governance in state-owned enterprises was improved. According to the OECD Corporate Governance Review of State-Owned Enterprises: Ukraine 2021, Ukraine has made several significant steps in this direction in the six years up to 2021. Some notable achievements during this period include the enactment of amendments to the Law on the Management of State-Owned Objects in 2016. These amendments include provisions requiring a majority of members of supervisory boards of SOEs to be independent, and increasing transparency and disclosure of information about SOEs. In 2015, Ukraine published its first annual consolidated report on the 100 largest SOEs. Although the practice of preparing such reports was later phased out, the Ministry of Economy has introduced in 2018-2019 a publicly accessible online platform for financial reporting called ‘ProZvit’, which provides financial indicators for central SOEs, a significant step toward greater transparency. Ukraine has also established a committee responsible for nominating and competitively selecting independent members of the supervisory boards and CEOs of economically important SOEs. Substantial steps have also been taken to enhance corporate governance in state-owned banks.

According to the OECD Review of the Corporate Governance of State-Owned Enterprises in Ukraine (2021), the existence of multiple exceptions and conflicting provisions in current legislation allows for varying interpretations of the law, which can lead to excessive interference in the activities of SOEs. For instance, these provisions limit the supervisory board's authority in appointing managers and approving strategies and financial plans. It is essential to pay further attention to the implementation of legislation by the state as a shareholder and by the individual state-owned enterprises. This includes areas like establishing independent supervisory boards, appointing professional management, implementing internal control and audit systems, conducting systematic external independent audits, and widespread adoption of IFRS accounting standards.

Furthermore, there are two fundamental flaws of Ukraine’s state asset management system. First, there is a risk of conflict of interest, as a single state body often performs two functions: policy-making and asset management. Consequently, SOEs may be treated differently than private sector companies, leading to market distortions.

The second flaw is the considerable decentralisation of the SOEs management. As mentioned above, there are 89 ownership bodies, including the CMU, which plays the leading role, Ministries, and the SPF. Consequently, the system requires, but does not receive, sufficient human and material resources. Also, it has appeared impossible to introduce uniform approaches to the SOE management and monitoring across different owners.

Description of the reform: The reforms are focused on improving the legislation on the corporate governance of SOEs, reforming the largest SOEs as per new legislation and corporatising them, and consolidating the SOE management entities.

The adoption and entry into force of the new law on corporate governance of SOEs in line with OECD Guidelines on Corporate Governance of SOEs. The law will enter into force by Q2 2024 and will focus on these main areas:

- Defining the powers of SOEs’ supervisory boards to appoint and dismiss CEOs;
- Defining the powers of SOEs’ supervisory boards to approve the strategic, investment and financial documents of SOEs;
- Establishing an annual evaluation procedure for the supervisory boards of SOEs.

The reform will also contain two further implementation steps:

- Supervisory boards with a majority of independent members are appointed by the government for at least 15 SOEs from the list of top key SOEs approved by the Cabinet of Ministers protocol decision by Q2 2026. The Supervisory boards will be selected on the basis of renewed secondary legislation involving the nomination procedures.

- At least 15 SOEs from the list of top key SOEs approved by the Cabinet of Ministers protocol decision are corporatised as either joint-stock companies or limited liability companies by Q3 2026.

The part of reform consolidating the management of SOEs involves sharing with the European Commission of the first annual report with the financial and operational results showing that the principles of corporate governance are duly followed by Q4 2027. Before the audit, the new law on consolidated SOE management entities and the respective secondary legislation will be adopted and enter into force by Q3 2026. Before the consolidated SOE management entities are created, the following key principles of corporate governance need to be put in place and enforced:

- The roles of the Cabinet of Ministers, Ministry of Finance, and Ministry of Economy are clearly defined, and Parliament oversight is enforced.
- The mandate and scope of the consolidated SOE management entities are clearly defined fully in line with the State Ownership Policy.
- Public finance management considerations are embedded in the charters of the consolidated SOE management entities.

Potential impact of the reform: The expected results primarily include a reduction in the number of state unitary enterprises and a transition to more efficient legal forms, such as joint-stock companies and limited liability companies. For companies that remain state-owned or where the state retains a share, the implementation of measures to enhance the corporate governance of SOE helps mitigate conflicts of interest, enhance accountability and expand the authority of supervisory boards. This, in turn, will foster a more transparent and efficient governance framework for these companies, effective risk management, improved operational efficiency, and enhanced access to capital.

Considering that the state's ownership interest will persist in those enterprises of strategic importance and, occasionally, in monopolistic markets, the new regulations will have a favourable impact on the respective industries as a whole. This will be achieved through the normalization of the state's role as a shareholder in SOEs with significant or dominant market shares and the overall improvement in governance effectiveness within these companies.

The existence of a consolidated ownership entity subject to well-defined regulatory frameworks, in alignment with State Ownership Policy, and with proper corporate governance is expected to insulate the SOE management from unconstructive political pressures and enhance the portfolio performance. Specifically, the operational transformation of SOEs and eventual investment in new projects will both drive the increase in market value of the SOEs, the contribution to the state budget through dividend stream and taxation. Furthermore, it will promote uniform approaches applicable to all entities within the purview of consolidated ownership entity.

Reform 3. Separation of accounts between PSO and non-PSO activities in SOEs

State of play and context: When an SOE is engaged in both PSOs and non-PSOs activities, public resources flow within the enterprise, making it difficult to ascertain which resources are used for which purposes. To prevent undertakings from using public funds for compensating PSOs to subsidise commercial activities and distort competition between SOEs and private companies, it should become mandatory in Ukraine as it is in the EU to separate accounts between non-PSOs and PSOs activities.

Ensuring that the public funding provided for the PSO activities is not used to cross-subsidize the other activities can be done by limiting the public funding to all the direct costs necessary to discharge the PSOs, an appropriate contribution to the indirect costs common to both the PSOs and other activities and a reasonable profit, to be identified on the basis of a clear separation of accounts. There should be no overcompensation: the amount of compensation for the public service obligations must not exceed what is necessary to cover the net cost of discharging the public service obligations, including a reasonable profit. The parameters on the basis of which PSOs compensation is calculated should be established in advance.

Description of the reform: To avoid cross-subsidisation for biggest SOEs engaged in PSO, the government will ensure separation of accounts between PSOs and non- PSOs activities in SOEs through the following three steps.

Roadmap defining steps for mandatory structural separation of PSO and non-PSO activities for all SOEs engaged in PSOs will be adopted by the Government and published by Q1 2025. The roadmap will include operational steps for the separation of accounts for companies on different stages of implementation of required changes. The roadmap will describe how the account separation between PSOs and non-PSOs activities will be performed in all top key SOEs approved by the Cabinet of Ministers protocol decision.

The legislation identified in the road map is assessed and, if needed, amended and put into force to ensure that mandatory structural separation of accounts between PSOs and non-PSOs activities will be performed in all top key SOEs approved by the Cabinet of Ministers, which are engaged in PSOs is clearly and fully defined and in place by Q3 2025.

Independent audit report conducted by an audit company that is part of the international auditing network and, according to national legislation, has the right to conduct a mandatory audit of the financial statements of enterprises of public interest. Such a report should contain a detailed assessment on the following areas for each SOE assigned PSO by Q3 2027:

- Implementation of accounts separation;
- Market compliance on cross-subsidisation;
- Definition of Public service obligations for each SOE;
- Costs, financial flows and liabilities stemming from the Public Service Obligations.

Potential impact of the reform: Separation of accounts between PSOs and non-PSOs activities in SOEs will help ensure that the funds received for fulfilment of PSOs obligations are not used for subsidising commercial activities of the same SOE. That way the SOE will respect the principle of competitive neutrality on the markets and support the level playing field with the private sector. Implementing this reform, Ukraine will get closer to aligning its framework with the EU *acquis* in this area.

Reform 4. Improved state aid control framework

State of play and context: The current State aid law is suspended; hence State funding channelled to SOEs or private companies is currently neither notified to the competent authority, i.e. Antimonopoly Committee, nor recorded and controlled. Furthermore, there is a need to harmonise the law on the state aid control with the EU *acquis* (Chapter 8) inter alia in the area of Public Service Obligations/ Services of General Economic Interest. This legislative alignment should include but not be limited to rules relating to the financing of SGEIs/PSOs.

Description of the reform: To address these issues and improve the state aid control framework, the following steps will be taken: i) entry into force of the updated legislation on state aid in line with the EU *acquis*, ii) full unsuspension of the state aid control by the Antimonopoly Committee and iii) approval of state aid rules in relation to Services of General Economic Interest by Q3 2025.

Potential impact of the reform: Strengthening and improving the state aid control framework in Ukraine is expected to have several positive outcomes for the country's economy, specific sectors or industries, and associated areas. Improved state aid control ensures that government subsidies do not distort competition, leading to fair competition and increased market efficiency. By preventing incompatible State aid, the Government can better manage its finances and allocate resources more effectively, for example, direct funds toward innovation, research, and development, leading to technological advancements and economic growth. As Ukraine seeks accession to the EU, aligning its state aid control framework with the EU *acquis* is essential for meeting the accession criteria and for being granted/ maintaining access to the EU internal market.

3. Overall investment needs and opportunities in 2024-2027

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4. Coherence with the objectives of the Ukraine Facility

The chapter proposes reforms and investments that constitute a coherent, comprehensive, and adequately balanced response to the general and specific objectives of the Ukraine Facility. More specifically, they will progressively align Ukraine with Union rules, standards, policies and practices in terms of public administration and reinforce the effectiveness of public administration and support transparency, structural reforms and good governance at all levels.

The reforms proposed are in line with UN’s SDG #16 ‘Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels’. It is also aligned with the recommendation of the OECD Review of Corporate Governance of State-Owned Enterprises: Ukraine 2021.

The execution of the measures outlined within this chapter is poised to engender the progressive advancement of Ukraine's economy. This will be achieved through the infusion of private investments into the public sector and the enhancement of managerial efficacy within SOEs.

Presently, a substantial portion of companies remains under state ownership, with management conducted in a decentralised fashion and often without the full implementation of best practices in corporate governance. Furthermore, the substantial state stake exerts influence on the development of competition within specific strategic markets. The implementation of the proposed measures will yield a reduction in the size of the state-owned portfolio, an elevation in the efficiency and transparency of management within SOEs, and an expanded scope for investments in the previously public sector. It will concurrently augment the sector's appeal to investors by virtue of establishing a secure and clearly defined regulatory framework governing the activities of state-owned companies and the role of the state as an owner.

5. Table of reforms and investments covered under Pillar I

Reforms and investments	Objectives and growth potential	Corresponding chapters of the EU Enlargement report	Name of the step (quantitative and qualitative steps to implement reforms/investments)	Agency responsible for implementation	Outcome	Timeframe
Reform 1. Adopting a state ownership policy	While the SOE sector has played a decisive role in the economy of Ukraine over time, SOEs have not been able to realise their potential in terms of productivity, valuation and investment attraction and are often a contingent liability for the state, not least due to the size. Furthermore, the existing model of state asset management has several fundamental flaws which need to be addressed. A comprehensive reform of the sector requires an overarching ownership policy that would reflect long-term and whole-of-government priorities in the sector. This policy will guide the decisions of the state on the new triage with a narrowed focus and determining the adequate models for the management of different types of state-owned assets.	Fundamentals - Economic criteria	Adoption of the state ownership policy and of the triage of SOEs	Ministry of Economy Ministry of Finance State Property Fund	Entry into force of the Resolution of the Cabinet of Ministers ‘On Approving the State Ownership Policy’ and the ‘triage’ of SOEs, which is also published. The State Ownership Policy focuses on: - Listing the public policy objectives that SOEs are required to achieve; - Describing the state’s role in the governance of SOEs; how the state will implement its ownership policy; and the respective roles and responsibilities of those government authorities involved in its implementation; - Definition of the overall rationales for keeping SOEs under state ownership and subjects these rationales to regular reviews; - Setting long-term and whole-of-government priorities of SOEs ownership; - Dividend policy, Remuneration policy for members of supervisory boards and managers. The ownership policy will allow for the implementation of OECD Corporate governance reforms in DSO companies to improve competition in natural gas markets. The triage of SOEs will lead to the following outcomes: - A list of SOEs that will remain in state ownership as strategic; - A list of SOEs that will be proposed for privatisation, also indicating all SOEs which are temporarily banned for privatisation during the martial law in a dedicated subsection;	Q4 2024

					- A list of SOEs which will be liquidated	
Reform 2. Improved governance and management of SOEs	Reforms are needed to address systemic difficulties in managing the portfolio of SOEs. More flexible and efficient forms of corporate governance will enable creating favourable conditions to raise private investment and increase the performance of management of state-owned enterprises. Setting up governance structures in the largest SOEs, in particular the Supervisory Boards, should be aligned with the OECD Guidelines on Corporate Governance of State-Owned Enterprises. This requires revising the legislative framework. Corporatising SOEs to modernise their structure will further facilitate raising capital as the legal form underpinning large majority of SOEs is archaic and limiting. Consolidated management is needed to better perform the role of the owner of strategic SOEs and assets, and it would also reduce conflict of interests between the state as manager of SOEs and the state as the regulator. This reform will follow other prior reforms in the SOE sector and be aligned with: developing an overarching state ownership policy and improving corporate governance of the SOEs. These entities will manage solely the SOEs, not the state-owned banks.	Fundamentals - Economic criteria	Entry into force of the law on the corporate governance of SOEs	Ministry of Economy	Entry into force of the new law on corporate governance of SOEs in line with OECD guidelines on corporate governance ('On Amendments to Some Legislative Acts of Ukraine Regarding Improvement of Corporate Governance of Legal Entities in which the State is a Shareholder (Founder, Participant)'). The law will focus on these main areas: - Defining the powers of SOEs' supervisory boards to appoint and dismiss CEOs; - Defining the powers of SOEs' supervisory boards to approve the strategic, investment and financial plans documents of SOEs; - - Establishing an annual evaluation procedure for the supervisory boards of SOEs	Q2 2024
			Appointment of the Supervisory Boards with majority independent members	Ministry of Economy	Supervisory boards with a majority of independent members are appointed by the government for at least 15 SOEs from the list of top key SOEs approved by the Cabinet of Ministers protocol decision. The Supervisory boards will be selected on the basis of renewed secondary legislation involving the nomination procedures.	Q2 2026
			Corporatisation of key SOEs	Ministry of Economy	At least 15 SOEs from the list of top key SOEs approved by the Cabinet of Ministers protocol decision are corporatised as either joint-stock companies or limited liability companies	Q3 2026
			Entry into force of the legislation on consolidated SOE management entities	Ministry of Economy State Property Fund	The first annual report with the financial and operational results showing that the principles of corporate governance are duly followed is shared with the European Commission. Before the audit, the new law on consolidated SOE management entities and the respective secondary legislation is adopted and enters into force by Q3 2026.	Q4 2027

					Before the consolidated SOE management entities are created, the following key principles of corporate governance are put in place and enforced: - The roles of the Cabinet of Ministers, Ministry of Finance, the Ministry of Economy are clearly defined, and the Parliament oversight is enforced; - The mandate and scope of the consolidated SOE management entities are clearly defined fully in line with the State Ownership Policy; - Public finance management considerations are embedded in the charters of the consolidated SOE management entities	
Reform 3. Separation of accounts between PSO and non-PSO activities in SOEs	When an SOE is engaged in both commercial and PSOs activities, public resources flow within the enterprise, making it difficult to ascertain which resources are used for which purposes. To prevent undertakings from using public resources to subsidise commercial activities and distort competition between SOEs and private companies, it should become mandatory in Ukraine as it is in the EU to separate accounts between PSO and non-PSO activities	Chapter 8. Competition Policy	Adoption of Roadmap on the separation of PSO and non-PSO activities	Ministry of Economy Ministry of Energy Ministry of Communities, Territories and Infrastructure Development State Property Fund Ministry of Finance	Adoption and publication of the Roadmap defining steps for mandatory structural separation of PSO and non-PSO activities for all SOEs engaged in PSOs. The roadmap document will be based on the identified current level of adoption of required accounting approaches and include operational steps for the separation of accounts for companies on different stages of implementation of required changes. The roadmap will describe how the account separation between PSO and non-PSO activities will be performed in all top key SOEs approved by the Cabinet of Ministers protocol decision	Q1 2025
			Assessment and, if necessary, amendment and entry into force of legislation on the separation of PSO and non-PSO activities	Ministry of Finance Ministry of Economy Ministry of Energy	Assessment and, if needed, amendment and entry in force of the legislation identified in the road map to ensure that mandatory structural separation of accounts between PSO and non-PSO activities is performed in all top key SOEs approved by the Cabinet of Ministers, which are engaged in PSOs is clearly and fully defined and in place	Q3 2025
			Independent audit report confirming the separation of PSO and non-PSO activities	Ministry of Economy Ministry of Energy	Submission of an independent audit report conducted by an audit company that is part of the international auditing network and,	Q3 2027

				Ministry of Communities, Territories and Infrastructure Development State Property Fund	according to national legislation, has the right to conduct a mandatory audit of the financial statements of enterprises of public interest. Such a report should contain a detailed assessment on the following areas for each SOE assigned PSO: - Implementation of accounts separation; - Market compliance on cross-subsidisation; - Definition of Public service obligations for each SOE - Costs, financial flows and liabilities stemming from the Public Service obligations	
Reform 4. Improved state aid control framework	The current Law on State Aid is suspended; hence, State funding channelled to SOEs or other companies is not recorded or assessed. Furthermore, there is a need to harmonise the law on the state aid control with the EU *acquis* in the area of Public Service Obligations/ Services of General Economic Interest. Improved state aid control ultimately ensures that Government subsidies do not distort competition, leading to fair competition and increased market efficiency.	Chapter 8. Competition Policy	Unsuspension of the application of state aid control and harmonisation of the law on the state aid with the EU *acquis*	Ministry of Economy	Entry into force of the updated legislation on state aid, including those in relation to services of general economic interest, together with the full unsuspension of the application of state aid control by the Antimonopoly Committee.	Q3 2025

CHAPTER 7. HUMAN CAPITAL

1. State of play

Ukraine has lagged its neighbours and middle-income countries in terms of economic and human capital. The war has caused significant damage to Ukraine's human capital, with many people killed and many injured and disabled. It is estimated that more than one-third of the population was forced to leave their homes, jobs, schools, and the places and people that were an integral part of their lives. Many of Ukrainians, mostly women with children, have taken refuge abroad, but often find life expensive and difficult in host countries, despite widespread support.

Many health and educational facilities have been damaged or destroyed, reducing access to services that are critical to Ukraine's human capital. In terms of needs for the reconstruction of the social-sector related infrastructure, the RDNA3 estimates the total reconstruction and recovery needs to be EUR 12.9 billion for the health sector, EUR 12.6 billion for the education sector, with the largest portion required for secondary schools; and EUR 72.8 billion for the housing sector.

Ukraine has also ratified most of the international conventions on the protection of fundamental rights, which has made it possible to comply with international human rights instruments and take them into account when planning the country's recovery. Ukraine also ratified the Istanbul Convention on preventing and combating violence against women and domestic violence in July 2022, adopted the 2030 state strategy on ensuring equal rights between men and women and updated the National Action Plan for the Implementation of UN Security Council Resolution 1325 'Women, Peace, Security' considering new challenges.

For Ukraine, it is crucial to halt the erosion of human capital and create the conditions that will help put both human capital and the economy back on a growth path. Central to this effort is the restoration and improvement of health and education facilities, getting students back to school and catching up on the curriculum, training and skills development linked to labour market needs, ensuring decent work opportunities and a commitment to helping everyone reach their full potential. This includes reaching out to and working with relevant stakeholders, in particular social partners, as well as the most vulnerable groups, including people who have experienced mental and physical trauma. Efforts to halt the erosion of human capital also include reaching out to Ukrainians currently living abroad and facilitating their return.

The main areas of reform presented in this section are based on the following strategic goals for the period 2024-2027:

- Strengthening education and skills;
- Ensuring access to healthcare and improving rehabilitation;
- Reintegrating into the labour market those who have been excluded from it due to various circumstances, including the war, and eliminating the social and economic consequences of the war;
- Increasing quantity of the physically, economically, and socially active population

It is envisaged to carry out reforms taking into account the gender approach, which consideringthe interests and experiences of women and men as an integral component of planning, implementation, monitoring and evaluation of policies and programs in all spheres of society's life activities in order to obtain equal benefits.

2. Overall reform agenda in 2024-2027

Ukraine’s recovery and future is closely linked to the support and investment in its people. The war has demonstrated the importance of a strong healthcare system, a resilient and flexible education system, and social protection programmes that aid those in need while encouraging decent employment for all. It is also important to strengthen the role of sports and other social infrastructure as an efficient tool for physical rehabilitation, mental health improvement, democratisation of society, socialisation of the internally displaced persons and reintegration of the territories to develop physically, economically, and socially active citizens. Further, improving the social system will help ensure protection of the most vulnerable groups, including veterans, IDPs, single parents, widows and widowers, children, persons with disabilities, minorities, young and elderly people. Within the context of the strategic objectives of the ‘New European Agenda for Culture’ defined by the European Commission, an important element of strengthening social cohesion and resilience is the development of the cultural sector, the protection and restoration of Ukrainian’s cultural heritage. All of these are necessary not only to help people recover and reach their full potential but also to achieve Ukraine’s ambitious goal of a more resilient and inclusive economy and society that can grow in the future.

Ukraine will continue to be committed to international conventions and treaties and adhering to international standards for the design and implementation of reforms, including for the conventions on human rights and fundamental freedoms, children’s rights, and the elimination of all forms of discrimination.

To support the reconstruction and strengthen growth, gender equality will be mainstreamed and followed-up in the reform initiatives. The current gender bias in education, limited accessibility of childcare facilities and gender imbalances in the labour market harm not only women, but the entire economy. For example, the economic activity rate for women of working age in Ukraine was 56%, compared to 68.5% for men of the same age in 2021. It is a priority to promote a balanced distribution of unpaid care work, improve the availability of quality childcare and services for the elderly, and overcome gender stereotypes about professions and business. Preventing and combating discrimination and harassment, together with measures for increasing women’s participation in Science Technology Engineering and Math (STEM) and traditionally male-dominated fields in education, as well as reducing the gender pay gap, will improve quality of life for all, increase the labour supply and make return more attractive for those, who currently outside of Ukraine.

Regarding the respect of minorities rights the Law on National Minorities (Communities) of Ukraine was adopted in December 2022. It replaced the Law on National Minorities adopted in 1992 as the main act regulating the rights of national minorities and created rules and structures for national minority rights in Ukraine. In the preparatory process, efforts were made to consult representatives of national minorities following the Venice Commission Opinion recommendations of June 2023 on that law. The adopted accompanying implementing measures address the structures of regional centres of national minorities, financial support to public associations of national minorities, the methodology for using minority languages and the creation of consultative bodies on national minorities, as well as a state programme ‘Unity in Diversity’ for national minorities. Since February 2022, the number of reported cases of discrimination against minorities, including LGBTIQ+ and national minorities, as well as acts of anti-semitism, has significantly decreased.

Ukraine plans to implement the remaining recommendations set out in the Venice Commission's Opinion of June 2023 and the Follow-up Opinion of October 2023. Ukraine also continues to make efforts to ensure that persons with disabilities can enjoy their rights under the UN Convention on the Rights of Persons with Disabilities by restoring infrastructure with barrier-free environment standards. Strengthening the respect for human rights, including the rights of persons belonging to minorities and for gender equality is an essential part of the Ukraine Plan. Enhanced strategic and operational cooperation between the Union and Ukraine on security is pivotal to addressing effectively and efficiently the threats of security, including hybrid threats such as cyber threats, as well as resilience against disinformation, foreign information manipulation and interference, organised crime, and terrorism.

2.1 Reforms to be pursued under the Pillar I of the Ukraine Facility

To solve problems in the field of education, the Government will complement current reforms with initiatives aimed at adapting educational services (in particular in the field of professional education) to war and post-war challenges. This will include the development of retraining programs and the definition of competencies necessary to restore damaged infrastructure, and the development of a safe and inclusive educational environment for access to quality education, including obtaining education directly in educational institutions, which will contribute to the improvement of the quality of educational services at all levels and the return of Ukrainian citizens from abroad.

To address healthcare challenges, the Government will focus on adapting healthcare services to new challenges. Such efforts will include ensuring access to medical services for civilians and the military, developing services to meet the growing need for physical and psychological rehabilitation, prosthetics and facilitating the transition of military personnel to civilian life.

To increase labour market participation and address the social and economic consequences of the war, the Government will complement the two initiatives above by developing a sound demographic and migration policy, developing an Employment Strategy, and adapting it to the recovery needs. These efforts will include employment through entrepreneurship, creation of favourable conditions for employment; simplification of access to the labour market, retraining and re-qualification, and economic empowerment of women; reviewing and updating social protection programmes and services to ensure more effective and better targeting; developing social services, including care for all people in need; measures to improve employment prospects, ensuring adequate housing through affordable and social housing programmes, and further digitalising social benefits to increase efficiency; building social resilience through the provision of cultural services to the population.

As regards gender equality, the Cabinet of Ministers in August 2022 adopted the State Strategy on Ensuring Equal Rights and Opportunities for Men and Women 2030 . The Strategy is a comprehensive document that defines ways to reduce gender inequality in all spheres of society’s life, including ensuring equal participation of women and men in decision-making, expanding women’s economic opportunities, considering their needs in solving environmental problems. To continue strengthening gender equality under Ukraine Plan restoration, the Government will make its efforts to prevent and combat violence against women, gender-based violence and domestic violence as well as encourage women’s meaningful participation in decision-making processes, promote and advance gender equality, the empowerment of women and girls, and the protection and promotion of their rights taking into account the EU Gender Action Plans and relevant Council conclusions and international conventions.

As regards national minorities rights, the Government has followed the Venice Commission Opinion recommendations of June 2023 on the Law on national minorities and will continue to enhance existing legislation on the rights of persons belonging to national minorities, including in education, media and on the use of state language.

Reform 1. Improved vocational education

State of play and context: Rebuilding destroyed cities, buildings, roads, and other infrastructure will require people with specialised skills. Ukraine is already experiencing a growing demand for specialists with relevant skills, especially in construction-related professions, such as locksmiths, electricians, welders, carpenters, tractor drivers, combine operators, etc. During the recovery, demand will increase significantly and extend to the production of industrial products, and new skill areas are expected to emerge.

Description of the reform: Since the beginning of the invasion, educational institutions, including vocational education and training institutions, have been destroyed or damaged, or the territories where they are located have become unsafe. Under such conditions, many educational institutions have adopted an online format or a blended learning model, which involves the use of virtual training simulators and online materials posted on the Vocational Education Online platform.

This reform envisages that vocational education and training institutions have modern infrastructure and established partnerships with businesses, can provide formal and non-formal vocational education and offer a wide range of educational programmes from primary vocational education to one-day courses for adults, including vulnerable groups such as IDPs and war veterans.

The effective implementation of reforms requires the adoption of a new Law of Ukraine ‘On Vocational Education’ and other regulations.

The Law of Ukraine ‘On Vocational Education’ will focus on:

- Determining fair rules for the functioning of educational entities in the market of educational services in the field of vocational education;

- Institutional capacity of educational entities to provide formal and non-formal vocational education;

- Development of public-private partnerships, regulation of relations between vocational education institutions, national/local and international stakeholders for sustainable human capital development in Ukraine.

This will help to fill the labour market with skilled workers with the required qualifications for Ukraine’s recovery; accelerate large-scale and effective investments in human capital; increase its added value in the labour market; and engage in digital and green transitions.

Potential impact of the reform: Meeting the needs of the economy for a skilled workforce in the context of post-war reconstruction of the country, as well as ensuring equal access to vocational education and training for personal and professional development.

Reform 2. Improved preschool education

State of play and context: Since the beginning of the war, preschool education in Ukraine has been under severe stress, resulting in a significant reduction in the number of operating institutions (from 14,974 at the end of 2021 to 11,623 as of September 2023, a 22.4% decline) and a corresponding decline in preschool enrolment (for children aged 3-5 years from 84.8% at the end of 2021 to 73.0% at the end of 2022). This decline is a serious cause for concern, as practice shows that preschool education and care play a key role in shaping children’s cognitive and emotional development. Moreover, early child education and care is widely recognised as a means of promoting equality and social justice, inclusive economic growth, and sustainable development.

Access to quality early childhood and preschool education as a prerequisite for human capital development has been confirmed by numerous studies. In particular, the Nobel Prize-winning economist James Heckman and a group of researchers have proven the long-term impact of quality preschool education on health, income, crime rates, and education among 30-year-old adults. Investments in preschool education are estimated to be profitable at 13.7%. In the Ukrainian context, the study results show the impact of access to preschool education on the success of further educational trajectory kindergarten attendance affects the level of literacy skills of a primary school graduate.

Description of the reform: It is crucial to restore an effective system of preschool education and care that provides a safe and nurturing learning environment for children. This is not only important for the successful start of every child, but also a way to return preschool education staff and parents of young children to the labour market. A key priority in this area is the development and adoption of the Law of Ukraine ‘On Preschool Education’, which will ensure the functioning of a flexible and efficient network of service providers, updated quality and safety standards, and decent working conditions in the sector.

Progress in the implementation and development of an effective system of preschool education and care will be evidenced by the implementation of the following steps:

- Adoption of the Law of Ukraine ‘On Preschool Education’, in line with the Council Recommendation of 22 May 2019 on High-Quality Early Childhood Education and Care Systems;

- Functioning of a flexible and optimal network of different types of educational service providers for early childhood and preschool children;

- Increase the number of pre-school facilities, including by rebuilding and reconstructing damaged and destroyed infrastructure, in a high quality, green, sustainable, and inclusive way;

- Ensuring adequate staffing in preschool facilities, as well as an increase in the coverage of children with preschool education.

Potential impact of the reform: Ensuring access to quality preschool education for more children will benefit the children’s development and can also encourage the return of Ukrainians who have left the country and will help more women to enter the labour market.

Reform 3. Improving rehabilitation system for people with disabilities

State of play and context: Injuries sustained during the war can lead to long-lasting and devastating physical and mental health complications. To minimise these negative consequences and promote sustainable recovery and return to work, it is important to start rehabilitation as soon as possible. Effective rehabilitation services help people to become as independent as possible in their daily lives and can facilitate their participation in education, work, recreation, and other meaningful activities. Modernisation of the rehabilitation system in Ukraine began even before the full-scale invasion of the Russian Federation. Injured citizens begin receiving rehabilitation care in hospitals immediately after surgery or other interventions with the involvement of multidisciplinary rehabilitation teams. However, the need for such services has increased significantly since the beginning of the full-scale invasion, and access to rehabilitation services has become problematic due to the lack of rehabilitation specialists.

Description of the reform: The measures envisaged by the reform are aimed at improving the capacity and quality of both physical and psychological rehabilitation services, as well as addressing the related need for well-trained professionals. An important step in this direction is the creation of a regulatory framework for persons with disabilities by assessing such persons in accordance with the International Classification of Functioning, Disability and Health.

Progress in these initiatives will be evidenced by the implementation of the following more concrete steps:

- Implementation of an assessment of a person's needs based on the International Classification of Functioning, Disability and Health and ensuring that the person's needs for rehabilitation and social services are met based on such an assessment;

- Introduction of an electronic system that contains information about the needs of the individual and automatically offers services in accordance with the identified needs (social, medical, and other);

Potential impact of the reform: Providing in the short and medium term the ability to live a more active economic and social life, which is expected to have a positive impact on the labour market.

Reform 4. Transition from military service to civilian life

State of play and context: The mobilisation of more than 1 million people into the Armed Forces of Ukraine will result in a significant increase in the number of war veterans after the end of hostilities. Many servicemen and women will require reintegration and rehabilitation services to return to civilian life. Individual needs will vary from those requiring only short-term support to find a job or start a business, to those requiring substantial mental or physical rehabilitation to re-enter society and the labour market. Some service personnel will require different social services, family support, housing, or social benefits for short or long periods of time.

To overcome these challenges, a system of support for the transition from military service to civilian life is needed to ensure a rapid return to society and the labour market for those who can work. Effective efforts in this area require coordination of various state services, such as rehabilitation, social, educational and employment/self-employment services. Measures within these areas of the plan will consider the challenges faced by war veterans and facilitate their rapid integration into society and employment.

The implementation of the transition system from military service to civilian life by 2032 is aimed at:

- Facilitating the construction of a prospective professional model for the components of Ukraine's security forces and defence forces;

- Supporting the implementation of a modern outsourcing system;

- Increasing citizens' motivation to join the security forces and defence forces, considering the factor of further protection of their rights and interests during the transition from military service to civilian life;

- Introducing an integrated military personnel policy at all stages of service (and after) based on the principle of human-centricity;

- Supporting transition system participants during their service and after their release according to their individual needs in various life spheres;

- Transforming mechanisms of psychological, legal assistance, social support, professional adaptation, leisure, creative self-expression, and self-realisation in civilian life;

- Ensuring that the policy regarding the formation of the transition system from military service to civilian life meets the needs of transition system participants and that its measures are sufficient to satisfy their personal needs and the needs of territorial communities;

- Recognising by Ukrainian society the contribution of transition system participants to the state's defence capability;

- Improving the system of assistance and support aimed at improving the well-being of transition system participants in civilian life;

- Supporting transition system participants as a powerful argument for the motivation and attractiveness of military-accounting specialties;

- Providing conditions for building a career that allows transition system participants to use competencies acquired through military-accounting specialisation in civilian life;

- Increasing social cohesion and consolidation around the highest national moral values and strengthening the sense of national identity among transition system participants in society because the social environment of their civilian life is more important than privileges themselves.

In order to establish a system of such support, a draft order of the Cabinet of Ministers on approval of the 'Strategy for the Development of the System of Transition from Military Service to Civilian Life for the Period until 2032' has been developed, which, in particular, approves the draft Action Plan for its implementation in 2024-2026, which was submitted to the Government (adoption is planned in 2024). This legislation will enable the introduction of a system of transition from military service to civilian life at the state and local levels.

Description of the reform: The reform will be implemented through the adoption of the Law of Ukraine amending certain legislative acts of Ukraine on the implementation of the system for transitioning from military service to civilian life and Cabinet of Ministers resolutions approving the procedures and conditions for receiving services by participants in the system of transitioning from military service to civilian life. These measures will focus on ensuring the creation of the following for veterans:

- Rehabilitation and medical assistance, including psychological support;

- Programs for training, retraining, and skills enhancement;

- Necessary conditions for their employment as a separate category;

- Support measures for veteran-owned businesses.

Potential impact of the reform: A well-coordinated and efficient system for the return of war veterans to civilian life and employment, as well as rehabilitation and medical services for those who need them, will have a positive impact on the lives of many people. They will also have a positive impact on economic growth and public finances by increasing the supply of labour.

Reform 5. Improving social infrastructure and de-institutionalisation

State of play and context: Before the war, Ukraine had the highest number of children living in institutional care in Europe. More than half of the more than 100,000 children living in such institutions, including orphanages, boarding schools, and other care facilities, were children with disabilities. At the same time, raising children in residential institutions significantly impairs their social and cognitive skills and makes them poorly adapted to life outside of institutions. After reaching adulthood, it is much more difficult for these children to integrate into society and find a job, which creates significant risks of further criminalisation and marginalisation of these children.

Ukraine also has a long-standing problem of systematic institutionalisation of people with disabilities. Every year, about 62,000 people become disabled because of a stroke alone, which puts not only those of working age who are disabled out of the labour market but also their relatives who must care for them on a regular basis, often sacrificing their jobs and income. Reforming the system of care for people with disabilities will help to provide professional care support to the person in need, allowing other family members to return to the labour market.

Deinstitutionalisation efforts are closely linked to the need to implement other social reforms to ensure the full inclusion of persons with disabilities, including improving access to social services and ensuring accessibility of new/rebuilt infrastructure.

Description of the reform: Improvements in this area will require Ukraine to develop and start implementing a comprehensive reform of the system of care for children, older persons, and persons with disabilities and alternative care for children, with the aim of gradually de-institutionalising care and introducing alternative family and community-based care solutions. These efforts should be accompanied by new or upgraded inclusive social services, including equipment and infrastructure, as well as solutions (including digital) to improve access to such services, as well as to new/rebuilt infrastructure.

Potential impact of the reform: Family and community-based childcare programmes and services will contribute to the well-being of children and the population. Family members with a person in need of care will be able to return to the labour market. In addition, the creation of new or modernisation of old social services will provide employment for staff currently working in institutional care facilities and contribute to economic growth.

Reform 6. Improved functioning of the labour market

State of play and context: The war of the Russian Federation against Ukraine has severely affected the labour market and exacerbated pre-existing structural problems. The Ukrainian labour market suffers from labour and skills shortages, and employment rates are low, especially among women. In 2021, the employment rate for people aged 20-64 was 64.8%. The employment rate among women was 59.3%. In the same year of 2021, the unemployment rate among young people (15-24 years old) was 19.1%. The war has led to a significant reduction in the labour supply in Ukraine, from around 17.4 million people in 2021 to 14.6 million in 2022. Effective labour market policies and a fully functional employment service play an important role in supporting access to the labour market and helping people find work by matching their skills and qualifications with available opportunities. In 2022, the State Employment Service was reorganised and continues to work to better respond to the needs of both job seekers and employers and to ensure that it has sufficient capacity to meet labour market challenges.

In 2021, informal employment accounted for 20% of the total employed population. A high level of undeclared labour negatively affects working conditions and tax revenues and distorts competition and should be addressed. Another focus is on increasing labour force participation and overcoming the socio-economic consequences of the war, strengthening interaction with employers, transforming the State Employment Service (SES) into a digital service, training and development of the SES staff, introducing scientific approaches to organise labour market analysis and forecasting, planning activities, optimising internal technological processes and structure, changing the image and information policy of SES.

Another important aspect is that Ukraine is facing an unprecedented migration crisis. As of the end of 2023, around 4.3 million Ukrainian citizens had benefited from temporary protection status in the EU. Adult women accounted for 46.7% of the beneficiaries of temporary protection, the majority of whom were aged 35 to 64. Children accounted for 35.3%. The labour force among forced migrants is at least 1.4 million people. The issue of returning children and young people who will later join the ranks of the economically active part of society is also critical. The return of forced migrants is important for ensuring rapid and sustainable economic growth: to grow at a rate of 7% per year, Ukraine will need to recruit between 3.1 and 4.5 million people into the labour force by 2032 (even if most of the forced migrants plan to return). The potential labour shortage cannot be met solely by Ukraine's domestic resources.

At the same time, over time, the willingness of forced migrants to return decreases due to their integration in recipient countries. Without an effective state policy on the return of forced migrants, Ukraine could lose up to EUR 105.5 billion of GDP over 10 years (in 2021 prices), which could also mean a loss of about EUR 42 billion in tax revenues.

Accordingly, it is necessary to develop an effective state migration policy that will facilitate the return of Ukrainian citizens and attract foreign labour.

A key aspect to make the labour market attractive and equip the country with a healthy and productive workforce needed for its reconstruction is to ensure decent working conditions. This includes modernising labour and labour safety legislation in line with the EU *acquis* and in consultation with social partners, as well as ensuring enforcement of labour rights through a well-functioning labour inspections system.

Description of the reform: To improve the labour market functioning and overcome labour shortages, an employment strategy will be developed and implemented to increase the labour supply. The strategy will be focused on the following areas: engagement in employment through entrepreneurship, creation of favourable conditions for employment; increasing women's involvement in entrepreneurship; simplification of access to the labour market; specific support for labour market integration of women, youth and vulnerable groups; retraining and re-qualification; reform of the state employment service; reform of labour market forecasting; creation of incentives to attract foreign talent to the Ukrainian labour market – foreign entrepreneurs, highly skilled and working personnel and students.

The functioning of the labour market will also depend on reforms in other areas, such as childcare, vocational education and training, social protection, pensions, women's economic empowerment and the business environment, as well as the development of a comprehensive state program for promoting safe return to the abandoned place of residence and reintegration of internally displaced persons. Modernising labour and labour safety legislation in line with the EU *acquis* while ensuring an enabling environment for bipartite and tripartite social dialogue, as well as strengthening the capacities of social partners, will be crucial to ensure a well-functioning, competitive labour market offering jobs with decent working conditions. Related reforms will be therefore adopted and implemented. Moreover, the full functioning of the labour inspectorate will be restored as soon as circumstances allow, and its legal framework modernised in line with international labour standards on labour inspections ratified by Ukraine.

Also, the Cabinet of Ministers will adopt the Order 'On Approval of the Demographic Strategy of Ukraine for the Period up to 2040'. The Strategy will propose specific measures, including in the following areas:
- Improving the situation in the field of fertility.
- Reducing premature mortality, especially among men of working age.
- Overcoming negative migration trends, through the return of forced migrants, attracting representatives of the foreign diaspora to Ukraine, etc.
- Promoting active longevity.
- Creating infrastructure and security preconditions for improving the demographic situation

Potential impact of the reform: If the labour market functions better, offers decent jobs, and the employment service is effective, it will be able to attract more people, contributing to economic growth and increased tax revenues and will create conditions for the return of internally and externally displaced persons to the abandoned places of residence. Increasing the number of women in the labour market, reducing the gender pay gap, and pension reform will eventually reduce the number of older people living in poverty.

Reform 7. Ensuring access to housing for people in need

State of play and context: According to the RDNA3, close to 2 million residential buildings have been destroyed or damaged since the start of the full-scale invasion and massive shelling of civilian infrastructure. The International Organisation for Migration (IOM) estimates that 3.7 million people have been displaced[13]. To support citizens whose housing was destroyed or damaged, the Ministry of Communities, Territories and Infrastructure has launched a project to provide compensation to citizens for the restoration of damaged housing – the eRecovery project for minor and major repairs, as well as a project to provide compensation for destroyed housing. As of January 2024, almost 600,000 citizens have submitted information reports about damaged/destroyed housing and more than 74,000 applications for compensation for such housing.

In addition to the large reconstruction needs, the existing housing stock is relatively old. Over 80% of residential buildings were built in the USSR period.. In 2022, more than 40% of Ukrainian households lived in houses that had not been renovated since they were built. As a result, the average age of typical apartment buildings is 30-50 years, and they are in dire need of repair and reconstruction. Only about 20% of apartment buildings have homeowners' associations, which makes it difficult to finance and organise maintenance and energy-efficient upgrades. However, even buildings with Home-Owner Associations have limited opportunities to promote modernisation, especially for buildings with low incomes. Ukraine also has a lack of public and semi-public housing providers, such as municipal housing organisations, cooperatives and associations, and weak regulation of the private rental market, including evictions.

The availability of affordable and quality housing is a prerequisite for the return or resettlement of refugees and IDPs. In line with the principle of 'build back better', there is a need for housing policies that can provide sustainable financing for both the construction and long-term maintenance of affordable social housing.

Description of the reform: To ensure access to housing for people in need, a comprehensive policy and regulatory framework needs to be established through the adoption of the Law "On the Basic Principles of Housing Policy", the preparation of a National Housing Strategy, and related reforms to build usable social and affordable housing systems. These combined reforms will guide housing sector recovery efforts to develop an effective system of social and affordable housing that offers an adequate response to the accumulated housing needs, including those resulting from internal and external displacement caused by the war in Ukraine.

In order to create a new system of housing legislation, it is necessary to define the goals of the new housing policy, responsibilities and tasks of its key stakeholders; expand the mechanisms for its implementation; introduce a comprehensive approach to changing the principles of housing affordability, etc.

Such a comprehensive housing law system should include any regulatory, financial and capacity building efforts, including the objectives of the state housing policy of the housing policy; the powers of the authorities to formulate and implement the state housing policy and mechanisms for coordinating its

[13] IOM,'Ukraine - Migrant Return Report: General Population Survey, Round 14 (September-October 2023)', 10 November 2023. https://ukraine.un.org/sites/default/files/2024-02/UA%20RDNA3%20report%20EN.pdf

implementation; distribution mechanisms and conditions for the provision of state support, such as grants, loans and guarantees; support for the ‘Shelter’ social project and implementation of a mechanism for compensation for costs associated with free temporary accommodation (stay) of IDPs; realisation of the right to housing by certain categories of IDPs and persons who left Ukraine as a result of the armed aggression of the Russian Federation and plan to return to Ukraine, including through the provision of preferential mortgage loans on favourable terms at the expense of international assistance.

A performance monitoring and evaluation system requires basing investments on best practice research, program design, policy implementing institutions, financing mechanisms, performance monitoring, reporting, and consumer protection. Specific regulations are also needed to define subsidies for service providers, rents, selection and allocation policies, and asset management and maintenance. The digital transformation of the various housing waiting lists involves the creation of a single electronic system in which citizens and individuals provide information about themselves (income, status, benefits, etc.) and receive offers of available options for solving their housing issues.

In addition, in order to ensure the constitutional right of socially vulnerable groups of the population of Ukraine and other persons to receive social housing, the institutional capacity of the base will be improved by amending the Law of Ukraine ‘On the Social Housing Fund’ (or adopting a new version of this Law) and other laws that will regulate:

- Improving the decision-making procedure of local self-government bodies;
- Revision of the criteria for persons who can be provided with social housing;
- Establishing a mechanism for rent payment;
- Improving the rules for the creation and operation of social housing, including ensuring compliance with energy efficiency, safety, and other standards.

Learning from pilot municipal housing projects and past practice a more efficient and effective needs-based capital investment program for social and affordable housing will need to be established, that is able to channel funding and financing instruments, such as grants, loans, interest subsidies and guarantees made available by resources of the EU-Ukraine Facility and loans from development banks, funded by feasible rent revenue and rent assistance and any other form of operating subsidy.

In order to facilitate the implementation of the reform and support measures, the relevant practices of EU member states on affordable social housing will be studied.

Potential impact of the reform: Establishing a legal framework, a national strategy, and implementing support measures for affordable social housing will help increase the number of housing available for returning refugees, internally displaced persons and others who are currently unable to rent or purchase housing, including persons with disabilities who will be unable to work after the war. The unified electronic housing system will facilitate public control over the distribution of social housing and the efficient use of budgetary funds and funds provided as charitable assistance, grants, etc. Ensuring housing affordability will complement the physical reconstruction and rehabilitation of the housing stock, as detailed in the chapter. This can contribute to reducing inequality and strengthening social cohesion, as well as promote the integration of internally displaced persons into the host community and support the socio-economic situation of internally displaced persons. By implementing this reform, it is planned to resolve the housing issue of up to 50% of citizens in need of social support.

The new legal framework will also contain energy efficiency considerations for the new housing stock, to the extent possible in a context of war or post-war recovery and reconstruction, which supports climate change mitigation efforts and therefore has a positive impact on the ‘do no significant harm’ principles.

Reform 8. Improved social security

State of play and context: The war has led to a sharp deterioration in living conditions due to the destruction of critical housing, social and administrative infrastructure. At least 2.6 million people have become additional recipients of social assistance as IDPs. Most of them do not have their own source of income, and a significant number have lost access to their own housing and property. Before the war, there were 2.7 million people with disabilities in Ukraine, accounting for 6% of the population. One third of families with children lived in poverty. The war has only exacerbated the problems of children, women, older persons, and people with disabilities. The social protection system is under considerable pressure due to the growing number of such vulnerable groups and limited resources.

The effectiveness of social expenditures in Ukraine aimed at reducing poverty and inequality is low, due to poor targeting and low levels of support. Many benefits are provided without time limits and do not encourage people to seek formal employment and overcome difficult life circumstances.

In addition, the system of providing social services is not sufficiently developed in Ukraine. If in the EU countries between 20% to 30% of the budget of the social sphere is directed specifically to the provision of social services, as a key tool for supporting people who have fallen into difficult life circumstances, to help them overcome such circumstances, in Ukraine in 2023 less than 1% of state expenditures of the budget was directed to social services. Even after taking into account the expenditures of local budgets, less than 6% of the consolidated budget for social expenditures is spent on social services. At the same time, significant internal displacement creates an excessive burden on host communities, which are neither financially nor institutionally able to ensure the provision of social services (primarily, care services) for IDPs at a sufficient level.

Description of the reform: The parameters of reforms of the social support system, for people with disabilities, are outlined in the Concept Note ‘Ukraine: Strengthening the Social Support System in Ukraine’ approved by the Government on 30 January 2023 under the IMF-supported programme. The Government will continue to implement these reforms, focusing on the following areas:

- Adaptation of social protection programmes and the social service system to new challenges, including programmes to support veterans and programmes to facilitate their reintegration into the workforce.

- Establishment of a social services purchaser at the state level that will co-finance services for socially vulnerable groups of the population.

- Tools and incentives to encourage the return to the labour market, introduced as part of social benefits and social services, as well as expanding cooperation between social and employment services.

- Measures to encourage the participation of persons with disabilities in society and the labour market.

- Improving targeting and increasing the level of assistance to effectively overcome poverty and material deprivation.

- Reform of state social insurance.

Potential impact of the reform: Well-designed social protection systems will help increase labour supply in the labour market and ensure access to social protection for all. This will help to create a level playing field for businesses and increase the adequacy and sustainability of social protection, which will help to strengthen public finances and reduce poverty.

Establishment of a social services procurer at the state level will provide tools for rapid response to the needs for social services that are constantly transforming in the context of a full-scale war (in particular, services for IDPs, veterans and their families); will help create state incentives for the development of necessary social services that the community cannot finance on its own, with the possibility of further development of these services in the communities. This will help to create opportunities to increase the capacity of communities to provide social services that are under-supplied/underdeveloped in communities, with a focus on the needs of IDPs, veterans and their families, young mothers with children, etc.

In turn, this will help to return to the labour market people from vulnerable categories of the population (of working age) who have found themselves in difficult life circumstances and improve their well-being and participation in society. The development of the social services market will also help to increase employment in communities, as social service providers can include NGOs, private entrepreneurs, social economy actors and small and medium-sized businesses.

Reform 9. Improved cultural development

State of play and context: Access to culture and freedom of artistic expression are human rights. The Universal Declaration of Human Rights in its Article 27 states in this regard: ‘the right to take part in cultural life, to enjoy the arts, to share scientific advancement and its benefits, the right to protection of the moral and material interests resulting from any scientific, literary or artistic production’. The 2011 Law of Ukraine on Culture recognises ‘culture’ as ‘one of the main factors of the identity of the Ukrainian people’ and seeks to protect and preserve ‘cultural heritage and cultural values as the basis of national culture’. Moreover, the diversity of sectors encompassed by culture and creative industries have an important contribution to economic growth including job creation (direct and indirect jobs).

Order № 265 from the Cabinet of Ministers ‘On Approval of Economic Activities Related to Creative Industries’ categorises 34 creative industries. Pre-war data shows that cultural and creative industries accounted for 4.2% of Ukrainian GDP (UAH 132.4 billion) in 2020, 4% of the Ukrainian employed population (360,300 workers) in 2020 and 4.5% (409,000) in 2021, as well as 11.7% of the total number of businesses (230,700) in 2020 and 14.1% in 2021 (276,000). Economic multipliers for cultural and creative sectors range from 1.9 to 2.2. Culture is also closely linked to the digital sector that provides an important fraction of jobs in Ukraine. Digitisation is very high in several creative sectors and industries (music, video games, film in particular), it boosts skills, provides attractive jobs for young people, and fosters the return of skilled Ukrainian workers who fled the war. A lot of digitisation initiatives are currently ongoing as efforts towards the safeguarding of Ukrainian cultural heritage.

Description of the reform: The Government will foster the potential of culture and creativity to support and enhance a sustainable, democratic, and inclusive Ukrainian society and economy. This goal will be promoted by adapting the relevant legislation, investing in the creative and cultural sectors in terms of infrastructure, digital sectors, skills, cultural heritage preservation and restoration, by encouraging the diversity of cultural expressions, supporting artists’ working conditions and promoting Ukrainian culture in the world. Strengthening the national security of the state through social cohesion and resilience of the Ukrainian population will be the cornerstone of the new Strategy for the Development of Ukrainian Culture.

Potential impact of the reform: The reform will contribute to the provision of cultural services to the population by reforming the system of cultural institutions, adapting legislation, improving access to culture at individual and community level, stimulating the development of creative industries, protecting and restoring cultural heritage at all levels, promoting cultural projects supporting health and well-being, and creating opportunities for self-expression through the creation of a ‘Ukrainian cultural product’ (in particular, to support war veterans and other vulnerable groups, the return of Ukrainian forced migrants from abroad, etc.). Moreover, it will further promote the culture of modern Ukraine with the aim of developing reliable international partnerships and attracting sustainable international support (cultural diplomacy and international cultural relations).

3. Overall investment needs and opportunities in 2024-2027

The previous sections show that the field of human capital is comprehensive, covering a number of aspects, such as health, education and social protection, that relate to the well-being of people and the economic value of the present and future labour force. The RDNA3 has documented that the investment needs are immense. This is confirmed by calculations from the RDNA3, as well as estimates from other international organisations.

Many people were forced to leave for other countries, and about 6.3 mln people (about 16% of the population) still stay abroad. As of October 2023, IOM estimated 3.7 million internally displaced persons[14]. The numbers have decreased from 5.4 million people reported in the RDNA2 report. The number of individuals officially registered as IDPs with the Ministry of Social Policy is 4.9, among whom 60% are women, as of December 2023. Both external and domestic factors have driven the return of displaced persons to their places of origin. The IOM Displacement Tracking Matrix (DTM) identifies five drivers for returns: livelihoods; utilities and services; residential destruction; safety and security; and public life (social tensions). For the Government and local administrations re-establishment of education and healthcare facilities and the restoration and reconstruction of houses become main priorities to encourage people's livelihoods and social security improvement.

Especially with regard to the re-establishment of education and healthcare facilities and the restoration and reconstruction of houses. The EIB estimates that the cost of a needs-based capital investment program for the years 2024-2027 will be EUR 4 billion. IOM estimates conservatively that the approximately 500,000 dwellings needed for IDPs will require EUR 3 billion per year over the next 10 years. However, for Ukraine it is not only a question of restoring human capital to the pre-war levels; but to approach the challenge with a view to laying the foundation for an accelerated and continuous development of Ukraine’s human capital that can sustain Ukraine’s economic growth in the future. This means considerable investments will be required over the coming years in areas such as health, social protection, education, training, skills, research, innovation, technology, and other things that can help facilitate sustained economic growth, including values such as loyalty and punctuality.

The key investment needs in 2024-2027 are:

- Improving social housing, through investments in institutional set-up with the necessary capacity to monitor, assess needs, facilitate, and coordinate investments in the social housing supply; and investments in restoring residential facilities, facilitating the implementation of new social housing projects that complies with standards for smart, green and energy efficient housing. including the piloting near-zero energy buildings and centralised cooling;

[14] IOM, ‘Ukraine—Returns Report—General Population Survey Round 14 (September–October 2023)’ November 10, 2023. https://dtm.iom.int/reports/ukraine-returns-report-general-population-survey-round-14-september-october-2023

- Strengthening social support and ensuring deinstitutionalisation by investing in the construction of housing for large foster families and the construction of assisted living housing (for people with disabilities, older persons) that would meet European standards, investments in the purchase and operation of social taxis for the needs of groups with reduced mobility, financing expenses for the provision of social services, primarily care services;
- Strengthening education network facilities through investments in restoring and improving the physical education infrastructure at all levels from early childhood education over primary and secondary education to vocational education and training as well as higher education levels;
- Improving the efficiency and effectiveness of learning and knowledge-creating processes, through investments in curriculum development, teacher competencies, equipment and technologies required to effectively facilitate learning processes at all levels, including ensuring an adequate number of competent teachers, and ensuring adequate collection and processing of data to support evidence-based process for continuous improvement;
- Strengthening the health care system, through restoration and improvement of damaged health care facilities at all levels, the introduction of telemedicine and mobile health services, the provision of modern medical equipment for diagnostic analysis and treatment, the development of tailored treatment and care protocols, including for people with disabilities and mental traumas;
- Improving the efficiency and effectiveness of health care services, through investments in the development of competencies of health care service providers, the development of IT-infrastructure and digital information management systems, including digital patient registers and records, the development of more efficient and effective management structure and work-flow processes, and the strengthening of monitoring, data collection and analysis, quality assurance and regular reflection on how to ensure continuous improvement;
- Increasing gender equality in all aspects of society, private and public life, is necessary for realising Ukraine’s full human capital potential and a foundation for a peaceful, prosperous, and sustainable Ukraine. Investing in education and awareness raising activities as well as in actively addressing unconscious biases and implicit associations that form unintended and often invisible barriers to equal opportunities are some of the initiatives that can contribute to increasing gender equality and a more optimal use of Ukraine’s human capital;
- Strengthening cultural facilities and institutions through investments in restoring and improving the damaged cultural infrastructure and cultural heritage.

The application of ‘do no significant harm’ principle , to the extent possible in a context of war or post-war recovery and reconstruction, will be of particular importance in mitigating climate change by pursuing improved energy efficiency in: 1) social housing investments; 2) education facility investments; 3) health infrastructure investments.

Potential for investments is high in the following areas:

Housing

Even before the war the rate of new construction was insufficient to replace the depreciating stock or improve the size and energy efficiency of existing units. Between 2000 to 2020, an average of 8.3 million m2 residential space was constructed each year, equivalent to around 185,000 units with an average area of 45 m2, but this was less than the amount needed to replace the existing housing stock or to significantly increase the available living space per person.

There are several factors impeding an increase in the production and quality of new housing and neighbourhoods to engage all relevant segments of the public, private and civil society sectors.

- Effective demand is weak due to supply-side challenges: investment risk, uncertain property rights, lack of development finance, rising production costs and interrupted supply chains;
- Development finance is reliant on purchaser prepayments, concentrating risks for prospective households under adverse and uncertain economic conditions;
- Spatial planning and land policy instruments are not effectively utilised, leading to reliance on self-build solutions, urban sprawl, and isolated and gated communities, which are poorly serviced, unsustainable and car dependent;
- Low housing affordability and inadequate design and construction standards, outdated standards, and lack of administrative capacity;
- Weakly regulated small landlords and absence of professional mission-focused providers.

Consequently, many Ukrainian households and IDPs have not been able to secure durable housing solutions due to the lack of purposeful supply enabling access to well-located affordable adequate housing. Some IDPs remain in temporary accommodation since 2014.

The war significantly exacerbated the housing shortage problem and increased the need for financing. According to RDNA3, the housing sector's needs in recovery are estimated at EUR 71.1 billion for the long term (2024–2033). The attraction of private and state investments in housing construction can have a positive impact on the overall economic situation. Housing has a strong economic multiplier effect on the wider economy, generating demand for related goods and services, promoting household consumption and overall national wealth and productivity. A broader based program of social and affordable housing can reform poorly performing segments in the housing supply chain, such as land acquisition, assembly, and readjustment, integrated spatial planning for neighbourhoods, and energy efficient construction, and improve rental housing promotion, construction, management, and maintenance. Most importantly, affordable energy efficient housing has enormous social value in providing a decent standard of housing comfort for Ukrainians to live, recover and prosper.

Stimulating the production of needed adequate quality housing across Ukraine's regions, not only builds assets of social and economic value, it also creates sizable demand for improved professional services, skilled labour and improved building technologies, such as low carbon and energy efficient building materials. A large scale program of social and affordable housing production can accelerate the transformation of building materials and modular production processes, and address collapsed or poorly performing segments of the housing system, in particular municipal land assembly and parcel readjustment, spatial planning for integrated neighbourhoods, development finance for modular energy efficient production and energy efficient construction, and institutionalise improved systems of planning, construction, building management and maintenance.

Education

The state policy places education as a top priority, emphasising its key role in socio-economic development. However, amidst the persistent challenges posed by the ongoing war, a pragmatic approach to funding becomes necessary. Recognizing financial constraints, the Government is committed to optimising available resources to sustain and advance the education sector.

In 2024, there was a notable increase in education investments, amounting to almost 22% higher than the allocation in 2023, totalling UAH 171.2 billion. This increase creates opportunities for enhanced funding across several crucial areas within the education sector. Priority areas for funding include provisions for shelter creation, textbook printing, support for the implementation of the New Ukrainian School reform, and establishment of modern vocational education centres.

The private sector has a limited role in the provision of education in Ukraine. Before the war, only about 3% of preschools and schools were private, with most working as for-profit institutions. The demand for private preschools and schools is relatively low, as public institutions enjoy a good reputation and are free. The situation is different in professional pre-higher and higher education, where private providers make up almost 20% of all education institutions, although their quality of education is, on average, lower than that of their public counterparts. There are also a multitude of private providers of adult training, but participation in these programs is low, with only 0.5% of adults participating in continuing education.

While Ukraine has the legislative framework to allow for PPPs in education and the financing of private education providers, PPPs remain underutilised across the education sector, and limitations prevent the private sector from contributing as much as it could. For instance, regulatory standards related to the creation of private preschools are difficult to meet, especially for home-based providers, and there is a lack of incentives for private providers to participate in the construction of educational institutions.

The needs related to infrastructure reconstruction and restoration of high-quality in-person education are estimated at EUR 4.8 billion for the medium term (2024–2027) and reach EUR 12.6 billion for the period 2024–2033. Between February 2022 and December 31, 2023, 13% of the education infrastructure was damaged or destroyed by the war, representing estimated needs of EUR 5 billion (RDNA3). The public sector will not be able to address all the challenges facing the education system alone. The private sector will therefore need to step in to support the recovery, not only through the direct provision of education services but also in partnership with the authorities.

The private sector can support:

Infrastructure reconstruction: With more than 3,200 education institutions damaged since February 24, 2022, and their reconstruction costs estimated at EUR 7.1 billion, the private sector would need to be mobilised to repair damaged infrastructure and build modern, safe, and energy-efficient facilities, in line with anticipated network optimisation efforts. Thus, despite some shortcomings with the existing framework, PPPs could be leveraged to construct or renovate education infrastructure. The private sector could also help further mainstream the use of prefabricated education buildings to replace destroyed infrastructure. While PPPs are not widely used to provide ancillary services, they could be mainstreamed for the organisation of key services such as transportation or canteens.

Preschool education: The Ukrainian preschool system had already before the war been struggling with long queues and lack of kindergartens, especially in urban areas. The war worsened this situation: many municipalities closed their preschools because of lack of funds, and the number of children enrolled in preschool decreased by more than 40% compared to pre-war estimates. There is an opportunity to use private providers, along with public financial support, to meet the demand for quality preschool services close to parents and the community, supporting parents to return to work and providing quality education for children.

Skilling and reskilling: The post-war recovery is expected to require specific skill sets in a variety of domains, from construction and science, technology, engineering, and mathematics to agriculture and financial services. To guarantee strong linkages with the needs of the labour market, many of these skills would be acquired through a dual education system (combining apprenticeships and vocational education) and private upskilling programs established through PPPs as well as by applying the ‘money follows the student’ principle. This would help ensure the relevance of the curriculum and could support the integration of internally displaced persons into their communities. The private sector can also provide innovative approaches to upskilling, including online platforms and learning apps that can make the learning experience more affordable, cost effective, engaging, and outcome driven.

Innovation in education: The private sector can offer EdTech solutions to help the Government improve access to and quality of education at all levels. In basic and secondary education, mobile learning apps and adaptive platforms can enhance learning and help tackle learning gaps that have grown exponentially during the war. EdTech can also support teachers and school leaders with tools for creating engaging lessons, new content, and assessments. Online learning platforms and alternative credentials can expand access to higher education and upskilling opportunities in an engaging, affordable, and cost-effective way. Finally, EdTech's data analytics capabilities can help manage school networks and resources and provide targeted support to teachers and parents.

Increasing sports participation and physical activity: Creating a system of incentives for the development of sports grassroots and cooperation with non-profit sports clubs will enable to increase current kids' low engagement into sports through a state chain of kids and youth sports schools (1,067 schools) which covers just 8% of all children under 18 years. These steps will increase the number of children who reach a sufficient level of physical activity.

Health

The private sector faces several financial barriers that constrain its participation in the healthcare sector. These include limited access to financing, with unattractive interest rates and a very shallow pool of equity financing, and the limited use of private medical insurance. Private medical insurance, which is an important enabler of access to private medical services in other countries, represents just 1.1% of total spending on health care and around 2.0% of private spending on health care in Ukraine. Process on overcoming these constraints is held back by lack of efficient engagement between the private and public sector.

Moreover, the environment for implementing PPPs is weak. Ukraine has an enabling legislation for PPPs in the health sector. Health PPPs, especially for hospitals, tend to be complex arrangements that require careful management of risk as they evolve. With the need for rolling performance oversight, Ukraine's capacity to manage PPP contracts suffers from various constraints. For example, Ukraine established its first PPP agency in 2019 to support the implementation of PPP contracts, but it is at a very early stage of development. The agency has yet to define its responsibilities, specific management tools, or risk mitigation mechanisms to address evolving risks throughout the project life cycle.

In 2018, Ukraine embarked on a comprehensive health sector reform program that aligns with many modern health practices and represents an opportunity to modernise and transform health care, including through private-sector participation. Reforms include transitioning from a hospital-centric treatment model to an efficient decentralised system, with renewed focused on primary healthcare and health promotion; from input-based to output-based strategic financing while ensuring outcomes; from the 'free-care-for-all system' that imposes significant informal payments to a transparent benefits package; and from a heavily curative approach to a functional integrated health system. Moreover, a national purchasing entity – the National Health Service – has been created to ensure a level playing field between the private and public sector.

Health facility PPPs could assist with reconstruction and restructuring Ukraine's outsized hospital network impacted by the war, while diagnostic services PPPs could improve the provision of imaging and laboratory services that are essential for successful medical treatment. Under health facility PPPs, private investors can finance, design, build, equip, and maintain new multidisciplinary hospitals that would replace existing outdated public hospitals under a national strategic consolidation program. Additionally, private partners can be responsible for operating some or all non-clinical services such as security, housekeeping, cleaning, maintenance, kitchen, laundry, and sterilisation services. Diagnostic services PPPs can be used to have private investors finance, equip, maintain, and operate networks of radiology and laboratory diagnostic centres that would replace current centres. Under this type of PPP, private investors could provide state of the art services while avoiding duplication and benefiting from economies of scale through hub and spoke organisational models in which not all facilities need to operate all equipment (e.g., by using telemedicine solutions to interpret radiology scans).

Introduction of public policy changes towards mass involvement in sports, reforming the current post-soviet under regulated system, increasing use of sports as an efficient tool for physical rehabilitation, socialisation of Ukrainians, strengthening its mental health and future democratisation of the sports sphere by bringing it up to standards of the European Sports Charter will have a positive effect on decreasing social and physical inactivity of the population, appearance quality sports infrastructure accessible for disabled people. This will directly boost growth of the share of the economically active population, the quality of life and life expectancy of Ukrainians, increasing sports share in the country’s GDP.

General investment needs

In the field of social protection

The key investment needs in the social protection sector are the construction of housing for large foster families, which is a prerequisite for the formation of such families, and the construction of assisted living housing (for people with disabilities, older persons, etc.) that meet European standards.

To meet the minimum de-institutionalisation needs, 210 assisted living facilities and about 700 homes for large foster families should be built, which will provide quality care for at least 2,000 older persons and family-based care for about 5 600 children. The need for funding for deinstitutionalisation of childcare through the construction of family-type children’s homes amounts to EUR 227.7 million (average cost of one family-type children’s home is EUR 324.4 thousand). The need for funding for the deinstitutionalisation of care for older persons and persons with disabilities, and individuals suffering from mental disorders through the construction of supported living buildings (apartments) amounts to EUR 501.1 million.

As a result of the armed aggression of the Russian Federation against Ukraine, the number of people with disabilities, including young veterans, is rapidly increasing. They need fast and high-quality prosthetics care and rehabilitation to return to active life. Prosthetic workshops can improve the availability and quality of prosthetics by training specialists and manufacturing prostheses. There is a need to purchase equipment to ensure the operation of prosthetic workshops for the manufacture of prostheses, which will make it possible to speed up the prostheses manufacturing process (for about 600 people per year) and shorten the rehabilitation process due to availability of ready-made prostheses. The estimated cost of establishing a prosthetic workshop is EUR 360 thousand. In addition, there is a need to build rehabilitation platforms to train people with leg injuries and amputations of various kinds to use prostheses and other means of rehabilitation.

There is also a need in procuring and providing social taxi services (2,000 vehicles) to meet the needs of low-mobility population groups. The estimated cost is EUR 79.4 million.

There is also a need to equip existing facilities providing social services to ensure barrier-free access and safety.

In the area of establishing Centres of Professional Excellence

The total cost of the project is EUR 200 million (EUR 58 million (9 Centres of Professional Excellence) – EIB loan, EUR 20 million – Federal Ministry for Economic Cooperation and Development grant (3 Centres of Professional Excellence), and additional funding requirement of EUR 122 million (12 Centres of Professional Excellence). The project implementation period is 2023-2027.

The investment project aims to create Centres of Professional Excellence as powerful modern centres of vocational education and training that combine the organisation of primary vocational training for students and vocational training for adults.

The centres of professional excellence will have modern material and technical facilities for professions (classrooms, workshops) that are a priority for the country's economy and needed for recovery and reconstruction, and updated social infrastructure (dormitories, canteens, sports facilities, etc.). Such institutions will act as centres of concentration of best practices in vocational education and training, combining the organisation of primary vocational training for students and vocational training for adults.

In the area of establishing training and practical centres based on vocational (vocational and technical) education institutions

The implementation period of a project spans from 2024 to 2027, with an initial cost of UAH 500 million in 2024. It aims to enhance the material and technical infrastructure of vocational education institutions by establishing 80 educational and practical vocational education centres. Additional financing of UAH 2.2 billion will be required during 2025-2027 to create 336 more educational and practical centres for professional education.

In the area of repairing dormitories in vocational education institutions

The total cost of the project is EUR 60 million and the project implementation period is 2024-2025. Renovation of dormitories of vocational (vocational and technical) education institutions with an area of 4 thousand square metres.

In the field of creating alternative forms of preschool education

The funding requirement for 2024-2027 is UAH 10 billion. Results: A model of alternative forms of preschool education has been developed; a pilot programme to introduce alternative forms of preschool education has been implemented. The investments will contribute to achieving the following:

- Increasing the enrolment of children aged 3-5 years in preschool education to 85%;
- Increasing the enrolment of children under 3 years in preschool education to 45%.

In the area of restoring and modernising canteens in educational institutions to provide healthy food

The funding requirement for 2024 is about UAH 5.1 billion. The funding requirement for 2025-2027 is about UAH 13.7 billion. Results by 2024 (if funding is available): canteens for 250-320 thousand children are restored/modernised; results by 2025-2027 (if funding is available): canteens for 750-870 thousand children are restored/modernised.

In the field of housing policy

According to the RDNA3, the total recovery needs for the housing sector are approximately EUR 72.7 billion. Apartment buildings have suffered the most. Despite the hostilities, Ukraine is undergoing a transformation process. It involves a radical rethinking and modernisation of the housing and urban planning sectors, which are key to the rebuilding of Ukrainian communities. The Ministry of Communities, Territories and Infrastructure Development has launched a project to provide citizens with compensation for the restoration of damaged housing – the eRecovery project for light repairs, as well as a project to provide compensation for destroyed housing. The implementation of these initiatives will facilitate the return to the affected communities of citizens who were forced to leave their homes due to armed aggression of the Russian Federation. In addition, the MCTD is currently working on attracting funds from the Council of Europe Development Bank for housing construction in Ukraine.

The expansion of the affordable mortgage loan program eOselya which provides loans at an annual interest rate of 7%, to the following segments of the population with further scaling: internally displaced persons (IDPs), veterans and their family members, and other citizens without their own housing.

The implementation of state and local programs for the development of housing stock, providing housing for specific categories of individuals, contributes to the creation of new housing, reconstruction and modernisation of existing housing, improvement of infrastructure, and living conditions in different regions. Providing housing will stimulate economic activity through the development of the construction sector, job creation, and attracting investments.

The funding need amounts to UAH about 55 billion for 2024-2026. The need for interest rate compensation for combatants totals UAH 2.2 billion (for 2024-2026) from the total amount. Within these funds, it is planned to provide housing for up to 30,000 families through the eOselya program, including up to 10,000 borrowers who are combatants and will receive support to address housing issues.

Introduction of the subsidised housing rental instrument, primarily for internally displaced persons who have lost their homes. According to estimates, the need in 2024 is about UAH 22.7 billion to cover 379.9 thousand families. This will provide a quick and targeted tool to help people who need state support in renting a residential space on the way to financial independence.

3.1 Investments to be pursued under the Pillar I of the Ukraine Facility

Investment 1. Investment in Education.

State of play and context: Ukraine has faced economic and human capital challenges, lagging behind neighbouring countries and middle-income nations. The impact of war has exacerbated these issues, resulting in significant loss of lives, injuries, and traumas preventing people from working. Over a third of the population has been displaced, disrupting their homes, jobs, and education.

The war has damaged educational facilities, limiting access to critical services essential for Ukraine's human capital. Many Ukrainians sought refuge abroad, facing challenges despite widespread support.

Halting the erosion of human capital is crucial, requiring the restoration of educational facilities, bringing students back to educational institutions, and addressing educational losses. Skills development linked to labour market needs is vital, along with a commitment to helping individuals achieve their full potential, including those with mental and physical traumas. Efforts also target the return of Ukrainians living abroad.

Reform initiatives for 2024-2027 aim at strengthening education and skills, ensuring recovery and improvement of rehabilitation access, and addressing the social and economic consequences of the war on the labour force.

Description of the investment: Report of the Government (or Treasury report) showing that in the State Budgets for 2024, 2025, 2026 and 2027 the Government budgeted in particular, to the regional and local levels (as part of the indicator in the Decentralisation section on allocating 20% to the sub-national level), at least EUR 650 million (in UAH equivalent) for improving the access to safe and quality education, including preschool education in line with the new legislation on preschool education. The report will be available by the end of Q4 2027. Additionally an interim report of the Government (or Treasury report) showing that in the State Budgets for 2024 and 2025 the Government budgeted in particular, to the regional and local levels (as part of the indicator in the Decentralisation section on allocating 5% to the sub-national level), at least EUR 300 million (in UAH equivalent) for improving the access to safe and quality education, including preschool education in line with the new legislation on preschool education will be prepared by Q2 2026.

Among others budgeted for the following:

- The earmarked funds are strategically distributed across key components, including the establishment of shelters to ensure safe conditions in educational institutions. This addresses the critical need for secure learning environments. Additionally, investments are directed towards the provision of school buses, aiming to improve transportation infrastructure and enhance access to education for students in various regions;

- Modernising teaching methods, with a particular emphasis on digitalisation, constitutes a significant portion of the investment. The commitment to embracing contemporary educational technologies is crucial for staying in step with global advancements and ensuring a dynamic and effective learning experience;

- Materials and equipment for educational establishments are also prioritised, acknowledging the pivotal role these resources play in facilitating a conducive learning environment. Quality nutrition, recognised as a fundamental element for effective learning, receives dedicated funding, emphasising the importance of student well-being;

- Furthermore, the investment extends to the establishment of new Vocational Education and Training (VET) centres based on vocational education institutions. These centres are strategically aligned with market demand for skilled labour and adhere to standards for effective VET, as delineated in the new legislation on Vocational Education.

Potential impact of the investment: The envisioned impact of this substantial investment in education is multi-faceted. By improving access to safe and quality education, establishing shelters and safe conditions, the initiative seeks to create a more inclusive and equitable educational landscape, bring children back to school and offline education during wartime and afterwards.

Investments in modern teaching methods, including digitalisation, are poised to elevate the overall quality of education by aligning instructional approaches with contemporary learning needs. The provision of materials and equipment for educational institutions contributes to creating a conducive and well-equipped learning environment.

School buses, supported by the investment, are expected to ameliorate transportation challenges, especially in remote areas, thereby increasing accessibility and reducing barriers to education. Simultaneously, the emphasis on quality nutrition recognises the integral link between student well-being and effective learning outcomes.

The establishment of new VET centres based on vocational education institutions, responsive to the changing market demand and legislative standards, is poised to bridge the skills gap, ensuring that vocational education aligns with the needs of the workforce and contributes to economic development.

In summary, the investment in education is anticipated to have a transformative impact, fostering a resilient, inclusive, and high-quality educational system in Ukraine.

Investment 2. Investment in Healthcare.

State of play and context: The investment strategy will focus on repairing the significant damage to critical local and national social infrastructure in healthcare, as well as expanding and modernising it. After a year and a half of full-scale warfare, the Russian Federation has damaged 1,669 facilities in 658 medical institutions in Ukraine, of which 822 are destroyed and cannot be restored. In total, the estimated cost of restoring the destroyed and damaged medical infrastructure that needs to be restored and for which there is information to calculate is EUR 856.4 million.

Improvement of the current state of the medical infrastructure will be aimed at addressing the treatment and prevention of non-communicable diseases, HIV/AIDS, and preventive vaccinations. A separate programme will be implemented to build shelters in medical facilities.

Investments in the reconstruction of Ukraine’s medical infrastructure will include:

- Technical equipment for technical and non-technical surveys, as well as for customs clearance for responsible state institutions;
- Technical equipment for demining the affected land after technical and non-technical surveys;
- Purchase of laboratory equipment required for microbiological, chemical, and physical surveys;
- Shelters arranged and/or constructed to ensure safe conditions for patients in healthcare facilities;
- Purchase of equipment and creation (overhaul of premises, reconstruction, etc.) of appropriate conditions for staying in healthcare facilities to improve the quality-of-service provision;
- Creation (major repairs of premises, reconstruction, etc.) of appropriate conditions for staying in healthcare facilities to improve the quality-of-service provision;
- Procurement of high-cost medical equipment to ensure the provision of quality medical care to the population;
- Development and functioning of the central database of the electronic healthcare system and technical support for the provision of additional services by the National Health Service, ensuring the functioning of the information and reference service of the National Health Service.

Description of the investment: Report of the Government (or Treasury report) showing that in the State Budgets for 2024, 2025, 2026 and 2027 the Government budgeted, part of which will be budgeted to the regional level (as part of the indicator in the Decentralisation section on allocating 20% to the sub-national level), at least EUR 400 million (in UAH equivalent) for strengthening healthcare. The report will be available by the end of Q4 2027. Additionally an interim report of the Government (or Treasury report) showing that in the State Budgets for 2024 and 2025 the Government budgeted, part of which will be budgeted to the regional level (as part of the indicator in the Decentralisation section on allocating 5% to the sub-national level), at least EUR 200 million (in UAH equivalent) for strengthening healthcare will be prepared by Q2 2026.

Among others budgeted for the following:

- laboratory equipment for micro-biological, chemical, and physical analysis;

- Shelters and safety measures for healthcare facilities;

- Hospital equipment for medical analysis, surgery, and patient care;

- Healthcare infrastructure and facilities;

- IT systems, databases, electronic patient records, information, and reference services to improve efficiency and effectiveness of healthcare services.

Potential impact of the investment: Implementation of the investment component for healthcare facilities is one of the main conditions for maintaining the sustainable functioning of Ukraine's healthcare system as a critical sector and will allow for the continuation of healthcare reforms and their adaptation to European standards.

Investing in the restoration and modernisation of state and municipal healthcare facilities damaged by the hostilities is one of the main ways to stimulate the economy, both in the immediate post-war period and in the long term. According to various estimates, one employee in construction creates 4 to 7 jobs in related industries. This includes hiring medical staff, building, and equipping hospitals and clinics, and developing and manufacturing medical technologies and medicines.

When people have access to quality healthcare and preventive measures, they are less likely to be sick and spend less time away from work. This increases productivity and helps maintain a stable level of output in the economy.

Investment 3. Investment in Social Infrastructure

State of play and context: As a result of the armed aggression of the Russian Federation against Ukraine, social institutions suffered significant destruction. Reconstruction based on the principle of ‘build back better’ involves not just the restoration of damaged institutions, but the construction of institutions that would provide care to individuals in family or close to family forms.

The key investment needs in the social protection sector are the construction of housing for large foster families, which is a prerequisite for the formation of such families, and the construction of care facilities (for people with disabilities, the elderly, etc.) that meet European standards.

To meet the minimum de-institutionalisation needs, 210 assisted living facilities and about 700 homes for large foster families (family-type children’s homes) should be built.

Description of the investment: Report of the Government (or Treasury report) showing that in the State Budgets for 2026 and 2027 the Government budgeted at least EUR 350 million (in UAH equivalent) for the restoration, construction (new construction, reconstruction, overhaul, restoration) of damaged/destroyed social infrastructure, part of which will be budgeted to the regional level (as part of the indicator in the Decentralisation section on allocating 20% to the sub-national level), to eliminate the social, economic and environmental consequences caused by the armed aggression of the Russian Federation against Ukraine, in particular to the regional level. The report will be available by the end of Q4 2027.

Potential impact of the investment: Investments will contribute to providing quality care for at least 2,000 elderly and disabled people, as well as family forms of education for about 5,600 children. Financing and implementation of projects to restore/rebuild damaged/destroyed social infrastructure facilities will also be provided.

Investment 4.a. Investment in Housing

State of play and context: The full-scale invasion and massive shelling of civilian infrastructure has created a catastrophic situation: according to RDNA3, close to 2 million housing units in Ukraine have been destroyed or damaged, accounting for about 10% of the housing stock. Hundreds of thousands of people have been left homeless, which requires the state to develop separate financial mechanisms to provide the population with basic housing conditions.

As of 24 February 2022, almost 1.5 million internally displaced persons were registered, and according to the IOM, the number of IDPs is currently around 3.7 million, with another 6.3 million people still remaining abroad.

The share of ‘social housing’ in the housing stock of Ukraine is 1-1.5%, and there is no free social housing. Comprehensive improvement of the regulatory framework for housing policy in line with European and international human rights standards is aimed at ensuring access to temporary and social housing for Ukrainian citizens, especially those in need of social protection.

Description of the investment: Report of the Government (or Treasury report) showing that in the State Budgets for 2026 and 2027 the Government budgeted at least EUR 600 million (in UAH equivalent) for the compensations paid to persons whose housing was damaged or destroyed as a result of hostilities, terrorist acts, sabotage caused by the military aggression of the Russian Federation based on verified data from the State Register of Damaged and Destroyed Property. The report will be available by the end of Q4 2027.

Potential impact of the investment: People whose housing was damaged or destroyed as a result of hostilities, terrorist acts, sabotage caused by the military aggression of the Russian Federation received compensation.

Compensation for the damaged object is provided in one of the following forms:

- Compensation for the purchase of construction products for the purpose of performing current or major repairs by the recipient of compensation or by ordering the performance of relevant works and services at the real estate object (compensation for repairs);

- Compensation for the purchase of construction products and performance of current or major repairs at the real estate object at the applicant's own expense when the repair work has been fully or partially completed as of the date of application (compensation for repairs performed).

Compensation for destroyed real estate is paid by:

- Provision of funds by transferring them to the current account of the recipient of compensation with a special regime of targeted use for the construction of a manor, garden or country house.

- Financing the purchase of an apartment, other residential premises, a manor house, a garden, or a country house (including financing the purchase of premises/house to be built in the future or investing/financing its construction) using a housing certificate.

Investment 4.b. Investment in Housing

State of play and context: Since 2014, Ukraine has faced new social challenges as a result of the armed aggression by the Russian Federation. Among these challenges is the need to establish an effective social protection system for individuals who defended the independence, sovereignty, and territorial integrity of Ukraine, and who require housing support, particularly for homes that have been destroyed.

Considering the full-scale invasion of Ukraine by Russia since February 24, 2022, the number of war veterans with disabilities, families of deceased (fallen) defenders, participants in combat actions who have been defending Ukraine since 2014, and those who have become internally displaced persons has significantly increased.

In the conditions of martial law and reconstruction, the financial resources of state and local budgets to ensure the right to housing, as provided by the Law of Ukraine 'On the Status of War Veterans, Guarantees of Their Social Protection', are limited.

Therefore, providing support is extremely necessary to implement an effective housing provision system for the mentioned individuals, considering their employment opportunities and the regional needs for labour resources.

Description of the investment: Report of the Government (or Treasury report) showing that in the State Budgets for 2024, 2025, 2026, 2027 the Government budgeted at least EUR 450 million (in UAH equivalent) for providing housing for:

- persons with disabilities of I-II groups who defended the independence, sovereignty and territorial integrity of Ukraine;

- family members of the deceased defenders;

- internally displaced persons who defended the independence, sovereignty and territorial integrity of Ukraine and their family members.

The report will be prepared by the end of Q4 2027. Additionally the interim report of the Government (or Treasury report) showing that in the State Budgets for 2024 and 2025 the Government budgeted at least EUR 200 million (in UAH equivalent) for providing housing for mentioned persons will be prepared by Q2 2026.

Potential impact of the investment: The reform will create the opportunity to provide housing for over 7,000 individuals who have defended and continue to defend the independence, sovereignty, and territorial integrity of Ukraine. This will contribute to improving living conditions, the restoration, and reintegration of these individuals into civilian life, enhancing the social protection of persons with disabilities who have lost their health due to participation in combat actions, as well as internally displaced persons whose housing has been left in the occupied territory or destroyed.

4. Coherence with the objectives of the Ukraine Facility

The aim of the reforms is to address many of the direct social and economic consequences of the war, in line with the overall objectives of the Ukraine Facility. Investing in human capital through spending on healthcare, education and social housing increasing the share of the physically active population will not only improve the quality of life and social cohesion but will also contribute to higher productivity. Over time, the accumulation of human capital in Ukraine is expected to have a positive impact on macroeconomic stability and prospects for achieving stable and sustainable economic growth. Among other the reforms presented above will contribute to the achievement of the following Sustainable Development Goals: Goal 1 ‘End poverty in all its forms everywhere’; Goal 3 ‘Ensure healthy lives and promote well-being for all at all ages’; Goal 4 ‘Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all’; Goal 5 ‘Achieve gender equality and empower all women and girls’; Goal 8 ‘Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all’; Goal 9 ‘Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation’; Goal 10 ‘Reduce income inequality within and among countries’; and Goal 16 ‘Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels’.

5. Table of reforms and investments covered under Pillar I

Reforms and investments	Objectives and growth potential	Corresponding chapters of the EU Enlargement report	Name of the step (quantitative and qualitative steps to implement reforms/investments)	Agency responsible for implementation	Outcome	Timeframe
Reform 1. Improved vocational education	Ensuring that education meets the needs of the labour market and the country's recovery; expanding the institutional capacity of educational entities to provide formal and non-formal vocational education; attracting more women to STEM-education; regulating the relations between vocational education institutions, national/local and international stakeholders for the sustainable development of human capital in Ukraine	Chapter 26. Education and culture	Entry into force of the legislation on vocational education	Ministry of Education and Science, Other involved authorities	The Law of Ukraine 'On Vocational Education' is adopted and enters into force with the following provisions: - Fair rules for the functioning of educational entities in the market of educational services in the field of vocational education are defined. - The institutional capacity of educational entities to provide formal and non-formal vocational education is expanded. - Relations between vocational education institutions, national/local and international stakeholders for the sustainable development of human capital in Ukraine are clearly defined	Q2 2025
Reform 2. Improved preschool education	Ensuring access to quality preschool education for every child as a guarantee of harmonious development and successful start of the educational trajectory and more effective involvement of women with preschool children in the labour market	Chapter 26. Education and culture	Entry into force of the legislation on Preschool Education	Ministry of Education and Science, Other involved authorities	The Law of Ukraine 'On Preschool Education' enters into force in alignment with the Council Recommendation of 22 May 2019 on High-Quality Early Childhood Education. The law defines the following areas: - Guarantees of access to preschool education for children of early and preschool age. - Fair rules for the functioning of educational entities in the market of educational services in the field of preschool education. - Decent working conditions for employees in the field of preschool education. - The rules for the functioning of a flexible and efficient network of preschool education providers	Q1 2025
Reform 3. Improving the rehabilitation system for people with disabilities	Continue to implement the reform of the rehabilitation system that began before the war. This includes increasing capacity and improving the quality of rehabilitation services for both physical (e.g., prosthetics and orthotics) and psychological rehabilitation, as well as training competent rehabilitation personnel. It also involves using the International Classification of	Chapter 28. Consumer protection and healthcare	Legislative amendments to improve the rehabilitation system for persons with disabilities.	Ministry of Social Policy, Ministry of Health, Ministry of Veteran Affairs, Other involved authorities	The Law of Ukraine 'On Amendments to the Law of Ukraine 'On Rehabilitation of Persons with Disabilities in Ukraine' enters into force. The law focuses on the following main areas: - use of the International Classification of Functioning, Disability and Health to measure functioning. - Introduction of an electronic system that contains information about the needs of the individual and automatically offers services in	Q4 2026

	Functioning, Disability and Health to measure functioning which is more comprehensive than the current concept of ‘disability’, covering not only the medical sphere, but also the social, educational, and labour spheres. This will allow for a broader assessment of people’s needs and the provision of necessary services				accordance with the identified needs (social, medical, and other)	
Reform 4. Transition from military service to civilian life	Creating a sustainable system of transition from military service to civilian life. This will have a positive impact on the socio-economic state of Ukraine during the period of its restoration and development, and will provide support to servicemen and women, including war veterans, both during their service and after discharge, in accordance with individual needs in various spheres of life	—	Entry into force of the legislation on the system of amendments to implement transition system from military service to civilian life.	Ministry of Veteran Affairs	The Law of Ukraine of Amending Certain Legislative Acts of Ukraine on Introducing the Transition System from military service to civil life enters into force and The Resolutions of the Cabinet of Ministers regarding approval of the procedures and terms and conditions for provision of services to participants of the transition system has been adopted. The acts will focus on s: - Rehabilitation and medical care, including psychological assistance. - Training, retraining and professional development programmes. - The necessary conditions for employment of veterans as a separate category. - Measures to support veteran businesses	Q4 2025
Reform 5. Improving social infrastructure and de-institutionalisation	The social infrastructure system is being reformed to support family-based care for children, the elderly, and people with disabilities. This will ensure that a family with a person requiring full-time care can receive professional care support, allowing other family members to return to the labour market. In addition, the reform will support families and provide family-based care for children at risk of institutionalisation or already in institutions. The reform also aims to de-institutionalise care for children, people with disabilities and the elderly who need temporary or permanent care support but retain the ability to live independently, and to engage them in socio-economic activities	—	Adoption of 2 Strategies: the Strategy for Reforming Psychoneurological, Other Residential Institutions and De-institutionalisation of Care for Persons with Disabilities, and Older Persons; the Strategy for Ensuring the Right of Every Child in Ukraine to Grow Up in a Family Environment for 2024-2028	Ministry of Social Policy	The Order of the Cabinet of Ministers ‘On Approval of the Strategy for Reforming Psychoneurological, Other Residential Institutions and De-institutionalisation of Care for Persons with Disabilities and Older Persons’ and The Order of the Cabinet of Ministers ‘On Approval of the Strategy for ensuring the right of every child in Ukraine to grow up in a family environment for 2024-2028’ are adopted. The strategies focus on the following key areas: - Development of social services to support families with children, people with disabilities and older persons to live independently in the community and prevent institutionalisation. - Development of assisted living services for people with disabilities and older people who need additional support.	Q4 2024

					- Providing family-based forms of upbringing (e.g., foster care, guardianship, and adoption) for children left without parental care	
Reform 6. Improved functioning of the labour market	Addressing the concerns of Ukrainian citizens in the context of their return to Ukraine and active participation in the labour market. The return of forced migrants, including children and young people, is important for ensuring rapid and sustainable economic growth, a functioning labour market is one of the conditions for returning	Chapter 19. Social policy and employment	Adoption of the Population Employment Strategy	Ministry of Economy	The Order of the Cabinet of Ministers on approving the Population Employment Strategy is adopted. The strategy will propose specific measures, including in the following areas: - Creation of favourable conditions for employment, including through entrepreneurship and with a particular focus on women. - Simplification of access to the labour market. - Retraining and re-qualification. - Reform the state employment service. - Reform the labour market forecasting. - Incentives to attract foreign talent to the Ukrainian labour market foreign entrepreneurs, highly skilled and working personnel and students	Q2 2026
	Identification of short- and medium-term strategic goals and objectives aimed at addressing demographic, social and humanitarian problems, reintegration needs of IDPs, bringing social infrastructure in line with changes in population movements in the regions of Ukraine, including creating conditions for returning to the place of residence, addressing premature mortality and strong migration trends, developing a comprehensive demographic policy that will ultimately overcome negative demographic trends	—	Adoption of the Demographic Development Strategy for the period up to 2040	Ministry of Social Policy	The Order of the Cabinet of Ministers ‘On Approval of the Demographic Strategy of Ukraine for the Period up to 2040’ is adopted. The Strategy will propose specific measures, including in the following areas: - Improving the situation in the field of fertility. - Reducing premature mortality, especially among men of working age. - Overcoming negative migration trends, through the return of forced migrants, attracting representatives of the foreign diaspora to Ukraine, etc. - Promoting active longevity. - Creating infrastructure and security preconditions for improving the demographic situation	Q3 2024
Reform 7. Ensuring access to housing for people in need	According to RDNA3, close to 2 million housing units in Ukraine have been destroyed or damaged, accounting for about 10% of the housing stock. Hundreds of thousands of people have been left homeless. The share of ‘social housing’ in the housing stock of Ukraine is 1-1.5%, and there is no free social	—	Entry into force the legislation on Basic Principles of Housing Policy	Ministry of Communities, Territories and Infrastructure Development	The Law of Ukraine ‘On Basic Principles of Housing Policy’ has entered into force. The Law of Ukraine focuses on the following main areas: - accessibility of housing for the most vulnerable categories of citizens should become the main principle in the provision of housing.	Q4 2025

	housing. Comprehensive improvement of the national regulatory framework on housing policy in line with European and international human rights standards is aimed at ensuring access to temporary and social housing for Ukrainian citizens, especially those in need of social protection				- Creation of various support mechanisms for citizens with different financial capacities and determination of criteria for access to them. - Regulating the legal basis for the introduction of lease of communal housing, lease of communal housing with the right to buy. - Creating a transparent system for registering the housing needs of citizens to ensure prompt response at the local level. - Creating a transparent framework for monitoring by the public, civil society, and the international community	
	Developing a comprehensive policy and updating the legal framework for social and affordable housing, including by updating the specific legal framework, improving coordination between different government agencies, and encouraging the construction of new housing units as well as the renovation of existing housing, will help support the part of the population that is most in need of housing and cannot afford it	—	Entry into force of the legislation on the Social Housing Fund	Ministry of Communities, Territories and Infrastructure Development	The Law of Ukraine on Amendments to the Law of Ukraine 'On Social Housing Fund' (or the new version of this Law) has entered into force. The Law will focus on the following key areas: - establishing an institutional framework to ensure a sufficient supply of social housing projects; - establishing a transparent system for monitoring the needs of citizens to ensure prompt response at the local level; - establishing a transparent framework for monitoring by the public, civil society, and the international community; - improving the capacity of the institutional framework to ensure a sufficient supply of social housing projects; - improving the rules for the establishment and operation of social housing, including ensuring compliance with energy efficiency, safety, and other standards	Q4 2026
Reform 8. Improved social security	Well-designed social protection systems can increase labour market participation and ensure that workers in all types of employment have access to social protection. This will help to create a more level playing field for businesses and increase the adequacy and sustainability of social protection, thereby strengthening public finances and reducing poverty	—	Entry into force of the legislation on the procurement of social services	Ministry of Social Policy	The Resolution of the Cabinet of Ministers on purchasing of social services at the expense of the state budget enters into force. The Resolution is fiscally neutral and does not impact in any way the debt sustainability of Ukraine and focuses on the following main areas: - Transition from financing institutions to a result-oriented purchasing model of social services. - Introducing a mechanism for purchasing certain social services from registered public	Q2 2025

					and private social service providers based on established social service standards and criteria for providers.	
Reform 9. Improved cultural development	Promoting the culture of modern Ukraine to develop a reliable international partnership and build sustainable international support (cultural diplomacy)	Chapter 26. Education and culture	Adoption of the Strategy for the Development of Ukrainian Culture.	Ministry of Culture and Information Policy	The Cabinet of Ministers adopted an Order approving the Strategy for the Development of Ukrainian Culture. The strategy will focus on the following priority goals: - preservation, safeguarding and promotion of cultural heritage and properties of Ukrainian people as an integral part of common European cultural area, preservation of national remembrance; - rendering of high-quality and accessible cultural services and opportunities for creative self-realisation of people; - capacity building of Ukrainian cultural institutions to enhance accessibility, share the best practices of cultural participation, and strengthen international cultural relations; - support to creative industries sector as a driver of social innovation and employment, enhancement of institutional capacities of creative industries	Q1 2025
Investment 1. Investment in education	Improved access to safe and quality education	Chapter 26. Education and culture	Provision of access to safe and quality education	Ministry of Education and Science, Ministry of Finance	Report of the government (or Treasury report) showing that in the State Budgets for 2024, 2025, 2026 and 2027 the general government budgeted in particular, to the regional and local levels (as part of the indicator in the Decentralisation section on allocating 20% to the sub-national level), at least EUR 650 million (in UAH equivalent) for improving the access to safe and quality education, including preschool education in line with the new legislation on preschool education, among others for the following: - shelters and safe conditions in educational establishments; - school buses - modern teaching method, including through digitalisation; - materials and equipment for educational establishments; - quality nutrition;	Q4 2027

					- new Vocational Education and Training (VET) centres based on market demand for skilled labour and in accordance with standards for effective VET, in line with the new legislation on Vocational Education	
				Ministry of Education and Science, Ministry of Finance	Interim report of the government (or Treasury report) showing that in the State Budgets for 2024 and 2025 the general Government budgeted in particular, to the regional and local levels (as part of the indicator in the Decentralisation section on allocating 5% to the sub-national level), at least EUR 300 million (in UAH equivalent) for improving the access to safe and quality education, including preschool education in line with the new legislation on preschool education, among others for the following: - shelters and safe conditions in educational establishments; - school buses - modern teaching method, including through digitalisation; - materials and equipment for educational establishments; - quality nutrition; - new Vocational Education and Training (VET) centres based on market demand for skilled labour and in accordance with standards for effective VET, in line with the new legislation on Vocational Education	Q2 2026
Investment 2. Investment in healthcare	Ensuring the provision of specialised, medical and counselling assistance to the population.	—	Creation (overhaul of premises, reconstruction, etc.) of proper conditions of stay in health care institutions in order to improve the quality-of-service provision	Ministry of Health, Ministry of Finance	Report of the Government (or Treasury report) showing that in the State Budgets for 2024, 2025, 2026 and 2027 the general Government budgeted, part of which will be budgeted to the regional level (as part of the indicator in the Decentralisation section on allocating 20% to the sub-national level), at least EUR 400 million (in UAH equivalent) for strengthening healthcare, among others for the following: - laboratory equipment for micro-biological, chemical, and physical analysis; - shelters and safety measures for healthcare facilities;	Q4 2027

					- hospital equipment for medical analysis, surgery, and patient care; - healthcare infrastructure and facilities; - IT systems, databases, electronic patient records, information, and reference services to improve efficiency and effectiveness of healthcare services	
				Ministry of Health, Ministry of Finance	Interim report of the Government (or Treasury report) showing that in the State Budgets for 2024 and 2025 the general Government budgeted, part of which will be budgeted to the regional level (as part of the indicator in the Decentralisation section on allocating 5% to the sub-national level), at least EUR 200 million (in UAH equivalent) for strengthening healthcare, among others for the following: - laboratory equipment for micro-biological, chemical, and physical analysis - shelters and safety measures for healthcare facilities - hospital equipment for medical analysis, surgery, and patient care - healthcare infrastructure and facilities - IT systems, databases, electronic patient records, information, and reference services to improve efficiency and effectiveness of healthcare services. An interim report on such funds will be submitted to the European Commission in the second quarter of 2026 for the years 2024-2025	Q2 2026
Investment 3. Investment in social infrastructure	Restoration/reconstruction of damaged/destroyed social infrastructure in accordance with the updated State Strategy for Regional Development for 2021-2027. Restoration of damaged infrastructure related to the implementation of the strategy for reforming psychoneuroligical and other residential institutions and de-institutionalisation of care for children, persons with disabilities and the elderly	—	Reconstruction and restoration of damaged/destroyed social infrastructure facilities	Ministry of Communities, Territories and Infrastructure Development, Ministry of Finance	Report of the Government (or Treasury report) showing that in the State Budgets for 2026 and 2027 the general Government budgeted at least EUR 350 million (in UAH equivalent) for the restoration, construction (new construction, reconstruction, overhaul, restoration) of damaged/destroyed social infrastructure, part of which will be budgeted to the regional level (as part of the indicator in the Decentralisation section on allocating 20% to the sub-national level), to eliminate the social, economic and environmental consequences caused by the armed aggression of the Russian Federation	Q4 2027

					against Ukraine, in particular to the regional level	
Investment 4a. Compensation for damaged housing	Implementation of the state policy of compensation for destroyed or damaged of certain categories of real estate because of hostilities, terrorist acts, sabotage caused by the military aggression of the Russian Federation	—	Providing compensation to persons whose housing was damaged or destroyed because of hostilities, terrorist acts, sabotage caused by the military aggression of the Russian Federation based on verified data from the State Register of Property Damaged and Destroyed as a Result of Hostilities, Terrorist Acts, Sabotage Caused by the Armed Aggression of the Russian Federation against Ukraine	Ministry of Communities, Territories and Infrastructure Development o, Ministry of Finance	Report of the Government (or Treasury report) showing that in the State Budgets for 2026 and 2027 the general Government budgeted at least EUR 600 million (in UAH equivalent) for the compensations paid to persons whose housing was damaged or destroyed as a result of hostilities, terrorist acts, sabotage caused by the military aggression of the Russian Federation based on verified data from the State Register of Damaged and Destroyed Property	Q4 2027
Investment 4b. Providing housing for vulnerable groups of the population	Implementation of the state policy on housing provision includes: - persons with disabilities of I-II groups who defended the independence, sovereignty, and territorial integrity of Ukraine. - Family members of the deceased defenders. - Internally displaced persons who defended the independence, sovereignty and territorial integrity of Ukraine and their family members	—	Providing compensation providing housing for: - persons with disabilities of I-II groups who defended the independence, sovereignty, and territorial integrity of Ukraine. - Family members of the deceased defenders. - Internally displaced persons who defended the independence, sovereignty and territorial integrity of Ukraine and their family members	Ministry of Veteran Affairs, Ministry of Finance	Report of the Government (or Treasury report) showing that in the State Budgets for 2024, 2025, 2026, 2027 the general Government budgeted at least EUR 450 million (in UAH equivalent) for providing housing for: - persons with disabilities of I-II groups who defended the independence, sovereignty and territorial integrity of Ukraine; - family members of the deceased defenders; - internally displaced persons who defended the independence, sovereignty and territorial integrity of Ukraine and their family members	Q4 2027
				Ministry of Veteran Affairs, Ministry of Finance	Interim report of the Government (or Treasury report) showing that in the State Budgets for 2024 and 2025 the general Government budgeted at least EUR 200 million (in UAH equivalent) for providing housing for: - persons with disabilities of I-II groups who defended the independence, sovereignty and territorial integrity of Ukraine; - family members of the deceased defenders; - internally displaced persons who defended the independence, sovereignty and territorial integrity of Ukraine and their family members	Q2 2026

CHAPTER 8. BUSINESS ENVIRONMENT

1. State of play

Prior to the war, Ukraine's SMEs were key drivers of economic growth, including the rapid growth of the IT sector. In 2019 approximately 7.3 million people were employed in the SME sector and 66 percent of sales of goods, works and services was attributable to SMEs. However, the war has affected the business environment significantly with extensive property damages, labour constraints, disrupted logistics, and risk-averse financial markets characterised by high-interest rates. Nearly a third of enterprises have either ceased or limited their operations, resulting in direct losses amounting to EUR 77.6 billion. In addition, Ukraine's business environment still struggles with the old familiar challenges related to corruption, a cumbersome tax system, a weak judiciary system, and insufficient protection of property rights. The sub-optimal business environment has had a negative effect on the interest of foreign investors and the inflow of private capital.

SME's importance to the Ukrainian economy and jobs makes it a key priority to help SMEs address the challenges brought on by the war as well as those that relate to a smooth integration into the EU market. This includes ensuring that SMEs have a role to play in the reconstruction of the country, addressing the efficiency of the regulatory environment, improving access to financing for SMEs, securing a level playing field and fair competition, and helping SMEs develop the capacity to comply with EU standards so they can resume their role as growth engines and the provider of jobs. The Government has launched initiatives such as the Entrepreneurship and Export Development Office to support entrepreneurial capacity and export skills as well as Business Development Fund to facilitate access to financing. The digitalisation of the economy is also expected to help simplify the process of launching new businesses.

In addition, improving Ukrainian SME's innovation capacity will contribute to sustained growth and allow Ukrainian SMEs to compete in the EU single market. Prior to the war, Ukraine retained a high scientific potential, despite loosening links between science and industry, emigration of scientists and innovators, and falling investments in research and innovation from both public and private sources. The war has only worsened the situation with 35% of Ukraine's research infrastructure significantly damaged or destroyed. An estimated 25% of the scientific workforce has left Ukraine since the beginning of the war. These events have undermined decades of scientific progress and drained Ukraine of its intellectual assets and human capital, posing massive challenges for creating a conducive environment for competitive research and innovation for sustainable and tech-driven economic growth.

An important direction for the recovery and development of entrepreneurship is the development of the processing industry, which plays a pivotal role in driving economic recovery and bridging the prosperity gap between Ukraine and EU countries. Historically, Ukraine boasted a well-developed manufacturing sector, hitting its peak in industrial output in 2007. However, this prosperity was short-lived, initially declining due to the Great Recession of 2008–2009, and later as a result of gradual (2012–2013) and sharp (2014–2015) losses stemming from the Russian market's shrinkage following the annexation of Crimea and the commencement of the war in the east of the country.

In 2007, the processing industry's share of Ukraine's GDP was 18.4%. Nonetheless, it embarked on a steady decline, fluctuating between 10.1% and 12.2% from 2013 to 2021. Consequently, Ukraine's processing production in 2021 remained at only 66.3% of the 2007 level. This decline varied by industry, with the food and woodworking sectors, as well as the production of non-metallic mineral products, generally displaying more robust growth than the processing industry as a whole. In contrast, the metallurgical and chemical industries recorded reductions surpassing the average industry indicators. However, the most significant decline was observed in the machine-building sector, with its 2021 production volume plummeting to just 39.6% of the 2007 level.

The war in Ukraine caused significant damage to the processing industries. The impact of Russia's invasion after one year of full-scale war was substantial. In 2022, overall industrial production decreased by 36.7%, with processing industries witnessing a 41.0% decline. Notably, the machine-building sector saw a 43.1% drop in its output. The occupation and blockade of Black Sea ports and logistical challenges made alternative export routes costly and unsuitable for supplying industrial products in required volumes. The metallurgical sector, as a notably export-oriented industry, was hit hardest, with a 66.5% reduction in the manufacturing of base metals in 2022. The food sales in 2022 decreased by 29% compared to the 2021 and dropped down to the indicators of 2018-2019. Before the war, the food industry provided about 20% of the total volume of industrial production in Ukraine and the domestic demand market with food products for almost 90%. The food industry saw higher resilience compared to other industries. Advancing the processing industry reduces reliance on logistical bottlenecks and decreases the proportion of logistics costs in the final product price due to higher-margin products with lesser weight and volume. This positively impacts the export potential of Ukrainian products and enhances their competitiveness in international markets, while also reducing the share of raw products in the export structure.

Despite these challenges, the processing industry holds substantial potential for development, providing opportunities for structural transformation and advancing Ukraine's economy. This requires a thoughtful industrial policy based on key EU principles and practices, including green industrialisation. The processing industry plays a significant role in the broader economic ecosystem, acting as an industrial backbone. It enhances supply chain connectivity, generates employment, drives innovation, boosts exports, and supports infrastructure development. Prioritising the processing sector brings numerous advantages, including value amplification, increased employment, enhanced tax revenue, resilience, technological spillovers, sustainable growth, and global competitiveness. This approach aligns with responsible economic development, fostering prosperity and attracting investments.

Currently, the processing industry's contribution to Ukraine's GDP is below 10%, falling short of the OECD's benchmark of 20% for the share of manufacturing in GDP and even lower than the global average of 16.2%. The Government aspires to reach the OECD benchmark by 2032 through a comprehensive program aimed at supporting and funding the processing sector.

Within this Plan, the development of processing industries aims to establish a self-sufficient economic model where additional domestic demand for machinery and equipment is met through internal supply. Moreover, with the incorporation of state-of-the-art technologies for new production capacities and green modernization, the products of the processing industry are poised to be competitive in international markets. To achieve these goals, substantial efforts and investments are essential for the reindustrialization of Ukraine's economy.

Key directions for processing industry development projects include integrating Ukrainian industry into global and regional supply chains, embracing green steel, mechanical engineering, processing of critical materials, and agricultural processing. Import substitution, especially concerning the Russian Federation, and ensuring the growth of domestic demand during the implementation of recovery projects.

The central idea behind the construction of new processing facilities and the green modernization of existing ones is to adopt an innovative production approach that utilises the best available technologies (BAT). Therefore, in addition to financial and fiscal support measures, as well as the creation of stable demand, an important factor is the development of scientific potential, the implementation of the national Science, Technology and Innovation (STI) for SDGs roadmap and design of regional smart specialisation strategies taking account of territorial specificities and localised challenges, the consideration of place-based transformative innovation policy approaches, the development of a national Digital Innovation Hub (DIH) network, and its integration into the European ecosystem. The implementation of these programs can be facilitated among others through the tools of industrial parks or the development of a cluster structure in the given industry.

The development of green metallurgy as an important component of the processing industry:

Ferrous metallurgy (including iron ore mining and processing, ironmaking, steelmaking and steel rolling) is a fundamental sector of the economy in Ukraine. From year to year, it creates a significant economic impact. In 2020 its aggregate share in GDP accounted for 9.5%, or EUR 12.4 billion (including GDP generated by iron and steel companies themselves, supply chain and consumer spending of workers). The metallurgy sector and related industries employed 530 thousand people in Ukraine in 2020. Taxes paid by iron and steel companies amounted to EUR 3.1 billion in 2021.

Pre-war, one-third of Ukraine's exports was generated by the metallurgy sector: in 2021 Ukrainian iron and steel companies received EUR 20.1 billion of export revenues.

Iron and steel companies are also the largest consumers in other sectors. In 2021, iron and steel companies accounted for 119.4 million tonnes of railway traffic (38% of the total volume) and 57.4 million tonnes (37.4%) of cargoes handled at Ukrainian seaports. Iron and steel companies were responsible for 18.7% of total electricity consumption and 6% of natural gas consumption in Ukraine in 2021.

The sector is one of the largest investors in the Ukrainian economy. In 2021, iron and steel companies invested EUR 1.8 billion (one-third of total industrial investments). In total over 10 years (2012-2021) Ukrainian iron and steel companies invested over EUR 13.6 billion. The metallurgy sector also contributes to development of high-value-added industries, namely by consuming around 9% of machinery output in Ukraine.

At the same time, the sector is one of the largest CO2 emitters (15% of Ukraine's GHG emissions in 2020) and polluters (SOx, NOx, hard particles), largely due to reliance on coke and coal in blast furnace ironmaking, generally outdated equipment and lack of incentives and large capital requirements for environment-related investments.

Ukraine's metallurgy sector has a significant impact not only within the country but also globally. As of 2021, Ukraine was 5th largest exporter of iron ore, 4th largest exporter of iron ore pellets, 3rd largest exporter of pig iron and slabs. Ukraine was also the 6th largest exporter of finished steel to the EU. Such reliance on exports is largely explained by Ukraine's relatively shallow local market for steel: steel consumption pre-war was a mere 4 to 5 Mt per year, and it roughly halved during the war.

In 2022 the metallurgy sector faced significant challenges caused by Russia's invasion of Ukraine. Production of iron ore dropped by 40% from 86 Mt in 2021 to 34 Mt in 2022. Production of pig iron decreased by 70% from 21 Mt in 2021 to 6 Mt in 2022. Production of crude steel decreased similarly from 21 Mt in 2021 to 6 Mt in 2022. Production of finished steel fell from 19 Mt in 2021 to 5 Mt in 2022.

In the first 9 months of 2023, the situation has not significantly improved, with production of pig iron, crude steel and finished steel amounting to 81-83% of 2022 values for the same period.

Significant and ongoing decrease in iron ore, iron and steel production is attributable to multiple factors caused by war:

- Logistics limitations resulting in significant increase in logistics costs for exporters. Blocked seaports greatly impact logistics, with other means of transportation unable to cover the difference due to limited capacity, technical issues and / or prohibitive costs (including due to competition from grain and oils exports for Western border transloading capacities and EU rolling stock: as iron ore exports have lower value per ton than grain, they therefore are more sensitive than grains and oils to logistics costs increase);
- Occupation of and damages to iron and steel assets. Approximately half of Ukraine's total ironmaking and steelmaking capacities and approximately 5% of iron ore mining capacities are located in territories occupied by Russia since February 2022;
- Lower prices and demand for iron and steel products due to decrease in production in Europe and globally;
- Disruptions of energy supply following mass missile and drone strikes by Russia.

Additionally, the sector also faces the following significant challenges:

- Availability and cost of financing amid significant capital requirements. This has been significantly exacerbated by the war: first, increased country risks made foreign investments and access to capital markets unavailable, and financing costs prohibitively high; second, companies of the sector faced significant cash flow constraints due to lower production, low domestic consumption, inability to export and/or high logistics and other costs. Although such picture is true for most sectors, it is more critical for metallurgy as a very export-oriented and also capital-intensive sector, requiring significant investments not only in decarbonization and modernization (for example, modernization of traditional integrated iron- and steelmaking to hydrogen-based direct reduction ironmaking and electric-arc-furnace based steelmaking requires upwards of EUR 0.9 per ton of production capacity, which translates into multi-billion investment need for the entire sector), but also in maintenance of existing capacities (for example, industry benchmarks for annual maintenance capital expenditure needs are approximately EUR 22.6 per ton of iron- and steelmaking capacity and approximately EUR 9 per ton of iron ore mining and processing capacity);
- Access to export markets. Before the start of the war, the import of Ukrainian metal products by the EU, USA, Canada, and Turkey was significantly limited due to additional duties and quotas. While there has been some liberalisation (especially by the EU) of imports from Ukraine since the start of the war, many constraints and limitations remain, and liberalisation currently holds the temporary nature;
- Need for support with technological innovations and product development. As the sector progresses towards decarbonization and modernization, reliance on international technology providers and know-how is ever-increasing. However, as mentioned above, the investments in the sector remain significantly constrained due to war.

At the same time, the European and global context is extremely important for Ukrainian metallurgy as an export-oriented sector. Decarbonization has become an imperative in Europe and is gaining momentum globally. At the same time, there are a number of challenges that the steel industry in Europe and elsewhere is facing, including:

- Massive capital investment needs to switch from traditional integrated iron and steelmaking with high carbon footprint to alternative technologies with lower carbon footprint, namely hydrogen-based direct reduction ironmaking and electric arc furnace-based steel making);

- Deficit of higher quality and higher purity raw materials required for iron and steel production processes with lower carbon footprint, namely: direct-reduction-grade iron ore pellets, direct reduced iron (or hot-briquetted iron) with low carbon footprint and prime ferrous scrap;
- Deficit of clean and low-cost energy needed for iron and steel production processes with lower carbon footprint (both hydrogen-based direct reduction ironmaking and electric arc furnace-based steel making processes have significantly higher electricity consumption compared to traditional integrated iron and steelmaking).

As decarbonization of industry becomes an increasingly important topic on EU and global agenda, Ukraine is well placed to become a key supplier of high-quality iron ore, green metallics and green steel. Ukraine's key advantages include:

- Significant reserves of high-quality low-cost iron ore. Ukraine has 5th largest magnetite ore reserves globally (approximately 5 billion tonnes);
- Competitive zero-carbon energy production (extensive nuclear energy capacities, high renewable energy potential);
- Developed logistics and proximity to Europe;
- Existing steelmaking capacity and capabilities, and relevant infrastructure;
- Strong human capital. Ukraine is home to a well-educated and mobile workforce, with capabilities in engineering and machine-building. Cost of labour in Ukraine is highly competitive.

As such, after the end of the war, the metallurgy sector has the potential to become a key driver of Ukraine's recovery and an enabler of European steel sector decarbonization. In order to realise Ukraine's potential in the metallurgy sector, a pivot towards decarbonization and modernization of production capacities is required. Shift towards low-carbon iron and steel production will require a build-out of new value chains in Ukraine.

During the recovery and modernization process, establishing cross-border cooperation with neighbouring EU Member States is essential, especially in trade-related aspects. Strengthening connections with these countries will enable the sharing of technological expertise, access to sustainable energy sources, and alignment with European standards. This partnership will not only boost trade relations but also foster regional economic development and promote the green transition of the metallurgy sector.

Summarising above, the most important reform sectors and investment areas in the processing industry for the period 2024-2027 are:

- Improving access to export markets, food quality and safety standards and practices, food quality and safety state controls, state control infrastructure;
- Improving access to finance and strengthening the regulatory framework for investments;
- Development of a harmonised Action Plan for the (green) metallurgy sector recovery, modernization and green transition;
- Supporting green transition and enhancing green technical/technological modernization;
- Stimulating innovations.

2. Overall reform agenda in 2024-2027

An ineffective regulatory environment and corruption hinder business development in Ukraine. By early 2023, there were 84 areas of state supervision and control and over 30 inspection bodies, with functions duplicating in many areas. Currently, there are over 1000 instruments of state regulation, including 528 permits, 224 licences, 157 approvals, 145 conclusions, 121 certificates, 55 declarations, 42 notifications, and 23 authorizations, along with hundreds of building regulations and sanitary rules. Deregulation, simplification, and digitalisation of procedures can significantly reduce the costs of doing business in Ukraine. Ukraine will continue the deregulation of the licensing and permit system, the improvement of the e-construction portal, simplification of temporary constructions for business activities, abolition of outdated provisions, and digitalisation of issuing of licences.

A thriving private sector depends on access to finance, export markets and the availability of skilled human capital. This means that in the broader sense there is a close and clear link between many of the other reforms presented in this Plan and the development of Ukraine’s business environment. In more specific sense, it means that the support for the business environment will benefit from a targeted SME strategy that will help define priorities, identify tools and specific actions that will pave the way for increased business activity by addressing the most important obstacles. An SME strategy will serve as an instrument to ensure coordinated and measurable efforts to support the development of the private sector and the nurturing of entrepreneurship. Whereas the immediate needs may relate to addressing physical damages, providing financial support and insurance; the needs are expected to change over the coming years towards learning from and partnering with international companies that can help unlock Ukrainian companies’ full potential and facilitate successful participation in the European single market. Steps will be taken to improve the management of state-owned enterprises while simultaneously accelerating privatisation processes. These state-owned enterprises are often less efficient than private ones, and they present unfair competition and restrict others' access to funding. It should be noted that special attention will be given to implementing distinct programs and supportive measures for women's businesses, with a focus on integrating gender equality and women's empowerment into the framework supporting the business environment. According to the analysis of the state data from Opendatabot service, from the beginning of 2023 women start their own businesses almost as often as men, while women's businesses are smaller. Notably, women are almost three times less likely than men to register their business as a legal entity. Most of the women register a business in the form of private entrepreneurship (PE). Key forms of gender discrimination faced by women as business owners include facing doubts about women's qualifications and reputation, belittling, sexist jokes and inappropriate comments, etc. As much as 57% of women in general and 66% of women who run business in economic sectors dominated by men, in particular, faced at least one of these manifestations of discrimination. The pressure of gender stereotypes and the difficulty of combining business and family responsibilities are the main factors that prevent women from deciding to start a business (men are affected by these factors to a much lower extent).

In addition to issues related to the rule of law and the need to reform law enforcement agencies in the field of combating economic crimes, Ukraine requires comprehensive measures to review areas of state supervision and control along with enhancing the regulatory process. One of the key steps to achieve this is the legislative regulation of the overhaul of the Economic Security Bureau (ESBU) and the removal of overlapping jurisdiction of the ESBU with other pre-trial investigation authorities. Furthermore, it is essential to reduce the pressure on businesses from law enforcement structures by consolidating key functions for countering economic crimes within a single state agency.

The need to attract investments attraction, integrate domestic companies into European and global markets, and incorporate them into the supply chains of companies from the EU, the USA, Japan and other countries significantly actualize the need to increase the awareness among domestic companies about responsible business conduct standards outlined in the UNDP Guidelines on business and human rights, the OECD

Guidelines for Multinational Enterprises and other relevant documents. In addition, crucial aspects involve implementation by domestic companies of relevant corporate policies, human rights and environmental due diligence procedures (corporate sustainability), and mechanisms for access to legal remedies. In addition, responsible business conduct is an important factor in ensuring the return of people who left the country in connection with the beginning of the full-scale Russian invasion of Ukraine, attracting human capital for the reconstruction of Ukraine.

It should also be noted that business behaviour is an important component of the formation of a proper business environment in the country. A business that strives for fair competition, the regulatory environment based on the rule of law, and the absence of corruption has to implement the standards of responsible business conduct – respect for human rights, ensuring labour rights, environmental protection, prevention of corruption – and promote the implementation into their supply chains.

The integration of standards of responsible business conduct is a component of Ukraine's integration into the EU and Ukraine's acquisition of OECD member status.

Therefore, one of the Government's priorities is to support SMEs and stimulate business activity through three key directions of work: improving the regulatory environment, facilitating access to finance and markets, and harmonising Ukrainian legislation and standards with the EU. Each of these areas should include such an end-to-end component as standards of responsible business conduct.

Ukraine's recovery must play an important role in transforming the existing economic system to reach the goals of sustainable, inclusive and equitable human-centred development. At the same time, the recovery process should ensure transparency, access to information and participation in decision-making, accountability and responsible behaviour of those on whom the daily life of people - employees, residents of territorial communities, consumers.

Ukraine will continue to align the regulatory framework with EU requirements in key areas, including those that significantly improve the governance system and those that can contribute to growth through expanding exports or moving up the value chain. This includes reforming the integration with the EU, as well as adopting EU-style investment programs, ensuring transparent and fair support. Moreover, the Government must focus on the development of financial instruments by strengthening their focus on the manufacturing sectors of industry and balancing their action together with fiscal instruments that are implemented through the selected mechanisms of industrial parks and industrial clusters. Working on these two priorities will also contribute to transparent and inclusive support and access to funding.

The legislation and regulatory framework will continue to be revised in order to bring it into line with the EU *acquis* on supporting competition and the development of micro, small and medium-sized entrepreneurs, ensuring gender equality and social inclusion, implementing green and environmentally friendly technologies, ensuring the efficient use of natural resources and other principles of sustainable development.

In the iron and steel sector, targeted public investment combined with policy reforms could allow the private sector to rebuild, modernise and decarbonize the sector and build out green iron and steel and related clean energy and hydrogen value chains in Ukraine.

To preserve the scientific base of Ukraine, to reverse the brain drain, and create an environment conducive to competitive research and innovation for sustainable, tech-driven economic growth, the Government will establish a dedicated office to support the development and implementation of research and innovation (R&I) policies, including strategies to enhance collaboration between industry and academia. The Government will revise the roadmap for integration into the European Research Area and resume the implementation of the recommendations of the 2016 Horizon Europe Policy Support Facility. It will further develop a framework for better research careers with the focus on salary grids and effective research assessment.

The 5-7-9% programme will be reformed to target small and medium enterprises by phasing out the eligibility of large companies, enhance monitoring, and maintain adequate safeguards.

The system of public procurement will be further improved with a view to its alignment with the EU *acquis* to ensure transparent and competitive procurement, including for the reconstruction of Ukraine in the post-war period, enabling its use for externally-financed projects. This can also be achieved through the development of standard terms and conditions of contract and procurement documents and shift towards e-contracting for reconstruction, working towards market development and sustainable public procurement.

2.1 Reforms to be pursued under the Pillar I of the Ukraine Facility

Reform 1. Improved regulatory environment

State of play and context: Ukraine conducted the first round of deregulation reforms in 2016 with an identification and abolition of old legal acts, and a new intensive review in 2023 under the EU macro-financial assistance program. Since the beginning of 2023, the Interdepartmental Working Group on Deregulation has been reviewing more than 1,000 regulatory instruments, permits, certificates, and licences required by entrepreneurs in different situations. The goal is to cancel as many unnecessary regulatory instruments as possible, to digitise and simplify procedures, making it easier and less costly for businesses to operate. In parallel, work has been ongoing in relation to more SME friendly public procurement reforms and transforming state supervision into a more transparent and preventive system.

Description of the reform: The reform aims to update and implement the plan of measures for the deregulation of economic activity based on the decisions of the Interdepartmental Working Group on Deregulation. The plan will review business regulations with a view to simplify and digitise procedures. The Interdepartmental Working Group on Deregulation will take measures to abolish overlapping regulations or will propose amendments to legal acts with a view to simplify administrative procedures. The process will include measures for ensuring due consultations with concerned businesses and business associations, as well as civil society organisations, trade unions, academia and stakeholders whose rights may be affected by deregulation. The process will also take due account of provisions of the EU environmental *acquis* by ensuring that deregulation process will not affect the implementation of Ukraine`s commitments on environment and will provide for recovery and reconstruction on ‘build back better’ principle.

It is also envisaged to prevent unjustified interference by law enforcement agencies in entrepreneurial activities, including by ensuring transparent personnel policies of the Economic Security Bureau (ESBU) (developing an open, transparent and competitive process for selection of Director, management and staff; strengthening requirements for the selection commission; introducing a contract system for employees; developing a mechanism of attestation of staff).

The measures for improving the regulatory environment will include:

1. Updating and implementing an Action Plan for deregulating economic activities based on the decisions of the Interdepartmental Working Group on Deregulation. This will involve issuing a Cabinet of Ministers Resolution for the approval of the Action Plan and development and approval of regulatory acts according to the Action Plan for the optimisation and digitalisation of regulations in various sectors, including agriculture, construction, transportation, energy, environmental protection, public health, as well as in

horizontal policy areas such as permitting systems, licensing, digitalisation, state supervision (control). The legislation accompanying the Action Plan will also pave the way for a change of the punitive and repressive model of state supervision (control) towards a preventive model (risk-oriented approach) with a reduced number of inspections and control functions.

2. Implementing legislation that deregulates and simplifies business conditions focuses on the following areas: digitization of permit and licence procedures through the implementation of an experimental project on the introduction of the Unified State Electronic System of Permit Documents, reduction of business inspections by introducing voluntary insurance and audit, settlement of the issue of legal succession of permit documents and licences in case of change in the organisational and legal form of a business entity.

Potential impact of the reform: Successful implementation of the plan of measures for the deregulation of economic activity will boost economic activity by reducing the bureaucratic burden for new businesses entering the market. This will stimulate the establishment process, fostering improved innovation and growth that directly benefits consumers. Companies will experience reduced operational costs associated with meeting restrictions and complying with regulations due to deregulation. Increased competition will lead to greater investments in research, development, and innovation. While carrying out deregulation reform, it will retain requirements deriving from the approximation of the Ukrainian legislation to the EU *acquis* on environment, including requirements related to Environment Impact Assessment, ensuring respect to consumer and Intellectual Property Rights.

Reform 2. Reboot of the Economic Security Bureau

State of play and context: The Economic Security Bureau is the central body of executive power that performs law enforcement, analytical, economic, information and other functions. The growing importance of strengthening compliance controls and detecting financial and economic crimes implies a need to bolster analytical capacity to protect public finances, identify tax evasion and combat offences affecting the functioning of the state economy.

This reform corresponds to one of the EC recommendations to the subsection ‘Fight against organised crime’ of the Chapter 24 ‘Justice, freedom and security’, in particular enact legislation enabling a competitive, transparent and merit-based selection, including a credible integrity check, of the new Head of the Economic Security Bureau and other staff and carry out the selections based on the improved legislation, introduce a strong integrity and accountability framework within the Bureau and start applying it’.

This reform also takes into account the proposals received from civil society organisations during the Ministry of Economy's organised solicitation of proposals to the Plan, which lasted from 31 October 2023 to 06 November 2023, namely in relation to the adoption of legislation on rebooting the ESBU by conducting transparent competitions with the decisive vote of international experts, as well as re-attestation of all personnel.

Description of the reform: The reform aims to relaunch and reinvigorate the ESBU through the provision of a clear mandate, scope for investigative powers, and adequate and competent staffing. This will be achieved primarily through new legislation aiming to establish a legal basis for the operation of the ESBU in order to (i) develop an open, transparent and competitive process for selection of management and staff; selection of the new head on merit-based procedure defined by law; (ii) strengthen requirements for the selection commission; (iii) introduce a contract system for employees; and (iv) develop a mechanism of attestation of staff.

The reform will also ensure legislative regulation for the overhaul of the ESBU and the removal of competition in ESBU's jurisdiction in relation to other pre-trial investigation authorities. The ESBU's activities should be focused on major economic crimes and strengthening its analytical capacity, while ensuring the capacity of the State Tax Service and the State Customs Service and the State Customs Service to effectively address violations in the tax and customs spheres. This will be achieved by enacting a law amending the Law of Ukraine ‘On the Economic Security Bureau of Ukraine’ regarding the overhaul of the ESBU through the establishment of transparent personnel policies.

Potential impact of the reform: An empowered and effective ESBU will complement NABU in the efforts to take the national economy out of the shadows, protect public finances, create equal competitive conditions for businesses, and pave the way for integration into the European economic space. Enhancing the functioning and efficiency of the ESBU is crucial to improve the fight against economic crime and it enables better coordination and cooperation with similar agencies of the EU Member States, and other countries.

Reform 3. Access to finance and markets. Implementation of stimulus and financing programs for small and medium enterprises (SMEs)

State of play and context: To establish the strategic framework for SMEs in accordance with the principles of the Small Business Act for Europe (SBA), it is proposed to update the SME Development Strategy in Ukraine and the associated Action Plan. These updates will aim to ensure the sustainability of institutional and regulatory policy frameworks for SMEs, strengthen efforts to simplify market access tools, promote a level playing field for SMEs while removing barriers to their access to financing. Additionally, optimising support for greening and internationalising SMEs and providing a range of business development services will help enhance the competitiveness of the Ukrainian economy and attract investments in products with higher added value and capital intensity.

The rapid and sustainable recovery of Ukraine will be impossible without the integration of Ukrainian producers into international value chains. According to Harvard's Growth Lab Economic Complexity Atlas, the ‘complexity’ of Ukrainian exports significantly lags that of developed countries and most developing countries.

To address this situation, Ukrainian manufacturers (especially SMEs) must have access to financial resources, knowledge and information about the markets of importing countries, and be able to comply with non-tariff requirements.

For this purpose, it is important to ensure the efficient functioning of state infrastructure supporting small and medium-sized enterprises (SME). This could include grant support programs for businesses, including the eRobota Government program, enhancing the capacity of domestic exporters, establishing effective state programs for accessible SME loans, promoting entrepreneurial education, and more. A comprehensive response on tackling bottlenecks for access to finance for SMEs will be established following the study identifying and reviewing key obstacles.

Additionally, given the existing security situation, there is a need to introduce insurance instruments against war risks. To enhance SME access to domestic markets, simplifying SME access to government procurement is necessary.

Transitioning to higher value-added production will be extremely difficult without foreign direct investment. From this perspective, aside from improving the overall business climate (ensuring the rule of law, simplifying regulations), incentives for investors should also be implemented. Special focus should be given to financing innovation in conjunction with educational reform, support for the manufacturing sector, establishing industrial parks to facilitate return of businesses, and addressing issues related to connecting to engineering networks as well as providing adequate regulation for emerging sectors.

Description of the reform: While Ukraine's SME Strategy and Action Plan expired in 2020, it had set the strategic framework for SMEs in alignment with the Small Business Act (SBA) principles. Work on updating the strategy will aim to ensure the sustainability of the institutional and regulatory framework for SME policy, step up deregulation efforts, and help move towards a level-playing field for SMEs while also addressing the bottlenecks for access to finance to SMEs. In addition, streamlining support for SME greening and internationalisation, and providing a range of business development services will help improve the competitiveness of the Ukrainian economy and attract investments in higher value-added and capital-intensive products. A key element in ensuring the maximum effectiveness of the SME strategy and the associated Action Plan will be the establishment of a results-based approach. This will include adequate measures to assess and learn from the results of delivered products and services as well as mechanisms to ensure the adaptation of the strategy and action steps to the lessons learned.

To create effective state programs of affordable finance to SMEs a complex approach will be developed upon identification of key bottlenecks for access to financing, loans, grants, and improve market access.

Measures to facilitate access to finance and markets will include:

1) The development and adoption of the SME Strategy in Ukraine are aimed at addressing medium- and long-term priorities for the development of SMEs and improving the business environment and access to financing for SMEs. This includes simplifying regulations, implementing consultation mechanisms with businesses, facilitating procurement for SMEs, promoting green practices and digitization for SMEs, fostering entrepreneurship, encouraging exports, and integrating responsible business conduct standards.
2) The approval of the Action Plan for implementing the SME Strategy will encompass various measures, such as:
    - Ensuring the implementation of grant programs to support businesses, including eRobota, which provides non-repayable financial support for launching new or expanding existing businesses (microgrants), developing horticulture, berries, and viticulture, as well as processing enterprises;
    - Blended finance and de-risking programs with IFIs;
    - Creating or developing greenhouse farming;
    - Establishing and developing processing enterprises;
    - Implementing the 'Affordable Loans 5-7-9%' program;
    - Strengthening the potential of domestic exporters;
    - Supporting women's entrepreneurship by ensuring that women-owned SMEs have equal access to grants, information campaigns to promote role models of women in business and supporting women's business associations;
    - Strengthening the competitiveness of SMEs by ensuring compliance with the standards of responsible business conduct in their activities.
3) Support will be provided for the introduction of industrial parks as a tool for attracting investments in the de-occupied areas by adoption of the resolution of the Cabinet of Ministers on approving the procedure for using budget program funds.
4) Rapid access to utility networks (including electricity grid) will be ensured for companies by adoption of a Law of Ukraine on Amendments to Certain Legislative Acts of Ukraine on the Settlement of Certain Issues Regarding Joining Engineering Networks.

5) Alignment of national legislation in the field of public procurement, including concessions and public-private partnerships, with the EU *acquis*. Delimitation of procurement regulation that is not directly related to military needs carried out by customers in the sphere of security and defence. Enhancement of the e-procurement system, that includes development of e-contracting in the Prozorro system, and operational interoperability with DREAM and other state IT systems if applicable.
6) Support will be provided to companies in their implementation of corporate sustainability standards (due diligence in the spheres of human rights and the environment, standards of responsible business conduct) by preparing proposals, recommendations, clarifications and conducting awareness-raising activities.

Potential impact of the reform: Articulation of the policy measures and resources for SME development and implementation of an updated SME strategy will lead to better business environment and investment climate through concentration of resources allocated for green and digital transition of SMEs, better mechanisms for consultations with businesses, addressing bottlenecks for access to finance, SME friendly procurement, increased measures for entrepreneurship and export promotion.

The implementation of the grant support program for businesses, in particular the program eRobota and ensuring the settlement of issues of joining engineering networks will allow companies to relaunch their operations faster and will facilitate new investments. Implementation of grant support programme and swift access to engineering networks, special measures in the form of industrial parks for de-occupied areas will also help to expand industrial production and unlock access to financing of foreign trade operations. This will further strengthen the capacity of domestic exporters. Support for the introduction of industrial parks for de-occupied areas will stimulate the transition to the production of goods with greater added value and will be an additional incentive for attracting foreign direct investment.

The implementation of the standards of corporate sustainability (due diligence in the field of human rights and the environment, standards of responsible business conduct) by domestic companies will simplify their access to the EU markets, increase their competitiveness in interaction with European companies.

Reform 4. Improved public procurement

State of play and context: Ukraine’s public procurement system has undergone significant changes since the enactment of Ukraine’s first Law ‘On Procurement of Goods, Works, and Services for Public Funds’ in February 2000. The Law led to an increase in the use of Open Tendering in public tenders and competitive bidding, resulting in significant savings. These savings have been further increased with the introduction of the ProZorro procurement system that has further increased competition and transparency in public procurement processes. The business community is an important stakeholder in the public procurement system and the aim of increasing competition and savings. This means the business community’s understanding of policies, rules and procedures is critical to increased participation in public procurement and in achieving savings.

Description of the reform: Despite the significant achievements already made , Ukraine’s public procurement system is confronted with several challenges. These challenges include the need to enhance the legislative framework, refine procurement procedures and practices, foster increased competition, combat procurement-related corruption, enhance the competencies and professional qualifications of staff in procuring entities, integrate sustainability criteria, and, perhaps most importantly, increase the alignment of Ukraine’s procurement system, procedures and practices with those of the EU. The procurement reforms over the plan period will address these aspects and are expected to result in alignment with the EU *acquis*, including, but not limited to, concessions on public-private partnerships, as well as increased participation of domestic enterprises in public procurement processes. The public procurement reform will also target to observe gender equality requirements in public procurement (notably, in line with Regulation the European Parliament and of the Council 2018/1046) and to ensure a procurement of goods, services and works with a reduced environmental impact throughout their life cycle and will aim to get closer to the EU green procurement practices as also referred to in Chapter 15 of the document. In addition, the public procurement reform will enable such entities as veteran-owned enterprises and enterprises of people with disabilities to participate in procurement on special terms.

Potential impact of the reform: Increased clarity and a set of transparent rules and regulations for the implementation of Public Procurement Laws as well as standard bidding documents for use by procuring entities is expected to lead to increased participation of Ukrainian enterprises in procurement processes and significant savings during Ukraine's reconstruction process. In the longer term, a public procurement system that is aligned with the EU *acquis* will facilitate further increased competition and better value for money. Increased alignment with EU's green procurement practices will help, to the extent possible in a context of war or post-war recovery and reconstruction, mitigate climate changes, prevent pollution, and promote a circular economy.

Reform 5. Harmonisation of legislation and standards with the EU

State of play and context: Adoption of European standards in Ukraine will contribute to harmonising and improving the business environment. Deepening cooperation between Ukraine and the EU in the business sector can also be achieved through Ukraine's participation in the EU's single market Programme, aimed at providing financial assistance to simplifying market access, create a favourable business environment, business development, and ensure competitiveness of companies and economic sectors.

The EU-Ukraine DCFTA foresees the possibility of the conclusion of an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA). Such an agreement would 'provide that trade between the Parties in goods in the sectors that it covers shall take place under the same conditions as those applying to trade in such goods between the Member States of the European Union.' This requires Ukraine's full alignment with the relevant horizontal and sectoral EU *acquis*.

In 2019, the EU and Ukraine launched the process leading towards negotiations of an ACAA for three 'sectors': machinery, electromagnetic compatibility of equipment, low voltage electrical equipment. In the last three years, the EU has conducted a number of pre-assessment missions to support Ukraine in its alignment with the relevant EU *acquis* and practices. It is a priority for Ukraine to implement the recommendations from these pre-assessment missions in order to proceed with the ACAA process.

The expansion of cooperation through measures that will lead to the signing of the ACAA is significant. The ongoing efforts aim to bring national quality infrastructure in line with EU practice, including alignment of all legislation. Once in force an ACAA will multiply business opportunities in both directions; easing access for Ukrainian businesses to the EU single market as well as an increased presence of EU companies in the Ukrainian market. Application of harmonised standards and strong conformity assessment and market surveillance practice will increase product safety and contribute to consumer protection.

Harmonising national legislation with EU intellectual property legislation is an important aspect for both integration into the European Union and the development of the domestic market. Intellectual property is a key tool to create favourable conditions for innovation, invention, creative activity, free competition, creative industries, strengthening scientific potential, leading to increased investment attractiveness of Ukraine, and expanding the spectrum of high-tech production. A dedicated Intellectual Property Rights (IPR) strategy is necessary to ensure alignment with EU *acquis*. This is of particular importance when it comes to IPRs critical for growth and FDI (such as patents, trade secrets), setting up a specialised intellectual property court (judges should also be particularly trained in enforcement for IPR that is critical for FDI), and for measures for continuously improving the track record when it comes to enforcement.

Despite achieving a certain level of readiness in consumer rights protection, special attention is needed to ensure alignment of Ukraine's consumer protection legislation at all levels with the EU *acquis* and for ensuring its proper implementation. In this context, implementation of an eco-labeling system that defines the requirements for manufacturers to inform consumers about the environmental characteristics of goods, services and construction projects will be important.

Description of the reform: The following key measures will be carried out to advance alignment and harmonisation of legislation with EU standards:

- Resumption of market surveillance measures and control of non-food products, including product safety inspection by the adoption and entry into force of the relevant legal act.
- The adoption and translation of European harmonised standards with a focus on the standards relevant for the restoration and development of Ukraine and sectors covered by ACAA (machinery, electromagnetic compatibility of equipment, low-voltage electrical equipment) as well as providing information on their adoption for economic operators will be carried out.
- Approximation with the EU ecomanagement and audit regulations, including for state owned enterprises (see also CHAPTER 15. GREEN TRANSITION AND ENVIRONMENTAL PROTECTION).

Potential impact of the reform: Implementation of the recommendations of 7 pre-assessment reports will lead to launching the negotiations of an ACAA Agreement providing unhindered access to the European market for the 3 groups of industrial products. Accession to ACAA will boost exports, facilitate investments in the relevant areas as well as pave the way for additional groups of products to obtain similar treatment upon completion of relevant assessments and conclusion of agreements. The increased harmonisation of legislation and standards with the EU will, to the extent possible in a context of war or post-war recovery and reconstruction, facilitate increased compliance with all the principles of the 'do no significant harm' concept. Examples include eco-labeling and approximation with the EU ecomanagement and audit regulations, including for state owned enterprises.

Reform 6. Addressing late payment

State of play and context: The timely payment of goods and services procured by governments plays an important role in keeping the economy working properly and for ensuring that businesses remain solvent. In the current situation, it is critical to successful economic recovery that especially SMEs whose products and services have been acquired are paid on time. The Late Payment Directive is the most relevant piece of law for EU SME policy, and it is a central piece of the single market *acquis*. Alignment with the EU late payment directive will add protection to businesses, especially SMEs from late payments for goods and services putting time requirements on payments for state and private operators. In September 2023, the Commission adopted a Proposal for a regulation on combating late payment in commercial transactions, which will be a new piece of EU *acquis* that Ukraine should align to.

Description of the reform: Alignment with the EU Directive on late payment in commercial transactions will take place by amendment of relevant legislation incorporating provision of the directive.

Potential impact of the reform: Alignment with the EU Directive on late payment in commercial transactions will add protection to businesses. This will add confidence in the business environment and investment climate.

3. Overall investment needs and opportunities in 2024-2027

State of play and context: Russia's invasion of Ukraine in February 2022 dealt a severe blow to infrastructure and businesses.

As a result of the invasion, the total recovery and rehabilitation needs for productive and infrastructure sectors according to RDNA3 reached EUR 258.2 billion, of which 2024 needs are EUR 12 billion:

- The productive and infrastructure sectors suffered enormous damage and losses as a result of the full-scale invasion. At the beginning of 2024, the damage of these sectors were estimated at EUR 74 billion, while losses (lost output and additional expenses) were higher – EUR 330.5 billion;
- Productive sector needs EUR 123.8 billion for reconstruction and recovery (EUR 5.7 billion for 2024), and infrastructure sectors need even more – EUR 134 billion (EUR 6.2 billion for 2024);
- Reconstruction and recovery needs in industry, services and commerce are EUR 61.1 billion (EUR 5.2 billion for 2024);
- Total needs in agriculture amount to EUR 50.8 billion (EUR 0.4 billion for 2024);
- Total reconstruction and recovery needs in the transport sector were estimated at EUR 66.8 billion (EUR 2.1 billion for 2024);
- Needs in the energy sector are estimated at EUR 42.7 billion (EUR 2.4 billion for 2024);
- Of the total amount of needs for productive and infrastructure sectors, reconstruction needs are EUR 153.8 billion, recovery needs are EUR 104.5 billion;
- Of the total amount of needs, the needs of SMEs are EUR 106 billion.

As a result, Ukraine is now facing a critical imperative for reconstructing damaged businesses, requiring substantial investments for modernization and establishing entirely new enterprises. The need for an overall improvement in the business environment, including policy enhancements, particularly in public administration, is evident.

Comprehensive reform initiatives across various sectors, detailed in this and other sections of this document, are expected to contribute significantly to sustainable improvements in the overall business landscape. Ukraine is actively investing in rebuilding its research infrastructure to facilitate the return of the scientific workforce, foster innovation, and develop technologies for enhanced productivity and business growth. A collaborative roadmap with scientific and innovation communities will guide these strategic investments, emphasising the strengthening of the national research and innovation (R&I) system through competitive funding, notably via the National Research Foundation.

At the industry and enterprise levels, modernization is crucial, especially for entities deciding between investing to stay competitive in the European single market or facing potential losses to competition. While heavy industries require substantial long-term investments, Small and Medium-sized Enterprises (SMEs) have shown resilience. However, immediate challenges like a labour shortage and restricted access to financing hinder SMEs' increased business activity. Addressing these challenges is paramount to prevent SMEs from being forced to choose between wage increases and investments crucial for growth.

Recognizing this imperative, the Ukraine Plan includes strategic initiatives to expand and upgrade the labour force while facilitating improved access to financing. The overarching strategy emphasises Ukraine's commitment to developing and modernising its industrial sector and addressing the specific investment needs of Ukrainian businesses. Targeted policy measures and incentive programs are introduced to attract more investments to SMEs, fostering a conducive environment for economic growth and ensuring Ukraine's competitiveness regionally and globally.

Investment needs and opportunities in 2024-2027

Given the critical imperative for rapid economic recovery from 2024 to 2027, fulfilling the investment needs of Ukrainian businesses is of utmost importance. We believe that achieving this goal involves restoring businesses capable of immediate operation, swiftly contributing to economic resurgence, irrespective of the ongoing war's resolution. This strategy is designed to align with current macroeconomic requirements, encompass war-related considerations (addressing demining initiatives is essential for creating safe economic environments), and incorporate investment potential as key criteria for strategic decision-making.

This will encompass lower-risk projects currently seeking investment, particularly those in proximity to Ukraine's western border and with smaller ticket sizes covered by war insurance. Examples include projects in the construction value chain, logistics and energy infrastructure, and agricultural processing.

Additionally, there are structurally attractive, higher-risk projects — long-term initiatives requiring substantial investment, dependent on inland resources, critical raw materials, or reliant on large-scale electric power generation.

By adhering to these principles, Ukraine can strategically prioritise investments to facilitate rapid economic recovery, enhance national security, and lay the foundation for sustained growth in the years to come. Sectors that will benefit them most include: Agro-industrial complex, Energy, Transport and Logistics, Critical Materials, IT and sectors with high added value in the processing industry such as mechanical engineering, green metallurgy, pharmaceuticals, agrochemicals, building materials, wood processing etc.

It is also important to support small and micro enterprises as a cross-sectoral approach to creating jobs and ensuring self-employment of Ukrainians, with a focus on supporting entrepreneurship among women and socially vulnerable categories.

Alongside the strategically important sectors - the agricultural sector, transportation, energy, and critical materials described in chapters (CHAPTER 10. ENERGY, CHAPTER 11. TRANSPORTATION, CHAPTER 12. AGRIFOOD SECTOR, CHAPTER 13. MANAGEMENT OF CRITICALLY IMPORTANT MATERIALS), this chapter focuses on strengthening financial incentive programs for businesses overall, with a particular emphasis on SMEs. It also outlines investment opportunities for key processing industries.

Financing Incentive Programs

Current Financing Landscape: Ukrainian businesses rely on two primary sources of financing: loans from domestic banks, totaling EUR 76.4 billion issued since March 2022 (including refinancing of existing debt programs, hence the net inflow of financing is significantly lower), and funding from International Financial

Institutions (IFIs) for the private sector, amounting to EUR 4.5 billion during the same period. It's noteworthy that IFIs can indirectly finance Ukrainian businesses through local banks, as evident in the ‘Affordable Loans 5-7-9%’ program with IFI participation.

While Ukrainian banks contribute significantly, they encounter limitations in providing independent, long-term financing at favourable rates, crucial for successful investment projects. As of January 2024, the weighted average lending rates for non-financial corporations stand at 17.3%, with rates varying for enterprises of different sizes. Small enterprises, in particular, face a rate of 20.3%.

IFIs operating in Ukraine offer the advantage of providing business financing at lower interest rates. Also, a low interest rate is expected for financing, which will be attracted from Pillar II of the EU program supporting the Ukrainian economy from 2024 to 2027.

IFIs primarily engaged with large companies, both public and private. They operate through targeted support programs based on sector or enterprise size, covering areas like trade facilitation, municipalities and critical infrastructure, and SME support. However, a portion of this financing is allocated to refinancing existing loans and also trade finance (off-balance sheet exposures), limiting funds available for new projects.

Therefore, there is a pressing need to increase and extend support to medium-sized businesses and strategic sectors. Business recovery, especially for small and medium-sized enterprises, relies on improving access to finance and markets. This involves implementing incentive and financing programs with a focus on industry with greater added value, supporting businesses in high military risk areas and de-occupied territories. Simultaneously, it is expected that access to finance and markets will incentivize businesses to adhere to responsible business conduct standards.

Enhancing Financing Programs can be divided into three main categories: introducing financial incentive programs to facilitate the attraction of new investments, improving regulation to enhance the business environment for both domestic and international companies, fostering relationships with international companies, and simultaneously developing risk reduction instruments in collaboration with international financial institutions and foreign governments to make financing more economically viable for an increasing number of international investors.

1. Provision of Grants and Preferential Loans:
   - Increase grants and/or access to preferential loans for viable companies, particularly SMEs, to facilitate relocation, essential repairs, equipment replacement or purchase, acquisition of raw materials, software, and salary payments, with ensuring gender balance among the recipients of grants/preferential loans.
   - Provide grant support for affected micro-entrepreneurs.

2. Supportive Financing Programs:
   - Implement the ‘eRobota’ Business Support Grant Program.
   - Allocate funds for continuous financing under the ‘Affordable Loans 5-7-9%’ program and grants for business creation or development.
   - Stimulate the market for construction services and the production of construction materials in Ukraine, providing Ukrainians with affordable housing through mortgage loans at low-interest rates –‘eOselya’.

- Introduce specialised initiatives for SMEs operating in de-occupied regions and areas with a high risk of shelling.
- Introduce specialised financing initiatives for industrial parks to facilitate the return of businesses, addressing compensation for interest rates, compensation for connection to engineering networks, and implementing a special tax regime.
- Support domestic demand for local goods and services.
- Finance programs to stimulate the recovery and development of exports (support for export-oriented enterprises).
- Facilitate joint ventures to assist Ukrainian businesses in establishing robust market positions, accessing the necessary expertise for growth, participating in international exhibitions, and procuring specialised expert advisory services.
- Provide support to firms seeking to enter new markets by offering tools to meet international standards, streamline customs procedures, facilitate international partnerships and knowledge exchange, and broaden the accessibility of trade finance and insurance instruments.
- Streamline business regulations and tax requirements to make it easier to start and restart

3. Increase and diversify IFI Financing Programs:
   - Expand IFI financing programs to cover a diverse range of companies and project sizes, including direct financing for large and medium-sized companies and financing through Ukrainian banks for medium, small, and micro-enterprises. Increase funding for SME support projects with distribution aligned to sector-specific limits, promoting a wider range of sectors (production of goods - food products and beverages, light industry, oil refining, chemicals, pharmaceuticals, green metallurgy and metal processing, non-metallic products, machinery, furniture, woodworking, etc.; service sector - creative industries, sports, education, logistics, and other services), with ensuring gender balance among the beneficiaries of financing programs.

4. Development of Investment Project Financing:
   - Introduce project financing for both Greenfield and Brownfield projects, encouraging the development of new businesses and the enhancement of existing ones. Increase the involvement of IFIs in project financing agreements in Ukraine.
   - Initiate and co-fund feasibility study funding programs to meet business needs in the early stages of implementing investment projects, supporting them in research, technology selection, and investment evaluation of projects to determine the potential success of their ventures.

5. Introduce an accessible war insurance mechanism to aid Ukrainian businesses in reducing the risks of destruction or loss of property due to hostilities. Despite ongoing efforts to revitalise the insurance market, there is a need to bridge the gap in meeting the demand for war risk coverage and expand existing risk coverage instruments.
   - Political Risk Insurance (PRI) is a vital component in encouraging private investment in Ukraine. However, since the invasion, private insurers have hesitated to offer PRI due to heightened risks. It is essential to broaden existing programs provided by the Multilateral Investment Guarantee Agency (MIGA) and U.S. Development Financial Corporation (DFC), leveraging donor funding to implement effective de-risking mechanisms, such as a first-loss layer. This would absorb a portion of the risk, enabling MIGA to offer affordable yet risk-sensitive PRI premiums. However, there is a need to open the market and invite private reinsurance.
   - Expand and introduce property insurance and freight insurance programs specifically designed to cover war risks for new investment and for existing business.

- The establishment of a Commercial Reinsurance Fund can enhance the resilience of businesses by providing an additional layer of financial protection against war-related perils.
- Export Credit Agencies (ECAs) can play a significant role in supporting insurance programs against war risks. By collaborating with ECAs, businesses can access specialised insurance solutions that mitigate the impact of geopolitical uncertainties on international trade and investments.

By addressing these key areas, Ukraine can strategically position itself for economic recovery, fostering the growth and resilience of its businesses.

Description of the investment opportunities for key processing industries

Global trends in economics and geopolitics are creating conditions for increased investment attraction in Ukraine's economy, the development of processing industries, and the integration of Ukrainian producers into global value chains:

- Green transition – renewable energy, hydrogen, electrification, energy-saving technologies, industrial green transition, and economic decarbonization, etc.;
- Nearshoring and friendshoring (inc. automotive components, electronics, food products, etc.);
- Diversification of supply chains (reducing dependence on dominant suppliers in energy, critical materials, metals, etc.).

Ukraine needs to strive for improving its trade balance by reducing dependence on imported goods and developing competitive export by increasing the domestic production of critical goods, including food and dairy products, light petroleum products, building materials, complex mineral fertilisers and plant protection products, transport and its complementary equipment, energy, heavy industrial and construction equipment, wooden products, and other products with high value added after processing. Before the full-scale war, the greater part of some of these products was imported from foreign countries, including Russia and Belarus.

Ukraine has great potential for building a wide range of processing industry enterprises that will satisfy Ukraine's domestic demand during hostilities and during the implementation of reconstruction projects, thereby reducing Ukraine's dependence on imports and improving the country's trade balance. Moreover, the country possesses competitive advantages for such manufacturing and processing development, including abundant raw material base, substantial domestic demand currently met by imports, a significant need for reconstruction building materials, and proximity to the European Union market facilitated by the DCFTA.

Potential for private investments is particularly high in the following areas:

Green steel production

Investment opportunities in Ukraine's metallurgy sector are primarily linked to the European steel industry decarbonization efforts. European steel players seeking to decarbonize their operations in a cost-efficient manner are likely to be key consumers of Ukraine's pellets (BF and DF grade) and future green Direct Reduced Iron (DRI). Additionally, investment prospects are tied to Ukraine's reconstruction needs, with steel supply being crucial for reconstruction efforts. These opportunities are founded on Ukraine's long-term competitive advantages, including cost-competitive clean energy potential, high-quality magnetite iron ores, and an existing industrial and infrastructure base.

Ukrainian ores have the potential to meet requirements for DR-grade quality products due to very low on alumina and phosphorus which makes them a better alternative to Brazilian and Swedish ores which are widely used by the EU steel sector. Moreover, Ukraine aims to launch green metallurgy production and become a competitive exporter to the EU market due to high-quality low-cost iron ore, high potential for competitive zero-carbon energy production, logistical proximity to Europe and competitive labour resource.

Investment opportunities include the development and modernization of existing ore extracting, beneficiation and pelletization facilities, construction of electric arc furnaces, DRI and HBI facilities, producing green iron and steel, manufacturing of various finished steel products (plates, hot and cold-rolled coils, coated steel, rails, beams and more).

The application of the ‘do no significant harm’ principle will, to the extent possible in a context of war or post-war recovery and reconstruction, help mitigate climate changes in these investments and help identify measures to prevent pollution and protect water resources. Any negative impacts of activities such as production and processing, including any potential light petroleum products, will be duly mitigated to the extent possible in a context of war or post-war recovery and reconstruction. In case these activities are of a larger scale, Ukraine will put in place offsetting measures such as investments in increasing the area of the national forest fund, developing electric transportation (automobile, railway, urban, etc.) and infrastructure necessary for private electric transportation, investments in renewable energy sources (wind, solar, and biofuels), as well as advancing technologies for capturing and storing greenhouse gases.

Machine building

Ukraine heavily relied on imported machinery, impacting the machine-building industry. The war exacerbated this challenge, affecting demand, sales, and production capabilities. To increase the complexity of the economy and boost the share of high-value-added production. Ukraine needs to develop its machinery industry and establish economic ties with international companies. Ukraine must establish production for diverse machinery types, including energy, industrial, transport, construction, and agricultural equipment and crucial equipment for other industries as well. The country has the economic and technical potential for this localization, crucial for sustaining a competitive, export-oriented economy and balanced regional growth while reducing dependence on foreign producers.

Investment opportunities implies both the construction of small and large-scale production sites that should be meticulously planned and strategically located in proximity to key logistical routes and manufacturing centres within Ukraine, as well as the modernization and conversion of existing ones. Such domestic production will stimulate employment and boost economic growth within not only the specific region but in the whole national economy.

Products from critical materials (align with the Investment part in CHAPTER 13. MANAGEMENT OF CRITICAL RAW MATERIALS)

Deposits of 22 out of the EU’s 34 critical minerals are concentrated in Ukraine. Our country is among the top 10 producing countries for titanium, zirconium, graphite, and manganese, and also has proven reserves of lithium, beryllium, rare earth elements, nickel, required to meet Europe’s growing consumption for green energy and innovative technology and hence proposing a wide range of mining investment opportunities. Ukraine has a developed mining complex as a base for the development of mining and processing of critical materials, which pre-war generated over 6% of Ukraine’s GDP. Also, Ukraine historically has a powerful engineering and technical base and professional personnel for the implementation of complex mining and industrial projects for the extraction and beneficiation of minerals.

The development of production of critical materials and products based on them in Ukraine will enable OECD countries to reduce dependence on major monopolistic suppliers and enhance strategic supply chain security.

Priority investment opportunities include expansion of the raw material base, increased production of all available critical ores, with their further deep processing and production of high value added products (titanium sponge and primary titanium metal fabrication, lithium-ion batteries, nuclear fuel, different types alloys based on rare earth minerals, and more). The allocation of such production complex and supporting facilities, including their economic viability, must be carefully assessed.

Light petroleum products

Ukraine is critically dependent on the import of petroleum products. Before the full-scale invasion, Ukraine was a net importer of petroleum products with Russia and Belarus being the largest suppliers. The energy sector of Ukraine suffered one of the biggest losses from Russian missile strikes. Among them, two existing oil refineries and the infrastructure for storing oil products were destroyed. Additionally, there are four closed oil refineries previously owned by Russian investors. Therefore, it is possible for Ukraine to restore oil refining capacities and build a more stable branched system of production and storage of light petroleum products. Additionally, it is crucial to enhance the oil pipeline system to facilitate the increased trade and transportation of petroleum products.

Investing in the production of petroleum products is essential to attain economic autonomy in this sector, diminishing Ukraine's reliance on imports and bolstering the country's trade balance.

Agrochemistry products (fertilisers, plant protection products)

Ukraine needs to localise the production of essential agrochemicals, including fertilisers and plant protection products. Pre-war, 30% of mineral fertilisers and 90% of plant protection products were imported. To achieve a 40% increase in harvest which is in line with (CHAPTER 12. AGRI-FOOD SECTOR), it's crucial to develop internal production capabilities. The domestic market demand, proximity to energy raw materials, and existing export infrastructure favour agrochemistry production development.

Investment opportunities include restoring damaged nitrogen fertiliser facilities, constructing new plants for testing and patenting fertilisers, and potentially exporting eco-friendly green ammonia to the EU. There's also potential for complexes producing NPK fertilisers, with processing capacity potentially exceeding 4 million tonnes per annum. Investing in modern pesticide production can reduce import dependence, lower costs for farmers, and promote environmentally safe plant protection methods.

Food processing (align with Investment part in CHAPTER 12. AGRI-FOOD SECTOR)

Ukraine has a developed agro-industrial complex, which is a reliable raw material base for the development of agricultural processing and food production. Processing in the agricultural sector will allow to diversify the product line of goods and reduce the impact of limitations in logistics due to the production of higher-margin products. Enhancement of the internal production will not only enable it to meet growing internal demand for processed food products but could even trigger its export to the EU countries.

Investment opportunities include the construction and modernization of dairy factories, meat and egg processing plants, facilities for production of gluten and starch, vegetable oils, animal-protein, biofuels and more. The establishment of local production will generate job opportunities and contribute to economic growth, not only in the particular region but also on the national scale.

Wood processing

Ukraine is developing wood production for the development of the processing industry. The recently established single state forest operator plans to increase wood production from 15 to 25 million m^3 in the next 10 years, while quadrupling afforestation efforts to counteract deforestation and establish new forest areas (forests are expected to expand, covering up to 20% of Ukrainian territory, compared to the current coverage of 15.9%). With wood production increase and enhancement of processing facilities and technology this will increase the wood processing up to 20 million m^3 per annum (compared to 9 million m^3 in 2021). Moreover, Ukraine has certified forest under FSC (Forest Stewardship Council) and sells the raw forest to processors under transparent auctions.

Ukraine aims to allocate more of its resources to maintain an efficient use of wood produced by most of its processing into products with a higher added value such as pulp and paper products, wooden plates, furniture, particle board (chipboard, OSB, MDF and plywood) etc. At the same time, investment in transport logistics near key forest processing centres, including building new ones, is also critical. While the country has sufficient levels of forests, the allocation of the production facilities for these higher added value chain products must be carefully examined.

Construction and production of building materials:

The full-scale invasion resulted in extensive destruction of housing, production facilities, energy infrastructure, social structures, and transportation networks, signalling strong demand for building materials such as sheet glass, bricks, wood, cement and concrete, mixtures, mineral wool for insulation and more in the post-war reconstruction and construction market. Before the war, a substantial portion of raw materials and essential consumables were sourced from Russia and Belarus. The extensive participation of Ukrainian manufacturers in providing building materials for reconstruction could significantly catalyse this process and reduce dependence on imported products.

Investment opportunities involve constructing new facilities for producing diverse building materials crucial for post-war reconstruction, as well as goods in demand on the regular domestic construction market of Ukraine. This investment not only contributes to economic growth but also boosts employment. Strategically distributing these plants across the country can generate jobs and support economic growth in different regions.

Production of energy equipment:

The production of energy equipment, including for renewable energy, is in keeping with the ‘do no significant harm’ principle and will have positive climate change mitigation effects, to the extent possible in a context of war or post-war recovery and reconstruction, however mitigation measures will be needed due to its potential negative impact on pollution prevention and protection of water.

Production of equipment for restoration and modernisation of railway transport

The production of equipment for the restoration and modernisation of railway transport is expected to help mitigate climate change, to the extent possible in a context of war or post-war recovery and reconstruction, though mitigation measures are needed due to the potential negative impact on pollution prevention and water protection.

Other processing industries

Investment opportunities in various processing industries involve both the modernization of existing capacities and the establishment of new ones. These industries (the list is not exhaustive) have the potential not only to meet domestic demand, but also to export part of the manufactured products to other countries. These industries include:

- Textile industry,
- Leather and garment industry,
- Rubber and plastic production,
- Pharmaceuticals,
- Chemical production,
- Other.

Implementing such projects could substantially increase employment nationwide and contribute significantly to the Ukrainian GDP. Corporate lending will be provided through financial intermediaries. Grants will be provided through specialised organisations with appropriate resources and capabilities and through financial intermediaries.

3.1 Investments to be pursued under the Pillar I of the Ukraine Facility

Investment 1. Investments in financial support for micro-enterprises and SMEs

Description of the investment: Report of the Government (or Treasury report) indicating that in the State Budgets for 2024, 2025, 2026, and 2027, the Government budgeted at least EUR 1.75 billion (in UAH equivalent) for financial support for microenterprises, SMEs and especially SME processing entities. This allocation aligns with the new SME Strategy and Action Plan (when adopted) and may include both corporate lending and grants distributed based on transparent criteria. Corporate lending will be channelled through financial intermediaries, while grants will be distributed through dedicated entities with appropriate resources and capacity, as well as through financial intermediaries.

Interim report of the Government (or Treasury report) showing that in the State Budgets for 2024 and 2025 the Government budgeted at least EUR 800 million (in UAH equivalent) for financial support for microenterprises, SMEs and especially SME processing entities. This allocation aligns with the new SME Strategy and Action Plan (when adopted) and may include both corporate lending and grants distributed based on transparent criteria. The corporate lending will be channelled through financial intermediaries, while grants will be distributed through dedicated entities with appropriate resources and capacity, as well as through financial intermediaries.

Potential impact of the investment, according to directions of spending under the budget programs:

- Interest on loans granted to business entities to be partially or fully compensated by the Business Development Fund; Rewards under financial leasing contracts concluded with business entities to be partially compensated by the Entrepreneurship Development Fund; Partial compensation by the Entrepreneurship Development Fund of remuneration under factoring contracts concluded with business entities; Cover the Enterprise Development Fund's expenses as it ensures financial state support to business entities;

  Expected results of spending (for 2024):

  1. 9,000 business entities will be able to attract about EUR 1.75 billion of additional loans, for which the Entrepreneurship Development Fund provides interest rate compensation;

2. 500 business entities will be able to attract around EUR 23.2 million under financial leasing contracts, with the remuneration compensated by the Entrepreneurship Development Fund;
3. More than EUR 48 million of state support in the form of interest rate compensation on loans issued to agricultural producers to be provided;
4. 15 new business entities created during the implementation of the program (the quantitative effect of the program implementation is estimated in terms of additional growth of final consumer spending of the general public administration sector by 0.12 percentage points, gross capital accumulation by 3.57 percentage points and gross domestic product by 0.58 percentage points, respectively).

- Provision of irreversible state aid to business entities in the form of grants for the creation or development of processing enterprises.
  Expected results of spending (for 2024):
  1. the number of entities that will be able to receive grants is 171;
  2. the average size of the grant – EUR 123,200;
  3. the number of potentially created jobs – 3420.

- Provision of irreversible state aid in the form of grants for the creation or development of horticulture, berry growing and viticulture.
  Expected results of spending (for 2024):
  1. the number of entities that will be able to receive grants is 102;
  2. the average amount of the grant – EUR 101,800;
  3. Increase in the area of plantations of fruit and berry crops and grapes compared to the previous year - 2.3%.

- Provision of irreversible state aid in the form of grants for the creation or development of greenhouse farming.
  Expected results of spending (for 2024):
  1. the number of entities that will be able to receive grants is 31;
  2. the average amount of the grant – EUR 121,200;
  3. increase in the area of vegetable crops planted in closed ground compared to the previous year - 16.8%.

4. Coherence with the objectives of the Ukraine Facility

The above-presented reforms are aimed at improving Ukraine’s business environment in the medium-to-long term. As they are progressively implemented, they will make it easier to do business in and with Ukraine due to increased alignment with EU rules, standards, policies, and practices, and simplified, more efficient, interface between businesses and public authorities. By reforming and rebuilding Ukraine’s R&I system, it increases the innovation capacity of Ukrainian SMEs, so they can handle the competitive pressure and market forces within the EU. This in turn will pave the way for increased integration with the EU single market and new business opportunities which will contribute towards the Facility’s general objectives related to economic growth, employment opportunities and a more stable investment environment. As business activity progressively expands, the associated increase in demand for labour is expected to have positive spill-over effects on employment, incomes, and efforts to ensure social cohesion.

Improving the business climate and investment attractiveness of Ukraine will ensure the transition of Ukraine's economy to a more sustainable, less carbon-intensive and less polluting model, and therefore will ensure mitigation of the consequences of climate change and support progress in achieving the Sustainable Development Goals (in particular SDG 9 ‘Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation’, SDG 12 ‘Ensure sustainable consumption and production patterns’ and SDG 13 ‘Take urgent action to combat climate change and its impacts by regulating emissions and promoting developments in renewable energy’, as well as contributing to SDG 7 ‘Ensure access to affordable, reliable, sustainable and modern energy for all’).

Local and regional authorities, social partners and civil society organisations, businesses and business associations were all consulted on the reforms and investments proposed under this chapter and their input was included in the Plan.

5. Table of reforms and investments covered under Pillar I

Reforms and investments	Objectives and growth potential	Corresponding chapters of the EU Enlargement report	Name of the step (quantitative and qualitative steps to implement reforms/investments)	Agency responsible for implementation	Outcome	Timeframe
Reform 1. Improved regulatory environment	Improving the business environment and the conditions for Small and Medium-size Enterprises through the development and implementation of a Strategy and Action Plan, that among other issues will focus on de-regulation, less cumbersome administrative procedures, and improved access to markets	Chapter 3. Right of establishment and freedom to provide services	Adoption of the Action Plan on deregulation	Ministry of Economy, State Regulatory Service, Other central executive authorities	The Order of the Cabinet of Ministers regarding the approval of the Action Plan on deregulation is adopted. The main provisions of the Action Plan: - reduction and digitization of market access regulations - changing the punitive and repressive model of state supervision (control) to a preventive one (risk-oriented approach) - reducing the number of supervisory and control functions	Q3 2024
				Ministry of Economy, State Regulatory Service, Other central executive authorities	Legislation on deregulation and simplification of business conditions has been adopted and is entering into force, which focuses on the following areas: - digitization of permit and licence procedures through the implementation of an experimental project on the introduction of the Unified State Electronic System of Permit Documents; - reduction of business inspections by introducing voluntary insurance and audit; - settlement of the issue of legal succession of permit documents and licences in case of change in the organisational and legal form of a business entity	Q3 2025
Reform 2. Reboot of the Economic Security Bureau (ESBU)	Improved compliance controls and capacity to detect financial and economic crimes, including tax evasion. identifying tax evasion on an arm's length basis. The reform will include new legislation on the ESBU to provide a clear mandate and scope for investigative powers consistent with good practice by focusing on major economic crimes and strengthening its analytical capacity, while ensuring the capacity of the STS and SCS to effectively address violations in the tax and customs spheres	Chapter 24. Justice, freedom and security	Entry into force of the law on revising the legal basis of the Economic Security Bureau	Ministry of Justice, Ministry of Finance, Economic Security Bureau	Law on revising the legal basis of ESBU's activity has been adopted and is entering into force. The new law focuses on the following areas: - developing an open, transparent and competitive process for selection of management and staff, selection of the new head on merit-based procedure defined by law; - strengthening requirements for the selection commission; - introducing a contract system for employees; - defining a clearer scope and a mandate; - developing a mechanism of attestation of staff	Q2 2024

Reform 3. Access to finance and markets. Implementation of Stimulus and Financing Programs for Small and Medium Enterprises (SMEs).	Establishing medium- and long-term priorities for the development of SMEs. This strategy is designed to provide entrepreneurs with access to financing for SMEs, which includes reducing and simplifying regulations, implementing business consultation mechanisms, facilitating SME procurement, encouraging the greening and digitization of SMEs, promoting entrepreneurship, including women's entrepreneurship, and promoting exports, addressing issues related to the accession of engineering networks, as well as support for the creation of industrial parks. These measures will also stimulate the transition to the production of goods with higher added value and serve as an additional incentive for attracting foreign direct investment	Chapter 20 Enterprise and Industrial Policy	Adoption of the SME Strategy and Action Plan for its implementation.	Ministry of Economy, Other central executive authorities	The resolution of the Cabinet of Ministers on approving the SME Strategy and Action Plan for its implementation is adopted and enters into force The strategy focuses on these main areas: - Access to markets; - Access to finance and other resources; - Access to knowledge.	Q2 2025
	Support for the introduction of industrial parks, which will stimulate the transition to the production of goods with higher added value and will be an additional incentive to attract foreign direct investment	—	Entry into force of the legislation on the introduction of industrial parks support	Ministry of Economy, Other central executive authorities	Adoption and entry into force of the resolution of the Cabinet of Ministers on approving the procedure for using budget program funds for the introduction of industrial parks support as a tool for attracting investments in the de-occupied areas.	Q1 2024
			Ensuring settlement of issues for connection to utility networks.	Ministry of Communities, Territories and Infrastructure Development, National Commission for State Regulation of Energy and Public Utilities	The Law on Amendments to Legislative Acts on Simplification of the Accession of Immovable Property to External Engineering Networks and Improvement of Legal Regulation in the Field of Pipeline Transport is adopted by the Parliament and enters into force. The law focuses on these main areas: - open access to information about external engineering networks through public electronic registers if the security situation allows, which will be determined in the relevant provisions of the amendments to the law, as well as a unified procedure for connecting to external engineering networks; - inclusion of information about external engineering networks in public electronic registers of state ownership if the security situation allows, which will be determined in the	Q1 2026

					relevant provisions of the amendments to the law; - inclusion of information on protection zones of external engineering networks in public electronic registers of state property.	
Reform 4. Improved public procurement	Adapting public procurement legislation, including on concessions and public-private partnerships, with the EU *acquis*, especially on concessions and public-private partnerships Updating the legislation will ensure that public procurement, including the preparation of public-private partnerships projects and concessions, is carried out in accordance with the EU legislation	Chapter 5 Public Procurement	Entry into force of the legislation on harmonising legislation in the field of public procurement with the EU *acquis*. Development and adoption of regulatory acts aimed at the alignment of legislation in the field of public procurement, including concessions and public-private partnerships, with the EU *acquis*	Ministry of Economy, Other central executive authorities	Laws of Ukraine, which align legislation in the field of public procurement, with the EU *acquis*, enter into force and focus on: - Further alignment of national legislation with the classic and utilities public procurement directives, especially with respect to the material scope of the Public Procurement Law and exemptions thereof, delimitation of procurement regulation that is not directly related to military needs carried out by customers in the sphere of security and defence; - Further alignment of national legislation on concessions and PPPs with the EU *acquis*; - Enhancement of the e-procurement system, that includes development of e-contracting in the Prozorro system, and operational interoperability with DREAM system and other state IT systems if applicable	Q3 2027
Reform 5. Harmonisation of legislation and standards with the EU	The implementation of EU best practices and standards, in particular the implementation of the recommendations of the 7 ACAA pre-assessment missions, will pave the way for the conclusion of the ACAA agreement, which will ensure unhindered access to the EU market of 3 groups of industrial products (machinery, electromagnetic compatibility of equipment, low-voltage electrical equipment). Adoption of the European standards prioritised for the restoration and development of Ukraine as national ones and translation of these standards to facilitate use by companies	Chapter 1 Free movement of goods	Entry into force of the legislation on the resumption of market surveillance measures and control of non-food products, including product safety inspection	Ministry of Economy, Other central executive authorities	The Resolution of the Cabinet of Ministers on Amendments to the Resolution of 13 March 2022 № 303‘On the Termination of Measures of State Surveillance (Control) and State Market Surveillance under the Conditions of Martial Law’ with regard to the exclusion of state market surveillance from its scope and to repeal CMU Resolution of 3 May 2022 № 550‘On the Termination of the Carrying Out of State Control of Non-Food Products under the Conditions of Martial Law’ is adopted and entry into force in order to resume market surveillance measures and control of non-food products, including product safety inspections	Q4 2024
			Adoption of harmonised standards for three groups of industrial products	Ministry of Economy, State Enterprise “Ukrainian Scientific Research and Training Center for Standardization, Certification and	Harmonised standards for 3 groups of industrial products (machinery, electromagnetic compatibility of equipment, low-voltage electrical equipment) are adopted as national ones by translation method	Q3 2025

				Quality Problems" (by consent)		
Reform 6. Addressing late payment	Implementation of Directive 2011/7/EU on combating late payment in commercial transactions	Chapter 20 Enterprise and Industrial Policy	Entry into force of the legislation on combating late payments	Ministry of Economy	The amendments to the legislation aligning with provisions of the Directive 2011/7/EU on combating late payment in commercial transactions are adopted and enter into force	Q4 2027
Investment 1. Investments in financial support for micro-enterprises and SMEs	Ensuring entrepreneurs have access to SME financing, which includes promoting entrepreneurship and export promotion. These measures will also stimulate the transition to higher value-added production	Chapter 20 Enterprise and Industrial Policy	Ensuring development of a grant program for business support, including eRobota, and the program 'Affordable loans 5-7-9%'	Ministry of Economy, Ministry of Finance	Report of the Government (or Treasury report) showing that in the State Budgets for 2024, 2025, 2026, 2027 the general Government budgeted at least EUR 1.75 billion (in UAH equivalent) for financial support for microenterprises, SMEs and especially small and medium processing enterprises, also in line with the new SME Strategy and Action Plan when adopted and where relevant, that can include both corporate lending and grants that will be allocated based on transparent criteria. The corporate lending will be channelled through financial intermediaries. The grants will be channelled through dedicated entities with appropriate resources and capacity and through financial intermediaries.	Q4 2027
				Ministry of Economy, Ministry of Finance	Interim report of the Government (or Treasury report) showing that in the State Budgets for 2024 and 2025 the general Government budgeted at least EUR 800 million (in UAH equivalent) for financial support for microenterprises, SMEs and especially small and medium processing enterprises, also in line with the new SME Strategy and Action Plan when adopted and where relevant, that can include both corporate lending and grants that will be allocated based on transparent criteria. The corporate lending will be channelled through financial intermediaries. The grants will be channelled through dedicated entities with appropriate resources and capacity and through financial intermediaries.	Q2 2026

CHAPTER 9. DECENTRALISATION AND REGIONAL POLICY

1. State of play

The system of the administrative and territorial structure of Ukraine as a unitary state includes:

- Regional level – the Autonomous Republic of Crimea, 24 oblasts (regions) and two cities with special oblast status – Kyiv and Sevastopol;
- Subregional level – 136 rayons (districts);
- Local level (municipalities/territorial communities) 1,469 territorial communities (including 31 territorial communities that have been located in the temporarily occupied territories of Ukraine since 2014, excluding cities with special status).

The Cities of Kyiv and Sevastopol have special status.

Based on mentioned system of the administrative and territorial structure, Ukraine has four levels of governance: national/central, regional, sub-regional (districts) and local (communities/municipalities).

The administrative-territorial reform, launched in 2015 made possible to start forming a capable basic level of local self-government in line with European Charter of Local self-government.

Territorial communities of all types (villages, townships, cities) have equal expenditure powers and receive equal resources, e.g. 60% (64% in 2022-2024) of the personal income taxes are paid to the local budgets to be used for exercising their own competencies. In addition, the following taxes remain entirely in the communities: single tax, corporate and communal financial institution income tax, and property tax (real estate, land, vehicles); territorial communities receive state support (e.g., educational subvention, subsidies for educational and healthcare institutions, additional subsidies for the affected areas, provision of safe conditions in educational institutions, support for the development of urban infrastructure and regional policy, etc.).

In 2021, communities were entitled to manage land resources outside their settlements, that allows local self-governments to use the assets that belong to the community more effectively and ensure the economic development of their territories.

Empowerment at the local level has played an important role in ensuring Ukraine's resilience in the face of the Russian invasion. Territorial communities proved to be the first to respond to the mobilisation of bottom-up support, ensuring the restart of basic social and housing services, food supplies, assistance in organising volunteer territorial defence and hosting large numbers of internally displaced persons.

The participation of residents in the management of local affairs, openness and transparency of local governments are important elements of good democratic governance, which the local government reform aims to implement.

The Government's approach to recovery is based on this positive experience. In 2022, the Verkhovna Rada amended the Law ‘On the Basics of State Regional Policy’ with the aim of consolidating the regional development planning system, in particular at the regional and local levels, improving the financial support of state regional policy, strengthening the role of regional development agencies at the local level, and promoting investment attraction in the development of regions and territorial communities in Ukraine.

The Government engages relevant public authorities, including ministries, agencies, services and inspections, state (military) administrations, in the decision-making process in the field of recovery, through consultations and collection of proposals. In addition, the Government organises consultations with local governments and associations of local governments to take into account the interests and needs of local communities.

Territorial communities are the key beneficiary of the recovery results . Therefore, they will be assigned a leading role in the processes. Territorial communities are responsible for developing planning documents, establishing communication with international partners, and implementing restoration projects in the respective territories based on an inclusive approach which entails engaging and consulting with local civil society. To strengthen the capacity of territorial communities, the Government, together with development partners, will work on creating mechanisms to strengthen the competencies of representatives of local self-government bodies in strategic planning, anti-corruption, project management, urban planning, digitalization, investment activities and work with development partners.

2. Overall reform agenda in 2024-2027

Despite previous achievements, decentralisation remains unfinished in institutional, legislative and constitutional terms. Following the successful implementation of the territorial phase of the reform completed in 2020 (amalgamation of communities, formation of new rayons), the reform needs to be continued to ensure its sustainability. The elements of multi-level governance framework need to be brought in line with the European Charter of Local Self-Government, ratified by Ukraine.

In the next years Ukraine will strive to advance the decentralisation process and strengthen the development and implementation of regional policy. The reform agenda seeks to establish the legal, regulatory, and financial basis required for regional and local government entities to take on the expected role in the recovery and reconstruction process; and, simultaneously, to strengthen the capacity of the organisational entities, systems and structures that will be used for the identification, prioritisation, implementation and evaluation of recovery and reconstruction projects.

One of the key measures should be the adoption of amendments to the Budget and Tax Codes of Ukraine to improve the mechanism of personal income tax transfer to local budgets in line with European practice and to improve (revise) the mechanism of horizontal equalisation of local budgets (European Commission's report of 08 November 2023, Cluster 1, The fundamentals of the accession process). (Corresponds to Cluster 1: Fundamentals of the EU Accession Process, European Commission's report on Ukraine in the framework of the EU Enlargement Package, published on 8 November 2023).

Predictable and adequate financing has proved essential to the development and sustenance of local capacity to implement projects. In this regard fiscal decentralisation, and in particular the municipalities' share of the collected personal income taxes , has proved critical and an important motivating factor for local government authorities. It will be important to safeguard the progress while simultaneously looking for further improvements, including the alignment of the tax legislation with best international practices. The latter will include an assessment of the possibility of changing the current practice of distributing tax revenues where the taxpayer resides rather than where the employer is registered. More generally, Ukraine will look into how to improve the overall fiscal decentralisation process and how best to balance between the distribution of revenue and expenditure of central and sub-national governments.

Ukraine will also strive to restore local self-government in the liberated territories. To this end, it will put in place a sustainable governance framework based on accountable elected officials and increase investment attractiveness of municipalities (corresponds to the summary of the European Commission's report on Ukraine in the framework of the EU Enlargement Package, published on 8 November 2023).

In this regard it will be important to update the State Strategy of Regional Development and the modernise the State Fund for Regional Development so that it is aligned with the recovery and reconstruction process (corresponds to Chapter 22 Regional Policy and Coordination of Structural Instruments of the European Commission's report on Ukraine in the framework of the EU Enlargement Package, published on 8 November 2023).

There is also an aim to improve coordination between local, regional, and central, including via formally embedded mechanism to underpin the bottom-up project development approach with an inclusive engagement of municipal stakeholders in the design and implementation of local policies. Ukraine will strive to reinforce the capacity of regional and local authorities to participate in such mechanism, as full participants. Various governance structures to improve this capacity will be envisaged. Ukraine will enhance the capacity building of subnational and local levels via substantial financial and technical support extended by the EU through the Ukraine Facility, Twinning, TAIEX, and other programmes.

Reform activities will address the need to strengthen project management competencies of key staff of authorities at regional and local level and the institutional framework to ensure effective implementation, monitoring, and the inclusive engagement of regional and local stakeholders as well as the Ministry for Infrastructure throughout the entire process.

In this regard, Ukraine will draw on the experience and Technical Assistance provisions made available by international and Ukrainian partners, such as the U-LEAD with Europe programme, the many twinning and support activities under the European Alliance of Cities and Regions for the Reconstruction of Ukraine, and the support provided by the Ukrainian associations of local and regional authorities.

Ukraine will also promote strengthening of cooperation between regions, including cooperation with EU counterparts in peer-to-peer recovery initiatives that facilitate further integration of Ukrainian sub-national authorities into EU networks. Special attention of the Government will be addressed to such area of cooperation as local economic development, trade, environment protection and climate change.

From the perspective of financial management and control systems, the effectiveness of decentralisation reforms will be linked to success in several other reform areas, including the establishment of medium-term budgetary and strategic planning, as well as the introduction of effective auditing of regional and local authorities, including for auditing expenditures related to investment projects, and ensuring openness and transparency of local governments (corresponds to Chapter 22 Regional Policy and Coordination of Structural Instruments of the European Commission's report on Ukraine in the framework of the EU Enlargement Package, published on 8 November 2023).

An effective state regional policy envisages gender-sensitive planning and service delivery, gender budgeting at the regional and local levels, and ensuring the participation of different groups of women and men in decision-making. It will also include measures to prevent and combat gender-based violence, including through cooperation with regional and local women's organisations to protect the rights of women and girls.

In terms of regional development, Ukraine will also look into some other reforms such as: strengthening of subnational government capacities to fulfil the EU requirements, development of municipal statistics (corresponds to Chapter 22 Regional Policy and Coordination of Structural Instruments of the European

Commission's report on Ukraine in the framework of the EU Enlargement Package, published on 8 November 2023).

2.1 Reforms to be pursued under the Pillar I of the Ukraine Facility

Reform 1. Advance decentralisation reform

State of play and context: The institutional umbrella, consisting of a clearer division of competence between central and sub-national authorities, a structured and proportionate framework of legal supervision, specific safeguards and appropriate constitutional amendments to ensure irreversibility of decentralisation reform is yet missing.

Description of the reform: The next step is to revise the legislation on local state administrations in line with the Council of Europe standards on establishing a proportional system of administrative supervision over the legality of acts of local self-government bodies by the state.

The main objective of the draft law 'On Amendments to the Law of Ukraine 'On Local State Administrations' and Other Legislative Acts of Ukraine on Reforming the Territorial Organisation of Executive Power in Ukraine' is to create a legal framework for the functioning of a prefectural-type local state administration and to update the legislation on local state administrations in line with current challenges and recent reforms, including the recent consolidation of rayons.

The second part of the reform is the revision of the legislation on local self-government, clarification of the division of sectoral responsibilities between the central, regional, subregional and local levels, in particular in areas of importance for recovery (housing, roads, schools, distribution networks), where the main principle is subsidiarity. The division of powers must be accompanied with the amendments to the Budget and Tax Codes of Ukraine to revise the mechanism of enrolling personal income tax to local budgets and mechanism of horisontal equalisation of personal income tax revenues among local budgets.

At the same time, it is important to ensure the openness, inclusivity and gender sensitivity of local politics through the development of forms of local democracy. Finally, the third part of the reform will be to introduce appropriate amendments to the Constitution of Ukraine in terms of decentralisation of power and to study the issue of legal personality of territorial communities.

Potential impact of the reform: This reform will lead to a more structured and proportionate system of enforcement of the law by the executive authorities, reduce the room for arbitrariness and discretionary practices, and help manage the pressure to allocate funding. A clearer division of sectoral responsibilities between the central, regional, sub-regional and local levels in areas relevant to recovery will increase transparency and optimise recovery processes. Strengthening the institutional, organisational and financial capacity of local government, applying gender budgeting tools which will contribute to more efficient internal organisation and management, delivery of services that meet the needs of different population groups, higher accountability and greater transparency.

Reform corresponds to Cluster 1: Fundamentals of the EU Accession Process, European Commission's report on Ukraine in the framework of the EU Enlargement Package, published on 8 November 2023.

Reform 2. Increased involvement of citizens in local-level to decision-making processes at the local level

State of play and context: The local level resilience, ability to respond quickly and effectively during the first months of the war is strongly linked to the Ukrainian people's togetherness and sense of belonging to a community. Over the coming years Ukraine's local governments will need to protect, build on and further develop this togetherness in order to create momentum in the economic recovery and reconstruction process. The trust of residents in the authorities can be strengthened primarily by establishing effective communication, introducing effective consultation tools for the development of development programmes and making important management decisions for the community, reporting and publishing information on the activities of local governments and their officials. This will call for an improved legal framework and strategies for the planning, prioritisation and implementation of public activities that promotes inclusion and active citizen participation in decision-making as well as competent staff and leadership.

Description of the reform: The creation of the conditions for increased citizen involvement and active participation in local decision-making processes will primarily take place through the adoption and implementation of amendments to the Law of Ukraine ‘On Local Self-Government in Ukraine’ and the Law of Ukraine ‘On Public Consultations’. The amendments will increase possibilities for different groups of residents, including vulnerable groups, to participate in advisory bodies, planning-, budgeting- and decision-making processes.

Potential impact of the reform: The increased involvement of the public in the local planning and decision-making processes will contribute to increased transparency and openness, which in turn is expected to contribute to more efficient and effective use of public resources and better meeting the needs of women and men and/or their groups, including the vulnerable. Reform corresponds to Cluster 1: Fundamentals of the EU Accession Process, European Commission's report on Ukraine in the framework of the EU Enlargement Package, published on 8 November 2023.

Reform 3. Strengthen development and implementation of regional policy

State of play and context: While a general framework for the state regional policy and increased public funding for regional development were put in place alongside decentralisation reform, the full-scale invasion of Russia has affected all regions, yet with profound differences. The territorial disparities, which existed prior to 2022, have drastically deepened. The Law on Principles of State Regional Policy was amended to establish a framework for the recovery of war-affected regions, including a three-level strategic planning system (state, regional and local development strategies) and definition of four functional types of territories. However, to date, the implementing legislation was not fully adopted.

Description of the reform: The State Regional Development Strategy for 2021-2027 will be updated by making changes aimed at:

- Updating the strategic, operational goals, directions and objectives of the Strategy in accordance with the challenges faced by the regions and territories of Ukraine as a result of the full-scale armed aggression of the Russian Federation;
- Updating the list of territories that need state support;
- Restoration and development of regions and territories of Ukraine based on the principles of transparency, accountability, sustainability, inclusiveness, energy efficiency, resistance to security threats and economic feasibility;
- Restoration of economic activity, development of human capital and economic growth based on the internal potential of territories and regional smart specialisations;
- The development of multi-level governance, bringing the regional development management system closer to EU procedures and best practices;
- Promoting the development of partnerships, inter-municipal, inter-regional and cross-border cooperation;

- Development of the institutional capacity of territorial communities and regions in terms of project management, digitalization, anti-corruption and strategic planning, with a gender approach.

The framework established by the Law on the Principles of State Regional Policy should be put into effect, starting with the development of criteria for assigning territories to different functional types. Similarly, different types of strategic local documents (such as local development strategy, recovery and development plan, integrated territorial regeneration program, integrated spatial development plan) will be clarified, synchronised and linked to relevant funding sources.

The financing of recovery projects from budgetary and extra-budgetary sources should be as transparent and predictable as possible, closely linked to the well-developed State Regional Development Strategy for 2021-2027, regional development strategies and territorial community development strategies.

The digital development of our territories is one of the priorities of the state regional policy, recovery policy, and urban planning policy. A clear understanding of local problems, strengths and weaknesses of the socio-economic development of regions and communities will contribute to the rapid recovery of our state and the transparency of the use of financial resources. Therefore, a geoinformation system of regional development is currently being implemented, which should provide state and local authorities with up-to-date data. European practices of collecting indicators of socio-economic development for the formation of regional policy are already the basis of the work of the geoinformation system of regional development. The updated indicators of the system will be harmonised with the indicators of the systems of European countries, which will allow Ukraine to gain access to the best EU funding policies and programs.

In order to monitor the implementation of urban planning policy and support the adoption of operational management decisions that may relate to the territories of the entire state, its separate parts, which may cover the territories of one or more units of administrative and territorial structure, a single integrated territory management system based on the urban planning cadastre will be implemented.

Potential impact of the reform: An updated Strategy, aligned with recovery needs, and an integrated set of planning documents that feed into each other, supported by digital tools, will ensure strategic planning that is efficient and complementary across government levels and geographical regions. Reform corresponds to Chapter 22 Regional Policy and Coordination of Structural Instruments of the European Commission's report on Ukraine in the framework of the EU Enlargement Package, published on 8 November 2023.

3. Overall investment needs and opportunities in 2024-2027

Ukraine’s investments in decentralisation and the implementation of local self-government reforms are likely to yield significant dividends as Ukraine embarks on a long recovery and reconstruction process. An accelerated and successful process needs not only to involve, but to be anchored in strong local-level authorities that are actively encouraged by the central Government and development partners to show initiative and competent leadership. A speedy recovery process will also require a great deal of trust in and increased autonomy of local and regional authorities to allow for action. Much of the legal basis has already been provided, although there are still outstanding issues that need to be resolved.

Key investment needs in 2024-2027:

- Project management capacity, meaning investments in staff competencies, systems and procedures that will ensure oversight of the collected portfolio of projects (at decentralised levels), including practical project management tools and procedures to ensure transparency in the identification, prioritisation, development, implementation and evaluation of individual projects.

3.1 Investments to be pursued under the Pillar I of the Ukraine Facility

Investment 1. Investments for the recovery, reconstruction and modernisation needs of Ukraine's sub-national authorities

State of play and context: The Government's allocation of funds for the recovery, reconstruction, and modernization of regional and local governments not only helps to address pressing problems in the regions, but also meets Ukraine's strategic priorities and medium-term budget planning. Investing in regional and local governments is an important step in strengthening democracy and developing decentralisation. In the context of Ukraine's strategic priorities, investments in the recovery and reconstruction needs of sub-national authorities contribute to national security and stability, help improve the situation in communities, and reduce social risks associated with governance and development deficiencies. Proper implementation of the necessary recovery and reconstruction projects will help unite territorial communities around a common goal - the effective rebuilding of Ukraine.

Description of the investment: At least 20% of the non-repayable financial support under Pillar I of the Ukraine Facility will be allocated to the recovery, reconstruction and modernization of regional and local authorities of Ukraine, of which 5% will be allocated in 2024-2025. The corresponding investments for the recovery, reconstruction and modernization of sub-national authorities of Ukraine are planned in human capital, transport, energy and other sectors for 2024-2027, in particular:

- In human capital to improve access to safe and quality education, including pre-school education, including shelter and safe conditions in educational institutions, new vocational education centers; strengthening the healthcare sector at the regional level, including infrastructure and premises for healthcare facilities; restoration, development (new construction, reconstruction, overhaul, restoration) of damaged/destroyed social infrastructure. The relevant investments are described in Section 2.7 'HUMAN CAPITAL';
- In the energy sector to strengthen Ukraine's energy infrastructure, including physical protection of Ukraine's energy infrastructure facilities, energy efficiency in district heating and public sector buildings. Relevant investments are described in Section 2.10 'ENERGY SECTOR';
- In transport for the construction, reconstruction, restoration, modernization and renewal of damaged and destroyed facilities. Relevant investments are described in Section 2.11 'Transport'.

Potential impact of the investment: Investments in the needs of sub-national authorities for recovery, reconstruction and modernization have a significant impact on the country's development and improvement the quality of citizens` welfare. These investments will partially eliminate the socio-economic consequences caused by the full-scale armed aggression of the Russian Federation against Ukraine at the sub-national level. At the same time, they will help to strengthen and solve urgent problems of territorial communities and local governments, stimulate economic growth, human capital development and ensure social stability.

4. Coherence with the objectives of the Ukraine Facility

The proposed reforms will contribute directly towards the specific objective of the Ukraine Facility set out by the Regulation to support decentralisation and local development. Plan corresponds to the recovery, reconstruction and modernisation needs stemming from the war in Ukraine’s regions and municipalities, and thereby enhances their economic, social, environmental and territorial development, supports the decentralisation reform across Ukraine and convergence towards the Union’s standards. The Plan recognises and supports the multiple roles played by the local and regional authorities as promoters of an inclusive territorial approach to local development, including decentralisation processes, participation of civil society organisations and local communities, transparency and accountability.

5. Table of reforms and investments covered under Pillar I

Reforms and investments	Objectives and growth potential	Corresponding chapters of the EU Enlargement report	Name of the step (quantitative and qualitative steps to implement reforms/investments)	Agency responsible for implementation	Outcome	Timeframe
Reform 1. Advance decentralisation reform	Put in place a framework for implementation of the principles of administrative supervision of local authorities' activities set forth in the European Charter of Local Self-Government. Ensuring system of coordination of the territorial bodies of the central executive authorities when implementing the state policy at the local and regional levels	Fundamentals - multi-level governance	Entry into force of the legislation on reforming of territorial organisation of the executive authorities in Ukraine	Ministry of Communities, Territories and Infrastructure Development	The Law of Ukraine ‘On Amendments to the Law of Ukraine ‘On Local State Administrations’ and Some Other Legislative Acts of Ukraine as Regards the Reforming of Territorial Organisation of the Executive Authorities in Ukraine’ is adopted and enters into force within 12 months from the date of termination or abolition of martial law in Ukraine, subordinate legal acts for the implementation of the Law of Ukraine were adopted after it entered into force. The Law of Ukraine facilitating focus on transforming local state administrations into prefecture-type authorities in order to create a balanced system of ensuring a legal nature of activities undertaken by local self-government bodies, ensuring coordination of the territorial bodies of the central executive authorities when implementing the state policy at the regional and local levels	Q1 2025
	Ensure conduction of a study on the possibility of granting territorial communities the status of a legal entity for more effective internal organisation and management, strengthening their accountability and transparency in legal relations.	Fundamentals - multi-level governance	Endorsement and publication on the ministry’s website of a study on the necessary measures to grant legal personality to territorial communities.	Ministry of Communities, Territories and Infrastructure Development, Ministry of Justice	The results of the study on the possibility of granting territorial communities the status of a legal entity are published on the official web portal of the Ministry of Communities, Territories and Infrastructure Development	Q2 2025
	Delimitation of powers between local self-government bodies of different levels and between local self-government bodies and central executive bodies based on decentralisation and subsidiarity principles.	Fundamentals - multi-level governance	Entry into force of the legislation to ensure a better distribution of powers between local governments and executive authorities	Ministry of Communities, Territories and Infrastructure Development, supported by Ministry of Education and Science, Ministry of Health,	The amendments to the Law of Ukraine ‘On Local Self-Government in Ukraine’ and sector-specific laws enter into force. These legislative amendments will lead to a better distribution of powers between local governments and executive authorities based on the principles of subsidiarity and decentralisation, will help to eliminate conflicts of of competence between different tiers of central, regional, district and local authorities, and within bodies of local self-government and proper quality of public	Q1 2026

				Ministry of Culture and Information Policy, Ministry of Social Policy, Ministry of Youth and Sports, Ministry of Finance, Other involved authorities	services at the local level, and efficient use of budget funds	
Reform 2. Increased involvement of citizens in local-level to decision-making processes at the local level	Creation of preconditions for the involving different groups of residents, including vulnerable groups, to decision making process at the local level	—	Entry into force of the legislation for public consultations on public policy	Ministry of Justice	The Law of Ukraine ‘On Public Consultations’ is adopted and enters into force within 12 months from the date of termination or abolition of martial law in Ukraine. The Law will launch legal mechanism for public consultations during the formation and implementation of public policy, addressing issues of local importance, what will establish precondition for coherent, effective and efficient policy- and decision-making	Q1 2025
Reform 3. Strengthen development and implementation of regional policy	Aligning regional policy with recovery and reconstruction efforts, taking into account regional imbalances that have deepened as a result of the full-scale invasion. Creating sufficient conditions for comfortable living, self-realisation and self-development of citizens, improving their quality of life in every region of Ukraine, including the regions affected by the armed aggression of the Russian Federation	Chapter 22. Regional policy and coordination of structural instruments.	Entry into force of the Resolution of the Cabinet of Ministers to amend the State Strategy for Regional Development for 2021-2027	Ministry of Communities, Territories and Infrastructure Development	The Resolution of the Cabinet of Ministers ‘On Amendments to the State Strategy for Regional Development for 2021-2027, approved by the Resolution of the Cabinet of Ministers № 695 dated 5 August 2020’ enters into force. The Resolution of the Cabinet of Ministers is aimed at: - development of multi-level governance, approximation of the regional development management system to EU procedures and best practices; - promoting partnerships, inter-municipal, interregional and cross-border cooperation; - developing the institutional capacity of territorial communities and regions in terms of project management, digitalisation, anti-corruption and strategic planning	Q3 2024
	Urban planning cadastre is a tool of the Government to monitor the implementation of urban planning policy and support the adoption of operational management decisions that may relate to the territories of the whole state, its separate parts, which may cover the	—	Entry into force of the legislation for development of urban planning at the local level	Ministry of Communities, Territories and Infrastructure Development	The Cabinet of Ministers adopted resolutions approving the Procedure for maintaining the state-level urban planning cadastre, the Unified State Address Register, the Unified State Register of Buildings and Structures, the Unified State Register of Administrative Units, amending resolutions of the Cabinet of	Q4 2024

	territories of one or more units of administrative-territorial structure; it is a tool for potential investors to make decisions on potential investment in Ukraine; it is a tool for Ukrainian citizens to have universal access to information on the planned use of territories				Ministers regulating the development of urban planning documentation in the form of electronic documents, maintaining the Unified State Electronic System in the field of construction, integration and information interaction of registers and cadastres of the state	
Investment 1. Investment to the recovery, reconstruction and modernisation needs of Ukraine's sub-national authorities, in particular local self-government	Financial support to cover the needs for the restoration, reconstruction and modernisation of Ukraine's sub-national authorities, including local self-government	—	Provision of non-repayable financial support under Pillar I of the Ukraine Facility to cover the needs for the restoration, reconstruction and modernisation of Ukraine's sub-national authorities, including local self-government	Ministry of Development of Communities, Territories and Infrastructure, Ministry of Finance	Interim report showing that at least 5% of the non-repayable financing support under Pillar I of the Ukraine Facility have been allocated to the recovery, reconstruction and modernisation needs of Ukraine's sub-national authorities, in particular local self-government	Q2 2026
			Provision of non-repayable financial support under Pillar I of the Ukraine Facility to cover the needs for the restoration, reconstruction and modernisation of Ukraine's sub-national authorities, including local self-government.	Ministry of Development of Communities, Territories and Infrastructure, Ministry of Finance	Report proving that at least 20% of the non-repayable financing support under Pillar I of the Ukraine Facility have been allocated to the recovery, reconstruction and modernisation needs of Ukraine's sub-national authorities, in particular local self-government	Q4 2027

CHAPTER 10. ENERGY SECTOR

1. State of play

Before the war in 2021, energy played a key role in Ukraine's economic growth and national security and was increasingly contributing to the country's drive to modernise its economy. The electricity sector contributed up to 8% of gross domestic product (GDP), while payments for gas transit from Russia accounted for about 0.3% of GDP[15]. The entire population had access to electricity, and 94.9% of the population had access to environmentally friendly cooking fuels[16]. District heating was available in many homes (approximately 47%), especially in urban areas. Gas distribution networks covered 74% of the population[17], and 89% of the population had access to treated water through pumped water systems.

Before the war, Ukraine's energy system was heavily dependent on fossil fuels and nuclear power. In 2021, electricity generation in Ukraine totaled 156,576 TWh. In 2021, nuclear power plants (NPPs) accounted for 55.1% of total generation, thermal power plants (TPPs) and combined heat and power plants (CHPs) for 29.3%, and hydroelectric power plants (HPPs) and pumped storage plants (PSHPPs) for 6.7%. Electricity generation at thermal power plants totaled 37.225 billion kWh, and at CHP and cogeneration plants - 8.6 billion kWh. Electricity production from renewable energy sources in 2021 totaled 12.52 billion kWh. At the same time, oil and gas were mainly consumed in the final consumer sectors. Energy consumption (TFC) in 2020 was 48 million toe, with natural gas accounting for 28%, electricity and oil for 20%, heat for 15%, coal for 12%, and bioenergy for 5%.

The electricity sector is highly concentrated. Electricity market consists of dominant national players which carry out power generation from coal (privately owned DTEK ENERGO), from hydro resources (PJSC Ukrhydroenergo), and nuclear fuel (JSC 'National Nuclear Power Generating Company 'Energoatom'). Transmission and dispatching is provided by the nationwide operator of the transmission system. Electricity distribution is organised in regional distributed companies, which were legally separated from suppliers as a result of unbundling.

The energy sector has suffered from a long-term and systemic underinvestment. The 'youngest' coal-fired power plant was built in 1982. However, in 2009-2014, some units were reconstructed and converted to use gas group coal. Losses in both the electricity grid (up to 10.4% in 2020) and gas distribution networks (from 3 to 18% depending on the month) are significantly higher than the European average of 2-3%[18] . Low electricity and gas prices for households, which limit the revenues of energy companies, narrow the space for much-needed investments. A significant amount of debt has accumulated in different parts of the energy markets. In January 2023, the National Energy and Utilities Regulatory Commission (NEURC) and the Energy Community Secretariat signed a Memorandum of Cooperation on the development and improvement of PSO to form the most effective, transparent and non-discriminatory support mechanisms based on best European practices. Since the conclusion of the Memorandum, there have been no changes to PSO without appropriate consultations with the Energy Community.

Ukraine has made significant progress in reforming its energy sector in line with EU legislation. In 2019-2021, Ukraine successfully completed the unbundling of the gas transmission system operator, which was

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[15] Since independence, natural gas transit through Ukraine has undergone significant changes. The construction of gas pipelines (Blue Stream in 2003, Nord Stream 1 in 2011, and Turkish Stream in 2020), gas disputes between Ukraine and Russia, and the development of the liquefied natural gas (LNG) market over the past few years have contributed to a steady decline in gas transit through Ukraine

[16] World Health Organization (WHO). World Health Report 2022 (2022)

[17] State Statistics Service of Ukraine

[18] CEER. 2nd CEER Report on Power Losses (2020)

confirmed by its certification. Gas distribution system operators were legally unbundled in 2015. In 2019, the separation of operators of electric energy distribution systems was successfully carried out. The Ministry of Energy, the National Energy and Utilities Regulatory Commission (NEURC), and PJSC NPC Ukrenergo are completing the fulfilment of the conditions set out in the conclusion of the Energy Community Secretariat on the certification of PJSC NPC Ukrenergo as a separate Transmission System Operator (TSO). The final decision on TSO certification was made on December 17, 2021 Now it is necessary to carry out a proper corporate governance reform of Ukraine's state-owned enterprises in the energy sector. Key structural changes took place in the gas and electricity markets. Ukraine's power system (together with Moldova's) was synchronised with the ENTSO-E continental European power system one year ahead of schedule in April 2022. Since then, the process of a gradual increase in the volume of commercial exchanges between electricity systems has begun. PJSC NPC Ukrenergo, which is responsible for the Ukrainian and the Moldovan frequency and power control unit, has also been successfully integrated into the Cross-Border Financial Settlement Mechanism for Unintentional Deviations (FSkar).

Russia's invasion of Ukraine has had a devastating impact on the energy sector. 40% of the electricity transmission infrastructure, 20% of the infrastructure of the electricity distribution system and up to 50 % of the electricity generation capacity is occupied, destroyed or severely damaged, causing severe disruptions in electricity supply, water supply, heating and other services. As of October 2023, the integrated power system of Ukraine has temporarily lost 44% of nuclear generation, 78% of TPP capacities (including occupied plants), 66% of block CHPs, 12% of HPPs and 32% of PSPPs. None of the refineries are operating (domestic production provided about 30% of petroleum products), and logistical difficulties have arisen in the supply of petroleum products.

As a direct consequence of the war, electricity demand in Ukraine has dropped by around one-third. Business and industrial consumption has fallen due to sharply reduced economic activity, and demand by households has declined as almost 8.2 million people have been forced to flee the country (UNHCR, 2023). The consumption profile significantly changed due to the forced internal relocation of consumers to the western regions. Initially, lower demand led to significant price declines in short-term wholesale markets, threatening electricity producers’ financial viability. Later, prices recovered as generation capacity became increasingly constrained due to physical damage to power plants and the network. As a result of Russian aggression and significant physical damage of TPPs, the transmission system operator's restrictions on renewable generation have increased. The loss of labour resources due to the hostilities and the outflow of working-age people from the country has a significant negative impact on the industry.

Since the introduction of martial law on 24 February 2022, Ukraine’s electricity sector has operated under special regulatory arrangements. The pre-war market model has remained in place. The Ministry of Energy has been granted extensive decision-making powers , relating to security of supply, over the operations of companies in the sector. In March 2022, responding to a sharp drop in consumer bills for electricity the Cabinet of Ministers introduced a moratorium on disconnecting households and critical infrastructure facilities from electricity supply and other utility services due to timely non-payment of electricity bills. From December 2023, the moratorium is limited to temporarily occupied territories and territories where active hostilities are taking placeIn addition, in the event of termination of the supply of electricity by the previous supplier, consumers whose original suppliers have been designated ‘default market participants’ or which lose supply licences have been transferred to one of the country’s universal service suppliers. This ensures that consumers are not left without electricity in the event of termination of their contract by the previous supplier.

The war and attacks on the energy sector have changed the architecture of energy markets. The turmoil in natural gas markets and uncertainty about securing reliable sources of supply for the coming years are forcing the Government to reconsider investment decisions in the coal and oil and gas sectors. We need to expand our capacity for natural gas production, storage and supply, while supporting emission reduction measures in the coal and oil and gas sectors as we remain committed to a gradual phase-out of coal in electricity generation by 2035. In particular, supporting the development of renewable gases, production, storage and transmission of hydrogen and biomethane. Natural gas will play its role as a transitional fuel and a source of flexibility for growing RES generation. Introducing new models of support and integration of renewable energy sources into electricity and heat supply systems are needed. With the Russian occupation of the Zaporizhzhia nuclear power plant (NPP), baseload electricity production has become more volatile. Zaporizhzhia NPP accounts for 10.7% of Ukraine's total installed capacity (as of early 2022) and 44.3% of all nuclear power plant capacity. Traditionally, NPPs have accounted for about half (50-55%) of the electricity generated in Ukraine. The role of NPPs was crucial in 2020 and 2021, when their high capacity factor helped to overcome the coal shortage during winter.

It is very difficult to balance short-term energy needs with long-term goals in a context of considerable uncertainty. During recovery, basic energy and utility services must be restored as soon as possible to enable the return of internally displaced persons, even if Ukraine's population and spatial distribution differ from pre-war levels.

Most buildings and utility infrastructure are characterised by outdated technology, high energy intensity and low efficiency. More than half of the building structures, equipment and networks have exceeded their design life and require significant modernisation. Before the war, Ukraine had about 9 million individual houses, 180 thousand apartment buildings and more than 70 thousand public buildings, most of which is very outdated: more than 80% of buildings in Ukraine were built before 1991. The building stock does not meet modern energy efficiency requirements and is characterised by poor indoor air quality and thermal comfort. The average specific energy consumption in buildings is 2-3 times higher than in European countries. Most of the heat is lost through building constructions that have low thermal insulation performance, as well as due to the deterioration and inefficiency of the building's technical systems. At the same time, the rate of energy renovation of the national housing stock in Ukraine was extremely low compared to European countries before the war.

Improving energy efficiency in the building sector can bring great benefits. Residential buildings account for around 40% of the total final energy consumption, which is mainly supplied by fossil fuel sources. At the same time, space heating needs account for up to 60% of the total energy consumption of buildings. The dependence of building heating systems on natural gas remains critical, accounting for more than 70%. Improving the energy efficiency of residential buildings can easily reduce their energy consumption by more than 40-50%. This would improve the availability and affordability of energy for vulnerable households, as well as thermal comfort in residential premises and indoor air quality. In parallel, it would also reduce the pressure on the state budget to support vulnerable consumers, increase tax revenues through the development of economic activity in the construction sector and local production of energy-saving building products, and increase the number of new jobs.

The reconstruction of damaged buildings and further construction of new buildings will be based on the best international and European approaches using modern energy-efficient building solutions and green technologies. The transition to the construction of buildings in accordance with the nearly zero-energy building standard will increase the energy security of people and the energy sustainability of buildings, contribute to the decarbonisation of energy consumption, and support Ukraine's accession to the European Green Deal. Further strengthening of legislation is needed, including alignment with the EU *acquis* on energy efficiency in buildings and public procurement.

District heating systems require significant improvements. District heating covers large cities and provides up to a third of the total heating needs of the Ukrainian population. About 80% of district heating consumers are households and as of 2021, 5 million households are connected to district heating. District heating depends on fossil fuels, with about 90% of heat produced from natural gas, and accounts for about 1/4 of the country's natural gas consumption (about 7 billion cm by 2022). It is critical to modernise the infrastructure to reduce energy losses. About 10% is lost during production and another 20% during transportation. Total system losses can be halved by modernising the infrastructure. The sector has approximately 20 thousand boiler houses (with a capacity of approximately 70 GW) and approximately 20 thousand km of heating networks. About half of all facilities have reached the end of their service life, are in a state of disrepair and need to be replaced. Up to 5% of the facilities have sustained varying degrees of damage as a result of armed aggression. A comprehensive policy plan for reforming and supporting investments in high-efficiency district heating and cogeneration needs to be adopted and implemented.

In response to these challenges, our strategic goals in the energy sector for 2024-2027 are as follows:

- Supporting a green transition in the energy sector and promoting an increase in the share of renewable energy, which will also serve to strengthen the decentralisation of the energy system and simultaneously increase energy security and resilience;
- Gradual liberalisation and integration of energy markets, support for the development and building of interconnections between the integrated energy system of Ukraine and the energy systems of the EU countries in the Continental Europe Synchronous Network to increase cross-border trade and enhance the security of gas and electricity markets;
- Ensuring energy efficient consumption, including in buildings and in the district heating sector.

2. Overall reform agenda for 2024-2027

Recognising the importance of the energy sector in the Ukrainian economy, the Ukraine Plan has a strong focus on the reform agenda in the sector. This is also reflected in the steps Ukraine proposes to take in order to access EU funding under the Pillar I. The reforms include adopting an Integrated National Energy and Climate Plan (INECP), improving the regulatory framework for renewable energy, appointing electricity nominated market operator, transposition of the electricity integration package, liberalising electricity and gas prices while ensuring vulnerable consumers are adequately protected, ensuring the independence of the regulator, improving district heating and adopting energy efficiency rules in public buildings and improvement of public procurement procedures taking into account energy efficiency requirements.

The implementation of European legislation should be complemented by institutional capacity-building measures to ensure further implementation of reforms. Sufficient human resources and financial capacity are crucial in this process. For example, the implementation of the REMIT law will require not only the adoption of all necessary by-laws, but also the functioning of an IT system to prevent abuse in the wholesale electricity market, as well as holding the necessary training for energy market participants. The implementation of guarantees of the origin of electricity will also require the functioning of relevant IT systems that require integration with similar systems of the countries of the European Union and the Energy Community.

The Integrated National Energy and Climate Plan will provide credibility to investors, including through transparency and an inclusive approach. It will set out a long-term planning strategy and identify key investment areas. Regular bi-annual reports are obligatory under the Energy Community Treaty and will document progress on implementing policies and measures set under the INECP.

To further stimulate renewable energy, the Government will introduce a system for issuing guarantees of origin for electricity produced from renewable energy sources and the net billing system. In addition, auctions will be introduced to allocate support quotas for the production of electricity from renewable sources under an updated model of contracts for difference. The guarantees of origin will enable confirmation of status of ‘green’ electricity produced from renewable sources such as solar, wind, biomass, biogas and hydroelectric power plants. Such guarantees of origin, for the purposes of sustainable development, are planned to be used in the payment mechanism for pollutant emissions for the purposes of obtaining an effective incentive for the development of renewable energy. In addition, consumers will be able to make sure that the electricity they have purchased and used will not lead to additional carbon dioxide emissions.

This will create additional incentives to attract investment in new construction of renewable energy sources and to export to the EU, after all the requirements of the European Union for the recognition of Ukrainian guarantees of the origin of electricity in the countries of the European Union have been met. Net Billing will allow consumers, largely smaller ones, to give surplus electricity to the grid and pay only for the difference between consumed and given electricity. This approach enables individual consumers to become active participants in the energy market and contributes to the efficient use of electricity will create opportunities for further sustainable development of renewable energy on a competitive market basis and ensure the green transformation of Ukraine's energy sector in line with European practices.

To harness the potential of renewable energy sources in bioenergy and biogas, the Government will create a reliable, EU-compliant and transparent policy and regulatory framework. This will build on the signed Memorandum of Understanding on Strategic Partnership in Biomethane, Hydrogen and Other Synthetic Gases. Achieving regulatory clarity and legal certainty for bio-methane export requires working out the mechanisms of cross-border trade in biomethane, particularly the removal of barriers for the sale of biomethane transported by the gas transportation system in EU countries, unifying regulatory requirements with EU countries and ensuring the issuance of guarantees and certificates of origin that will be recognized in both the domestic and foreign markets.

Further decentralising power generation and boosting highly flexible capacity will support local and regional energy security. The Government aims to streamline procedures for holding auctions for the construction of highly manoeuvrable capacities with the ability to quickly start/stop energy storage facilities in order to speed up the process.

The Government will focus on a number of other critical reforms in parallel. These include ensuring the independence of the regulator (NEURC), continued strengthening of the corporate governance of key energy SOEs, demonopolising and facilitating the employment of local and smart grids and promoting energy efficiency measures in various sectors of the economy. Following the lifting of martial law, gradual introduction of cost-reflective electricity and natural gas pricing with effective protection of low-income populations once the conditions are right is a necessary pre-condition for ensuring sustainable energy market. In the mid-term, the Government will continue the required reforms and capacity building for full alignment with the EU directives.

2.1 Reforms to be pursued under Pillar I of the Ukraine Facility

Reform 1. Integrated National Energy and Climate Plan

State of play and context: The preparation of the Integrated National Energy and Climate Plan (INECP) is Ukraine's commitment to the Energy Community in accordance with the adapted Regulation 2018/1999, the Association Agreement and an important step in Ukraine's European integration. The INECP looks into five cross-cutting dimensions: energy security, internal energy market, energy efficiency, decarbonization, and research, innovation and competitiveness. It also includes modelling to show the impact of current and additional policies and measures.

The INECP is designed to help with coordination between existing strategies, plans and measures for reaching the goals of the EU and the Energy Community in the fields of energy and climate, including the achievement of goals for reducing greenhouse gas emissions. It aims to ensure a transparent, timely and well-coordinated development process in respective sectors in the process of reaching targets of sustainable development, contribute to attracting investments and as well as support cooperation between the countries of the EU and the Energy Community to achieve climate goals.

Description of the reform: The reform provides for the approval of the Integrated National Energy and Climate Plan to set national goals for climate neutrality, renewable energy development, energy efficiency and ensure proper planning of relevant measures. The plan will come into force after its positive review, duly taking into account the recommendations of the Energy Community Secretariat. The plan will define targets to be achieved by 2030:

- Greenhouse gas (GHG) reductions, including through market-based carbon pricing mechanisms;
- The share of renewable sources (RES) in gross final consumption of energy;
- The energy saving in final energy consumption.

The reform will be implemented by the Ministry of Economy and will be completed by Q2 2024.

Potential impact of the reform: The reform will introduce a comprehensive approach to energy and environmental policy making. This approach requires alignment of goals across government agencies and provides a level of planning that will facilitate public and private investment. Approval of the plan will ensure synchronisation of the implementation of public policies in energy and climate, coordination of governmental actions for reaching greater policy efficiency in the spheres of energy and climate, promotion of a clear step-by-step approach to achieving the goals of low-carbon development, effective preparation and implementation of policies, synchronisation of national and European policies, practical implementation of the European integration in respective spheres, provision of greater clarity and specification of national policies for investors in order to strengthen trust and inspire investments, and contribute to coordination of donor and partners cooperation in the spheres for a more efficient and practical implementation of policies.

The Integrated National Energy and Climate Plan will embrace the ‘do no significant harm’ principles and contribute positively to the mitigation of climate change, to the extent possible in a context of war or post-war recovery and reconstruction.

Reform 2. Improved regulatory framework for increasing renewable energy and ensuring stable operation of the energy system

State of play and context: In June 2023, the Verkhovna Rada adopted in the second reading Law № 3220 on Amendments to Certain Laws of Ukraine on the Restoration and Green Transformation of the Energy System of Ukraine. This is a comprehensive law that anticipates introduction of a system for issuing electricity origin guarantees, a market premium mechanism, the withdrawal of business entities from the balancing group of the Guaranteed Buyer, export of electricity by RES producers and the Guaranteed Buyer, a net accounting system known as Net Billing, an aggregation market, and launch of auctions for the distribution of support quotas. The legislation will contribute to development of renewable energy sources and creation of new business opportunities, while also implementing certain provisions of the EU Electricity Integration Package. Secondary legislation for implementation of the law is being developed.

Among other characteristics, the Law introduces a new mechanism for stimulating production of electricity from RES in Ukraine**.** This will complement the existing mechanism, the Renewable Obligation, under which most renewable energy producers - with the exception of large hydropower plants - receive revenues from feed-in tariffs. They sell their output to the Guaranteed Buyer (GB) at the applicable feed-in tariff. The Guaranteed Buyer resells the electricity on the wholesale market (through an electronic auction). Since the wholesale market price is on average lower than the feed-in tariff, this creates losses for the GB. To cover these losses, NPC Ukrenergo is obliged to compensate the difference to the GB through the transmission tariff. At the same time, a significant deterioration in payment discipline during martial law, including the payment of the transmission tariff, led to the accumulation of debts of NPC Ukrenergo under PSO.

Following the new law, owners of RES generation will be able to choose an alternative way to sell their electricity on the market, using the market premium mechanism, instead of guaranteeing the purchase of the entire volume of electricity at a fixed price. Existing electricity producers at ‘green’ tariff or those that have acquired the right to support based on the results of the auction, will be provided with a market premium, which is calculated as the difference between the size of the green tariff or auction price and the estimated price for electricity. To pursue the law, the National Regulator will develop the form of the contract for the provision of such a service, the procedure for determining cost, as well as approve the calculation of cost of the service and approve the procedure for its payment. These changes will provide additional possibilities for both consumers and producers, stimulating competition and promoting the development of renewable energy.

Description of the reform: To address the problems of accumulating debts to RES producers and to further stimulate investment, the following steps are envisaged: 1) the introduction of a market-based support of renewable energy framework in line with new Ukrainian and EU requirements, namely announcing and conducting competitive auctions and 2) shortening the permitting procedures for renewable investments, 3) eliminating the causes of the Guaranteed Buyer's current debt to renewable energy producers under development of a Road map of the process of separation of the Renewable Energy Surcharge from the Transmission Tariff and further liberalising/reforming the energy market.

To introduce the market-based RES framework development, the following legislative acts will be introduced:

- The Resolution of the Cabinet of Ministers ‘On Amendments to the Resolution of the Cabinet of Ministers dated 29 December 2019 № 1175 on Improving the Procedure for Holding Auctions for the Distribution of Support Quotas’ adopted by Q4 2024;
- Legislation on shortening the permitting procedures for stimulating renewable investments in line with EU rules adopted and entered into force by Q3 2026.

These two steps will be implemented by the Ministry of Energy.

Development and approval of the Roadmap of the process of separation of the Renewable Energy Surcharge from the Transmission Tariff with identifying legislative needed acts and terms of implementation will be finalised by Q2 2025 by NEURC.

Potential impact of the reform: The reform will ensure the creation of legal, organisational and technical conditions for the sustainable development of renewable energy on a competitive market basis, with the goal to increase the share of renewable energy in the energy balance of Ukraine in accordance with Ukraine's international obligations and national strategies and plans, while ensuring the security of energy supply to consumers.

The Improved regulatory framework for increasing renewable energy and ensuring stable operation of the energy system will contribute positively to the mitigation of climate change and to other 'do no significant harm' principles, to the extent possible in a context of war or post-war recovery and reconstruction.

Reform 3. Electricity market reform

State of play and context: On 16 March 2022, the continental European electricity grid and the grids of Ukraine and Moldova synchronised. Prepared since 2017, the synchronisation happened significantly earlier than planned in a major success for both Ukraine's and EU's energy sectors. While it increases the stability of connected networks and allows deeper integration of electricity markets[19], further development of additional interconnectors with the European Transmission System has potential to further transform Ukraine's electricity sector. Comprehensive integration with the EU energy markets and ensuring the effective functioning of internal energy markets is a strategic goal of Ukraine. Recently, ENTSO-E announced that TSO (NPC Ukrenergo) fulfilled the main technical conditions to ensure a permanent interconnection between the electricity systems of Ukraine and Europe. This means that the synchronisation process is already complete.

Description of the reform: The reform will include the following steps: 1) adoption and entry into force of the electricity market integration package, 2) adoption and entry into force of the legislation changing the regime of indirect taxation of participants in the electricity market, 3) designation of a Nominated Electricity Market Operator, 4) implementation of dated 6 October 2023 № 3141-IX 'On Amendments to Certain Laws of Ukraine on Prevention of Abuse in Wholesale Energy Markets' (REMIT law), enabling the regulator to fully exercise the market oversight, including through adoption of all necessary secondary legislation and putting in place organisational, IT and data protection requirements.

Regarding the adoption of the electricity integration package, legislation aligning Ukrainian national legislation with the electricity integration package, as incorporated in the Energy Community *acquis* in December 2022, will be adopted and enter into force by Q4 2025.

The Electricity Integration Package will approximate legislation in line with the following acts and network codes and guidelines:

- Directive on General Rules of the Internal Electricity Market (further Electricity Directive (EU) 2019/944 (recast);
- Regulation on the Internal Electricity Market (further Electricity Regulation (EU) 2019/943);
- Risk Preparedness Regulation (EU) 2019/941 (recast);
- ACER Regulation (EU) 2019/942;
- Five network codes and guidelines that set out detailed rules related to different market segments and system operation:
    - Forward Capacity Allocation Guideline;
    - Capacity Allocation and Congestion Management Guideline;
    - Electricity Balancing Guideline;

[19] Market Study of the State of Competition in the Electricity Sector of Ukraine, OECD

System Operation Guideline;
Network Code on Emergency and Restoration.

The NEURC will accordingly amend its own resolutions:

- Market Rules approved by NEURC Resolution № 307 dated 14 March 2018;
- Rules of the Day-Ahead Market and Intraday Market, approved by NEURC Resolution № 308 dated 14 March 2018;
- The Transmission System Code approved by NEURC Resolution № 309 dated 14 March 2018;
- The Distribution System Code approved by NEURC Resolution № 310 of 14 March 2018;
- The Code of Commercial Metering of Electricity, approved by the NEURC Resolution № 311 of 14 March 2018;
- The Rules of the Retail Electricity Market approved by the NEURC Resolution № 312 dated 14 March 2018.

By Q2 2026, legislation changing the regime of indirect taxation and implementation of foreign economic activity of participants in the electricity market, in order to facilitate the market coupling of day-ahead and intraday markets with day-ahead markets and intraday markets of neighbouring states and operations related to exports and import of electric energy within the framework of the implementation of the legislation of the Energy Community introduced by the decision of the Council of Ministers of the Energy Community dated 15 December 2022 № D/2022/03/MC–EnC on the implementation of Regulation (EU) 2019/942, Regulation (EU) 2019/943, Regulation (EU) 2015/1222, Regulation (EU) 2016/1719, Regulation (EU) 2017/2195, Regulation (EU) 2017/2196, of Regulation (EU) 2017/1485 in the acquis of the Energy Community amending Annex 1 to the Treaty on the Energy Community, as well as amending Decisions of the Council of Ministers No. 2021/13/MC-EnC and No. 2011/02/MC-EnC (then the decision of the Council of Ministers of the Energy Community of the European Union dated 15.12.2022 No. D/2022/03/MC–EnC), , namely to amend the Tax Code of Ukraine and to amend the Customs Code of Ukraine to enable market integration and market coupling will be adopted and enter into force. The list of specific laws will be finalised after the adoption of the basic law on the transposition of the electricity integration package.

The NEURC will designate a nominated electricity market operator that will be appointed by Q4 2025.

Also, the implementation of the REMIT law will be ensured, allowing the regulator to fully supervise the market, including by adopting all necessary secondary legislation and introducing organisational, IT and data protection requirements.

By Q3 2024, the NEURC has to approve:

- The procedure for acquiring, suspending and terminating the status of a data transmission administrator;
- The procedure for the operation of insider information platforms;
- Requirements to ensure integrity and transparency in the wholesale energy market;
- Procedure for submitting information on commercial transactions with wholesale energy products.

In addition, the NEURC ensured the registration of wholesale energy market participants and will prepare the Terms of Reference for the development of an information system to support the NEURC's functions. Subsequently, the IT system will be developed and made operational.

Potential impact of the reform: The integration of the Ukrainian electricity markets into the European ones will increase the volume of cross-border trade, improve the security of both Ukrainian and EU markets, making them less sensitive to external factors, unfair competition and possible market abuse.

Reform 4. Liberalisation of electricity and natural gas prices

State of play and context: The current PSO regime significantly distorts gas and electricity markets. The market needs a timely and ambitious reform programme to address long-standing structural problems in the energy sector, which were exacerbated by the war. After the end of the war, ensuring system resilience and reducing quasi-fiscal liabilities will require gradual increases in gas and electricity prices to cost-covering levels, while allocating sufficient and targeted resources to protect vulnerable households.

Natural gas market

The regulated segment of the wholesale natural gas market operates in accordance with Article 11 of the Law of Ukraine ‘On the Natural Gas Market’, Resolution of the Cabinet of Ministers № 222 dated 6 March 2022 ‘On Approval of the Regulation on the Imposition of Special Obligations on Natural Gas Market Participants to Ensure Public Interest in the Functioning of the Natural Gas Market’ (hereinafter - the Regulation on PSO 222) and Resolution of the Cabinet of Ministers № 812 dated 19 July 2022 ‘On Approval of the Regulation on the Imposition of Special Obligations on Market Participants in the Process of The Regulation on PSO 222 imposed special obligations on the wholesale natural gas market: JSC Ukrgasvydobuvannya and State Joint Stock Company Chornomornaftogaz - for the sale of natural gas, and NJSC Naftogaz of Ukraine - for the formation of a natural gas resource for household consumers and heat producers by purchasing such gas on the terms and conditions provided for in this Regulation; NJSC Naftogaz of Ukraine - to provide LLC Gas Supply Company Naftogaz Trading, LLC Gas Supply Company Naftogaz of Ukraine, including as the supplier of last resort, with the natural gas resource necessary to ensure the performance of special duties in accordance with this Regulation, on the terms and conditions provided for in this Regulation; Gas Supply Company Naftogaz Trading LLC - to ensure the sale of natural gas under contracts with natural gas suppliers to household consumers on the terms and conditions provided for in this Regulation; Gas Supply Company Naftogaz of Ukraine LLC - to sell natural gas to gas distribution system operators on the terms and conditions provided for in this Regulation, starting from 1 June 2022. The PSO Regulation 812 imposed, inter alia, special obligations on NJSC Naftogaz of Ukraine to provide LLC Gas Supply Company Naftogaz Trading and LLC Gas Supply Company Naftogaz of Ukraine with the natural gas resources necessary to ensure the fulfilment of special obligations under this Regulation. The PSO is currently valid from 1 September 2022 to 15 April 2024.

Electricity market

On 5 June 2019, Cabinet of Ministers Resolution № 483 ‘On the approval of the Regulation on the imposition of special duties on the participants of the electric energy market to ensure the general public interests in the process of functioning of the electric energy market’ (PSO Resolution) established detailed rules for the implementation of PSO to ensure the supply of electricity at an affordable price to household consumers. The latest version of the PSO Regulation was adopted on 22 December 2023 and is currently in force until 30 April 2024.

To protect household consumers from high electricity prices in the newly liberalised market, the Government has imposed an obligation on universal service providers (USPs) to supply electricity to household consumers at a regulated price. It is important to note that all households are entitled to regulated electricity, not just vulnerable consumers.

The costs of covering the difference between the market and regulated price of electricity for the population are assigned to the producers - NNEGC Energoatom and PJSC Ukrhydroenergo.The regulated prices set by the Cabinet of Ministers do not fully reflect the real cost of electricity, which has led to financial problems of NNEGC Energoatom and Ukrhydroenergo and debt accumulation.

In the EU, Directive 2019/944 recognises the possibility for Member States to impose PSOs on undertakings operating in the electricity sector in the general economic interest, but requires that 'such obligations be clearly defined, transparent, non-discriminatory and verifiable'. The reform is planned to be implemented in line with these principles.

Description of the reform:

The Cabinet of Ministers adopted a Roadmap for gradual liberalisation of gas and electricity markets with steps to take and the associated timeline, to be implemented after the expiration of the martial law. The Roadmap will be based on the technical analysis to understand the financial condition of the sector.

The Roadmap will be focused on:

- Steps needed to reform the PSOs in order to gradually liberalise the market prices, once the martial law is lifted;
- Steps to take to ensure vulnerable consumers are adequately protected once the prices for households are liberalised, including the new design of the subsidy system for vulnerable consumers which improves the targeting and ensures adequate levels of protection, as well as preparatory steps to be implemented before the end of the martial law, such as identification of vulnerable population and the associated digital solution.

In the short term, Ukraine can advance technical analysis to determine the real financial situation of the sector and plan for corrective measures when feasible. The use of PSO schemes combined with lower energy demand, lower collection and below cost-recovery tariffs rate are generating a chain of financial deficits in the system that SOEs can no longer cover, and budget transfers to SOEs and municipal governments are needed. Analysis and preparation of a preliminary roadmap to phase-out of PSOs and price caps as well as tariff increases, while minimising adverse impacts on poor and vulnerable populations, could help accelerate its implementation in the midterm, including legal and regulatory changes, taking into account affordability and social protection limitations. Launching of the reform is ensured by the Government's approval of the Roadmap for the liberalisation of the gas and electricity markets to ensure the financial balance of market participants.

The Roadmap will be prepared by the Ministry of Energy and the NEURC and adopted by the Cabinet of Ministers by Q2 2026.

Potential impact of the reform: The implementation of this roadmap could take several years and require significant political consensus and communication efforts. The implementation of the reform roadmap will ensure the strengthening of competition in the wholesale and retail natural gas and electricity markets. This, in turn, will attract investment in the energy sector.

The improved incentives for businesses and consumers to save energy following the liberalisation of energy prices is expected to contribute positively to the mitigation of climate change, to the extent possible in a context of war or post-war recovery and reconstruction.

Reform 5. Ensuring the independence of the regulator (National Energy and Utilities Regulatory Commission)

State of play and context: National energy regulatory authorities are subject to the requirements of the Energy Community acquis on their status, independence and tasks. Although the Directives provide for some flexibility for Contracting Parties in designing the establishment of regulatory authorities, their independence must remain intact. This is particularly important for Ukraine in the context of the integration of its energy markets with those of the Energy Community Parties, the need to attract the investments needed by the Ukrainian economy and its energy sector in particular, and the efforts to support Ukraine during the imposition of martial law and the future reconstruction of Ukraine.

Description of the reform: The reform will focus on strengthening the independence of the National Energy and Utilities Regulatory Commission (NEURC) through two steps.

1. Amendments to the Law dated 24 August 2023 №3354-IX 'On Law-Making Activities' to exempt the NEURC's decisions, which are regulatory acts, from the state registration procedure provided by law, by Q4 2024. The amendments focus on the following aspects:

- Ensuring the independence of the Regulator as provided for in Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 on Common Rules for the Internal Market in Electricity and Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 on Common Rules for the Internal Market in Natural Gas.
- Implementation of Article 5 of the Law of Ukraine 'On the NEURC' prohibiting state bodies from interfering with the Regulator's activities.

2. Amendments to the Law of Ukraine 'On the National Energy and Utilities Regulatory Commission' and other acts adopted and enter into force by Q4 2025, which will provide for:

- Specification of special status for ensuring the independence of the Regulator as provided for by Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 on Common Rules for the Internal Market in Electricity and Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 on Common Rules for the Internal Market in Natural Gas.

Potential impact of the reform: ensuring the independence of the Regulator will become the basis for ensuring the effective functioning and development of markets in the energy and utilities sectors through impartial regulation of markets in order to balance the interests of consumers, business entities operating in the energy and utilities sectors, as well as ensuring energy security, European integration of the electricity and natural gas markets of Ukraine. It will promote NEURC's structured and systematic interaction with ACER (the Agency for the Cooperation of Energy Regulators).

Reform 6. Improved efficiency in the district heating

State of play and context: Outdated, inefficient equipment without adequate investment has caused a number of technical, financial and operational problems. An unbalanced tariff policy has led to a simultaneous financial crisis in the industry and consumer dissatisfaction. Poor quality of service and the lack of ability to regulate consumption resulted in mass disconnection from district heating to individual solutions and poor payment discipline of customers. The share of urban households served by district heating decreased from 89% to 55% between 1995 and 2018. Consumer debt is growing every year, reaching more than UAH 28 billion (more than EUR 600 million). The debt of district heating companies for natural gas reached more than UAH 90 billion (more than EUR 2 billion).

Key indicators of the sector:

- Primary energy consumption for district heating is 45 GWh.;
- 90% of energy sources are fossil fuels;
- 80% of consumers are households (5 million households connected to district heating);
- approximately 20 thousand boiler houses (70 GW);
- approximately 20 thousand km of heating networks;
- 30% - energy losses;
- 50% of facilities have reached the end of their useful life.

Description of the reform: The reform consists of three steps: cancellation of the moratorium on tariff increases in the heat supply sector, approval of the state target programme for the energy modernisation of state-owned or municipally owned heat producers by 2030, and changes to legislation to support specific improvements in the sector.

Cancelation of the moratorium introduced by Law № 2479-IX 'On the Peculiarities of Regulating Relations in the Natural Gas Market and in the Field of Heat Supply During Martial Law and the Subsequent Restoration of their Functioning' in order to reach cost-reflectiveness of heat and hot water tariffs by Q4 2025.

State targeted economic programme for the energy modernisation of heat generating enterprises for the period up to 2030 will be adopted by Q4 2025. It will focus on the following:

- Identifying measures to improve resilience, quality and availability of heat supply services;
- Identifying measures to support decarbonisation, reduction of greenhouse gas emissions and expansion of renewable energy sources;
- Providing measures to strengthen governance and management skills for local authorities in district heating sector, including for corporatisation of the district heating companies.

The Law of Ukraine 'On Amendments to Some Laws of Ukraine to Support Development of the Efficient and More Sustainable District Heating' enters into force by Q3 2025. The law is focused on:

- Setting clear rules for network connection/disconnection, zones of priority development of district heating systems;
- Improvement of procedures for individual heat substations (IHS) installation in multi-apartment buildings to ensure proper remote control and demand management.

Reaching cost-reflectiveness of heat and hot water tariffs will be achieved through cancelation of the moratorium introduced by Law № 2479-IX 'On the Peculiarities of Regulating Relations in the Natural Gas Market and in the Field of Heat Supply During Martial Law and the Subsequent Restoration of their Functioning' by Q4 2025.

The reform will be implemented by the Ministry for Communities, Territories and Infrastructure Development.

Potential impact of the reform: Implementation of the reforms specified above will help improve the sustainability of district heating, enhancing the energy security of settlements, reduce heat and water losses in district heating and improving overall efficiency (including management) to make it the most affordable and secure solution for heat and hot water supply to residents and other final customers in municipalities. As such, it will help create a favourable framework for investments in high-efficiency district heating and high efficiency cogeneration, increase the resilience of the unified energy system and decentralisation of generation facilities and ultimately support decarbonisation and reduction of greenhouse gas emissions.

The reduced loss of water and reduced energy consumption resulting from improved efficiency of district heating will contribute positively to the mitigation of climate change and a more sustainable use of water resources, to the extent possible in a context of war or post-war recovery and reconstruction.

Reform 7. Improved energy efficiency in public buildings and improvement of public procurement procedures taking into account energy efficiency requirements

State of play and context: Ukraine's building stock is deeply outdated, with buildings that do not meet modern energy efficiency requirements and technical systems that provide poor indoor air quality and thermal comfort for occupants. Overall, the construction sector in Ukraine plays a crucial role in ensuring the energy sustainability of municipalities and mitigating the effects of climate change, as buildings account for about 40% of total final energy consumption, which is mainly supplied by fossil fuel sources. At the same time, the pace of energy renovation of buildings in Ukraine is extremely low compared to European countries due to underfunding of existing financing instruments, lack of appropriate financial incentives for all types of building owners, and low capacity of local government officials to attract IFI funds and private investment for the renovation of public buildings.

Description of the reform: The reform envisages the adoption the Long-term Strategy for Thermal Modernisation of Buildings until 2050 and the associated Action Plan aimed at introducing market-based financial instruments and incentives, containing a roadmap with policy measures, including those aimed to support the introduction of nearly-zero energy building, by Q2 2024.

Politics and measures will aim to improve the energy efficiency of buildings and to create financial incentives to accelerate the reconstruction of buildings to achieve climate neutrality and recovery by, in particular:

- Strengthening governance in municipalities by launching and supporting the establishment of energy management systems in local governments and building capacity for local energy planning;
- Ensuring the implementation of thermal modernisation programmes for public buildings, including the launch of IFI programmes and the introduction of an energy service mechanism;
- Ensuring the implementation of thermal modernisation programmes for residential buildings (multi-apartment and single-family), including the operation of the Energy Efficiency Fund and the State Fund for Decarbonisation and Energy Efficient Transformation;
- Ensuring from subsidising energy costs to supporting investments in thermal modernisation of buildings.

Requirements for energy-efficient procurement in accordance with the principles of ‘energy efficiency first’ and ‘build back greener’ will be approved.

The reforms also include further steps:

- The Cabinet of Ministers adopted acts on setting minimum energy efficiency performance levels for buildings and also for products covered by the EU ecodesign legislation, Ministry for Communities, Territories and Infrastructure Development adopted acts on setting et minimum energy efficiency performance levels for products covered by the EU energy labelling legislation;
- The order of the Ministry of Economy regarding the application of established acts by the Cabinet of Ministers and the Ministry for Communities, Territories and Infrastructure Development requirements for energy labelling and eco-design as mandatory minimum criteria during public procurement was adopted and entered into force. These requirements make minimum energy efficiency performance levels for buildings and products covered by national standards, which are

aligned with EU energy labelling and ecodesign legislation. The content of the order was communicated to the contracting authorities in the field of public procurement

The reform will be implemented by the Ministry for Communities, Territories and Infrastructure Development and Ministry of Economy, and will be completed by Q1 2027.

Potential impact of the reform: Implementation of reform will help increase the energy sustainability of buildings and municipalities in general by reducing energy consumption in an energy-efficient way, contribute to enhancing quality of life and health by improving the internal environment and thermal comfort, expand opportunities for sustainable energy development in municipalities and reduce greenhouse gas emissions, improve the well-being of residents and the financial capacity of local governments by boosting business activity and creating new green jobs and help reduce energy poverty.

The improved energy efficiency in public buildings and increased focus on energy efficiency performance in public procurement will contribute positively to the mitigation of climate change, to the extent possible in a context of war or post-war recovery and reconstruction.

3. Overall investment needs and opportunities in 2024-2027

The total recovery and rehabilitation needs in the energy sector are estimated at EUR 42.7 billion according to the RDNA3, with EUR 2.4 billion needed for 2024.

Around 50% of total power generation capacities suffered from damage and destruction from the start of the war until April 2023. As the energy sector provides critical services, investments in the rehabilitation and recovery of the sector are considered urgent. In addition, financing some of the indirect losses to ensure short-term operations in the sector is urgent, including the need to cover liquidity gaps of the electricity TSO (PJSC NEC Ukrenergo), the key state-owned gas supplier (JSC Naftogaz), and other stakeholders.

Since the beginning of the war, the Ministry of Energy, in cooperation with the Regulator and participants of the electric energy market, approved more than 60 orders aimed at stabilising the operation of the electric energy market and ensuring the security of electric energy supply. To implement the specified tasks, the Ministry of Energy receives humanitarian aid in the form of materials and energy equipment, partners purchase equipment as part of projects to restore energy facilities. However, the main part of this aid is directed to state enterprises. Privately owned energy-generating enterprises are unable to attract financial resources for restoration under market conditions and need to expand support mechanisms.

Reconstruction provides an opportunity to re-prioritise the energy sector in Ukraine, balancing the need to quickly restore essential services with the need to rebuild on a ‘build back better’ basis. The latter also needs to be aligned with the systematic implementation of energy efficiency measures as part of the large-scale reconstruction that will take place across all sectors, public and private, including households. Restoring the energy sector requires large investments that cannot be generated domestically. Careful planning will be needed to ensure sustainable investments, and institutional processes will need to be simplified to attract funding streams from a variety of public and private sources. Any planning undertaken during the war will likely need to be adjusted and rethought during the reconstruction phase.

Restoring the post-war energy sector requires large investments that cannot be generated domestically.

Rebuilding Ukraine's energy sector will initially focus on liquidating damage and reparing to the power grid, power generation facilities and other energy infrastructure to ensure access to energy for citizens and enable recovery. Resilience building will be key to addressing the sector's vulnerability to the challenges.

In parallel with these steps, efforts will be made to develop renewable energy sources, while increasing the share of flexible and highly flexible capacities (energy storage, HPPs, PSPPs, biomass, biomass CHP, high-efficiency modern gas peakers) to balance renewables.

Investment priorities should focus on production development, green transformation and localisation of production.

Ukraine aims to transition its energy-intensive, high-emitting economy to a more sustainable model, and the energy sector will be crucial to this process. The energy sector is also responsible for a significant share of Ukraine's total greenhouse gas emissions. The rebuilding and development of Ukraine's energy sector will be based on the principles of the Energy Strategy of Ukraine until 2050, adopted in 2023, which reflects the goals of the European Green Deal and plans to achieve climate neutrality by 2050. The National Energy and Climate Plan (NECP), which will be presented to the Energy Community in June 2024, will define Ukraine's policies and measures for the reconstruction and development of the energy sector until 2030.

The key investment priorities in 2024 are:

1. **Protection and repair of energy infrastructure:**

   - Repairing damage to the power grid, power generation facilities and other energy infrastructure to ensure access to energy for citizens and enable recovery. This includes emergency repairs to the power plants, TSO (transmission system operator) and DSO (distribution system operator) equipment repair and replacement, and physical protection of energy infrastructure. It is planned to protect energy infrastructure units of 22 substations in 14 regions: repair/replace damaged power transmission equipment to increase its resilience; reconstruct distribution infrastructure in 6 most affected regions; repair gas transmission system operator facilities.

2. **Increasing of generation capacity:**

   - **Replacing capacity of Zaporizhzhia nuclear power plant** trough start the project of construction 2 units and make preparatory measures for 2 additional units for construction at the nuclear power plant in Khmelnytskyi is expected to contribute positively to the mitigation of climate changes, to the extent possible in a context of war or post-war recovery and reconstruction, although careful attention should be paid to ensuring adequate mitigation measures to protect water resources.
   - **Recovery and e reconstruction of damaged thermal generation facilities,** hydro power plants (including Kaniv and Kakhovka hydro power plants) in 5 key economic regions will contribute positively to the mitigation of climate changes, to the extent possible in a context of war or post-war recovery and reconstruction, however mitigation and compensation measures will need to be considered due to the potential negative impact on biodiversity. During the massive airstrikes by the Russian Federation, equipment at thermal power stations and thermal power plants was damaged. Their urgent restoration will ensure sufficient generating capacity and delivery of heat to residents' homes.
   - **Expand distributed local generation through installation of at least 300 MW of gas-turbine and gas-engine generators.** This investment is considered necessary in the current conditions, since the United Electric Power System of Ukraine (UEPS of Ukraine) operates under extremely unfavourable conditions, such as the occupation and constant shelling of large-scale generation facilities and the unbalanced development of the generating capacity park with the rapid development of renewable energy sources, which was not accompanied by the parallel introduction of regulatory capacities. An acute shortage of balancing capacities affects the

reliable and safe operation of the UEPS of Ukraine, and even the application of consumer outage schedules. The problems of imbalance in the IPS hinder the formation of a favourable investment climate in the electricity market. Commissioning in the post-war period of highly flexible capacities with the ability to quickly start/stop (switching on from scratch and reaching the nominal capacity in 10–15 minutes) will provide an opportunity to avoid compliance problems and reduce the need for corrective actions by providing the UEPS of Ukraine with the necessary regulatory reserves. Given the active recovery and development of Ukraine's economy after 2023, which will be characterised by an increase in demand for electricity, and as a result, there will be a need for gas generation to ensure the transition period, which can then switch to renewable gases. Ukraine will take measures to prevent pollution, such as the implementation of modern projects of modular gas turbine and gas piston installations with minimal indicators of negative impact on the environment and introduce compensatory measures, such as afforestation/reforestation, as defined in section 15.

- **Ensure the development of renewable energy sources and energy storage systems.** These systems and others mentioned in behind paragraphs about storage, including HAPP, will have a positive contribution to the mitigation of climate changes, to the extent possible in a context of war or post-war recovery and reconstruction.

The key investment needs in 2024-2027 are:

- **Strategic reorientation of the sector to integrate into the European system will be key to building the sector's resilience.** This primarily relates to expanding the electricity interconnections between Ukraine's integrated energy system and the EU energy systems, including modernising the existing ones as well as, subject to further assessments at regional level, construction of new electricity transmission lines and expansion of interconnectors with ENTSO-E, as well as installing static synchronous compensators (STATCOM) to increase technological (commercial) flows through the interstate crossing between the power system of Ukraine and the ENTSO-E and eliminate the possibility of low-frequency fluctuations in the power system.
- **Development of renewable energy generation capacity**. Most recent estimates indicate Ukraine's technical renewables potential at 83 GW for photovoltaic, 438 GW for onshore wind power and 250 GW for offshore wind power, while Ukraine’s biomethane potential could replace its pre-invasion gas imports or supply 10-20%[20]. Continuous implementation of market-oriented reforms will help promote stronger private sector involvement. Assessed to have a positive impact on the mitigation of climate changes, to the extent possible in a context of war or post-war recovery and reconstruction, but with a need to pay attention to the impact on terrestrial and marine biodiversity.
- **The development and modernisation of electricity transmission and distribution infrastructure is needed to connect existing and new sources to the grid, increase the possibilities of cross-border exchange, and support overall energy security**. The power grids need to also be modernised, including via introducing the ‘smart grids’, systems for automatic monitoring, control, regulation and protection of the grid, and via introducing measurement systems such as smart metering to improve the flow of electricity and energy data and allow for improving energy efficiency. Assuming the level of investment needed in Ukraine to modernise the grid corresponds to the average level of investment in Eastern European countries, it would amount to approximately EUR 1400 per kilometre. Modernisation will be guided by the ‘do no significant harm’ principle and is expected to have a positive contribution to the mitigation of climate changes,

[20] Synthesis Report: https://www.ifc.org/content/dam/ifc/doc/2023/synthesis-report-private-sector-opportunities-for-a-green-resilient-reconstruction-ukraine.pdf

to the extent possible in a context of war or post-war recovery and reconstruction, while adequate measures will be taken to mitigate potential negative effects on biodiversity.

- **The renaissance of nuclear generation.** Extending the operational life of existing reactors; the construction of new nuclear reactors will significantly strengthen the energy system. According to the Energy Strategy 2050, new nuclear units are planned to be built taking into account the replacement of existing power units. The new power units would include large power units (1000-1200 MW) and small modular reactors. This investment is considered necessary in the current conditions, as it ensures the development of low-carbon energy in the future and reliable provision of the needs of society and the economy. All modern designs of NPP power units provide operation in the mode of manoeuvring (following the load). This creates the necessary conditions both for the efficient operation of nuclear power plants in the conditions of the modern energy market and for maintaining the balance reliability of the UEPS of Ukraine in the conditions of its operation as part of unguaranteed capacities of solar and wind power plants to compensate for the power fluctuations by these power plants. In addition, the development of nuclear energy will contribute to the preservation and development of high-tech activities, production and scientific potential of enterprises, institutions, organisations of Ukraine, whose activities are closely related to nuclear energy (in industry, science, design and construction, etc.), the preservation of existing and the creation of new jobs, the placement of orders at the facilities of domestic enterprises for the production of equipment for power units. New power units and increased capacity will help mitigate climate change. Ukraine will take measures to prevent pollution, such as the implementation of modern projects of nuclear power units with minimal indicators of negative impact on the environment, which meet Ukraine's international obligations under the Paris Climate Agreement. During the construction of new nuclear power units in accordance with the legislation of Ukraine, the population living in the NPP supervised area has the right to social and economic compensation for the risk, including through the implementation of social investment projects that are important for the development of the relevant administrative territories.
- Adjacent areas are the maintenance and development of existing uranium ore mining facilities. This investment is considered necessary in the current conditions, since the development of uranium mining in Ukraine as a carbon-neutral fossil fuel is fully in line with the decisions taken by the European Parliament on the classification of environmentally sustainable activities for investors who help in the fight against climate change. The uranium reserves of Ukrainian deposits, subject to the development of production, are able to meet the needs of the national nuclear energy in raw materials for nuclear fuel, which guarantees the energy security and independence of Ukraine. At the same time, the development of nuclear energy will achieve a reduction in CO2 emissions, which will meet the green criteria of the concept of sustainable development, which are aimed at combating climate change. Ukraine will take measures to prevent pollution and conserve water resources and biodiversity, such as control over the spread of radionuclides, including through mine water treatment, prevention of dust formation in uranium ore mining and processing areas. Compensatory measures will also be actively used to extinguish exhausted cavities (filling with inert mass) in order to prevent their impact on the daytime surface and prevent possible damage to the environment.
- **Digitalisation of the energy sector has the potential to increase its resilience to cyber attacks and natural hazards.** Centralised data security and remote accessibility are crucial to business continuity and disaster recovery. Prior to the full-scale invasion, Ukrenergo, upgraded its information and communication technology (ICT) and developed a business recovery plan, which helped it respond rapidly and modify its operations in response. Working with ICT companies, NEC Ukrenergo has successfully strengthened its security and productivity platforms, bolstering its

resistance to continual cyberattacks (CEE Multi-Country News Centre 2022). This practice will be continued both at the level of the transmission system operator and in distribution networks.

- **Investments into energy efficiency hold great potential and are a key step to reach energy security.** The estimated energy saving potential is highest in the residential sector (50%) and the industrial sector (33%). This includes thermal modernisation of residential and public buildings, modernising heating transmission and distribution networks, improving insulation in public and private buildings, investments in modernisation and increasing energy efficiency of the district heating and cogeneration, improving energy efficiency and stepping up decarbonisation efforts in the industrial sector as well moving towards higher energy products across various consumption categories. A vital prerequisite for energy efficient consumption is the transition to market-based energy pricing as soon as conditions allow, while simultaneously combating energy poverty through targeted support measures. Capacity building efforts targeting energy auditors and other specialised professions are needed as well.

The private sector will be vital to a green and resilient recovery in Ukraine. In energy and extractives, policy reforms could enable the private sector to invest EUR 33.6 billion in the RDNA3 reconstruction needs covering 76% of the needs, while unlocking EUR 123.3 billion in additional investment opportunities.

Most segments of the electricity subsector are open to private investment, except for the large hydropower and nuclear power generation and transmission systems. However, the Government aims to open these subsectors to some form of private-sector participation over the long term. The Government currently bars the private sector from participating in district heating systems, except as a universal energy provider, though private-sector engagement is a long-term objective.

Potential for private investments is particularly high in the following areas:

- **Developing renewable energy sources is needed to scale up generation capacity in a sustainable way.** According to the Energy Strategy 2050, projected volumes of new installed capacity can reach 8.8 GW for wind farms and 0.7 GW for solar plants in the period 2024-2027, with the corresponding investment needs at EUR 10.6 billion and EUR 0.6 billion, respectively. Furthermore, development of biomass and biofuels (bioethanol, biodiesel, biomethane) production from agricultural products, residues and waste, and transition to biomass and biogas for district heating where possible holds great potential given the abundance of cheap raw material from the large agricultural sector. 0.3 GW of new biogas production capacity as projected would require EUR 0.6 billion, while additional 0.4 GW from the liquid biofuels required EUR 2.2 billion. Electrolysis and green hydrogen production are other potential areas, as well as transport infrastructure to connect production sites with consumers in Ukraine and EU Member States. Investments in optimisation and modernisation of the existing gas transmission network are needed to use renewable and synthetic biomethane and hydrogen.
- **Development of electricity transmission and distribution networks to provide free capacity for new connections.** The investment programme of NPC Ukrenergo envisages the construction of new substations and power lines, both in the country and cross-border power lines. The programme takes into account the requirements of the The transmission system development plan for 2023-2032 approved by the Regulator. Access to long-term financing is likely to remain a serious issue for the upgrading of distribution networks.
- **Developing energy storage capacities would support the integration of intermittent renewable energy sources.** This includes lithium batteries on the back of significant lithium reserves which

could allow for the development of localised energy storage capacities. According to the Energy Strategy 2050, to reach the planned 0.5 GW of installed storage capacity, EUR 0.2 billion investments are needed.

- **Development of long-term energy storage capacity (HAPP) to support the integration of intermittent renewable energy sources.** During 2024-2027, it is planned to reach 2.4 GW of new capacities of hydroelectric power plants and hydro-accumulating power plants.
- **Construction of peak and semi-peak (flexible) generation will add generation capacity as well as help balance the power system without the use of more polluting sources.** The development of biogas and biomass generation will create markets for these raw materials and provide an opportunity for farmers to earn additional income. Promising technologies are thermal power plants and combined heat and power plants with closed-cycle gas turbines (CCGT) for semi-peak generation and thermal power plants and combined heat and power plants with open-cycle gas turbines (OCGT) for highly manoeuvrable generation. To reach new CCGT capacity of 3.2 GW and OCGT capacities of 0.96 GW by 2027 as projected in Energy Strategy 2050, required investments are projected at EUR 3.2 billion and 1.2 billion respectively.
- **Oil production and processing.** As a result of numerous pinpoint rocket-bomb attacks on oil depots and oil refining facilities, significant reserves of oil products and their production capabilities were lost. The development of individual oil projects within the framework of agreements on the distribution of products based on the results of a geological survey of the sites and the restoration of oil refining capacity in Ukraine on the basis of one of the existing refineries, which will be able to partially satisfy the demand for oil products at the expense of domestic oil refining, is foreseen.
- **Increase in gas production.** Increased production of hydrocarbons is assumed under production enhancement contracts (PEC) on subsoil areas of PJSC Ukrnafta and JSC Naftogaz , which will allow to increase production volumes in a short period of time. Implementation of the signed agreements on the distribution of products (DPA) in 2020-2022 for 11 areas. In order to actively increase natural gas reserves, it is envisaged stimulating the use of the latest technologies of borehole seismic exploration, 3D modelling, the involvement of companies having experience with the intensification of gas production in depleted fields, the drilling of new wells, and the improvement of deposit reservoir development systems. Projected volumes of production (including private companies, PJSC Ukrnafta at JSC Naftogaz) by 2030 will be approximately 21.5 billion cm (subject to the implementation of the strategic initiatives mentioned below). However, Ukraine has the potential to increase production volumes to 26.8 billion cm. Production indicators in 2030 will allow covering own consumption, as well as open up the possibility to increase the production of products that require the use of natural gas as a key raw material and to export the remaining volumes.
- **Localising energy equipment production.** This includes equipment related to renewable energy generation and storage such as solar modules and racks, wind turbine components and towers, transformers, cables and electrolysers, energy storage systems such as those based on the Ukraine's lithium reserves, as well as energy efficient building materials and other products.

3.1 Investments to be pursued under the Pillar I of the Ukraine Facility

Investment 1. Investments in energy infrastructure

State of play and context:

The unified energy system of Ukraine, which was historically built as a centralised one, is quite vulnerable to targeted attacks on the main power plants and substations of the transmission system. The last 2 year's shelling and the resulting blackouts (an average of 3.8 million consumers each) clearly demonstrated its vulnerabilities. Therefore, projects for the construction of distributed generation of low capacity from renewable energy sources are becoming more and more relevant, which should use an extensive network of distribution systems in combination with energy storage facilities, smart technologies, demand management systems, etc. Currently, the production of electricity from renewable energy sources (RES) is supported through a system of green tariffs, after the adoption of the law on green transformation, new market support mechanisms are being introduced, and investments will be directed to their implementation.

District heating systems in Ukraine are physically worn out and technologically backward. Together with the widespread individual heating in Ukraine, they cannot provide citizens with continuous, safe, affordable and high-quality heating. Such heating systems are vulnerable to gas supply interruptions, and heating costs increase significantly in the event of a sharp increase in the market value of gas. These shortcomings are especially noticeable in the context of the armed aggression of the Russian Federation against Ukraine and a sharp reduction in financial resources. Modern efficient district heating systems are able to provide a high level of reliability and moderate cost of heating as a result of diversification of energy sources, the use of alternative fuels and waste heat. The development of such systems requires significant financial resources, the issue of modernisation of district heating systems should be resolved at the state level, in particular with the use of state support and incentives.

The war and spending cuts have led to underfunding of the Energy Efficiency Fund, which poses risks to the implementation of energy efficiency measures.

The low level of energy efficiency of public buildings leads to an increase in expenditures of the state and local budgets for utilities. Currently, there is significant potential in buildings to reduce energy consumption, rational use of energy resources and increase the level of energy efficiency. In Ukraine, the rate of thermal modernisation of buildings is much lower than in the EU. The available potential to reduce energy consumption by buildings is 42%.

Physical protection of energy infrastructure is an integral part of ensuring the national security of Ukraine. The Government's task is to reduce the risk of massive missile or drone attacks to a controlled level in order to reduce damage and reduce the time for the restoration of facilities.

Description of the investment: Report of the Government (or Treasury report) showing that in the State Budgets for 2026 and 2027 the Government budgeted at least EUR 550 million (in UAH equivalent) for strengthening the energy infrastructure of Ukraine, including at the regional level (as part of the indicator in the Decentralisation section on allocating 20% to the sub-national level), among others for the following:

- Improving energy efficiency in district heating, in line with the State Targeted Economic Programme for the Energy Modernisation of Heat Generating Enterprises 2030;
- Financial contribution to the Energy Efficiency Fund to support improved energy efficiency in the residential sector;
- Improving energy efficiency in public buildings, in line with the Strategy for Thermal Modernisation of Buildings until 2050;
- Physical protection of Ukraine's energy infrastructure;
- Supporting the development of renewable energy sources, in line with the new market-based framework for renewable energy, and for the construction of highly flexible capacities.

Potential impact of the investment:

Investments will contribute to restoration of the energy infrastructure damaged and destroyed as a result of the armed aggression of the Russian Federation, as well as construction of a new one, in accordance with the principles of ‘energy efficiency first’ and ‘build back greener’. Supporting the construction of flexible and highly flexible capacities (energy storages, HPPs, HAPPs, biothermal power plants, biothermal cogeneration, high-efficiency modern gas pickers) will help to balance the power system without the use of dirty coal generation, enable the commissioning of additional generation capacity to replace that which has been destroyed, and ultimately ensure a stable supply of electricity to consumers.

The development of biogas and biomass production will create markets for these commodities and provide opportunities for farmers to earn additional income. Decentralised energy production like wind and solar will stimulate local economic development, providing income for business, prosumers and the public sector at local level. Such decentralised energy production will also substantially enhance Ukraine’s energy security, as well as stimulating investments into energy efficiency of district heating and of buildings.

The investments will be aimed at providing support to state and municipal business entities for the installation of photovoltaic modules and/or wind power plants up to 500 kW (per facility) together with a hybrid inverter that can operate both in autonomous mode and within the framework of synchronisation with the grid. Such power supply systems must be equipped with energy storage installations with a capacity that will provide power to the consumer's load for at least 4 hours.

Such consumers primarily include critical infrastructure facilities that ensure the livelihood of the population: centralised water supply systems (1^{st} and 2^{nd} lift pumping stations, booster pumping stations); centralised drainage systems (sewage pumping stations, treatment facilities); district heating systems (boiler houses, central heating points); healthcare facilities; life support systems for apartment buildings - autonomous heat supply systems/individual heat points, circulation pumps, lighting, alarm, smoke removal, etc.

From the economic point of view, the installed power supply systems from RES will operate according to the mechanism of self-production on market conditions. Thus, a double positive effect will be achieved: strengthening the security of power supply to critical infrastructure facilities; reducing the amount of payment for electricity consumed by them, which will potentially lead to a reduction in the cost of services provided by the relevant business entities.

As a result of investments in the district heating sector, it is expected to increase the efficiency of district heating systems with a decrease in fuel consumption, heat losses and an increase in the share of waste heat, high-efficiency cogeneration and renewable energy sources. In addition, the State Target Economic Program for Energy Modernisation of Heat-Generating Enterprises lays down a mechanism for promoting the development and updating of heat supply schemes for settlements, equipping consumer buildings with commercial metering units, equipping consumers' heat inputs with individual heat points, etc.

Investments in improving the energy efficiency of public buildings in accordance with the Strategy for Thermal Modernisation of Buildings until 2050 provide for the introduction of a system of financial support for local government initiatives to improve the energy efficiency of buildings and the development of renewable energy sources integrated into buildings. Investments in thermal modernisation of public buildings are aimed at reducing maintenance costs and energy consumption.

Decentralised energy production, including wind and solar, will drive local economic development, providing revenue for businesses, consumers, and the public sector at the local level. Such decentralised energy production will also significantly increase Ukraine's energy security, as well as stimulate investment in the energy efficiency of district heating and buildings.

The purpose of state policy in the field of energy infrastructure protection is to ensure the security of critical infrastructure facilities, prevent unauthorised interference in their functioning, forecast and prevent crisis situations at critical infrastructure facilities.

Out of all investments in the energy sector funded under the Pillar I of the Ukraine Facility, those that target improving energy efficiency in district heating, residential sector and public buildings and support development of renewable energy sources will contribute to addressing environmental and climate challenges. These investments represent an estimated 60% of total investments in the energy sector under the Pillar I.

4. Coherence with the objectives of the Ukraine Facility

Reforms and investments listed will address the social, economic and environmental consequences of the war, thereby contributing to the recovery, reconstruction and modernisation of the country. They will also foster social, economic and environmental resilience and progressive integration into the Union and global economy and markets. The proposed reforms will progressively align with Union rules, standards, policies and practices with a view to future Union membership. In terms of the specific objectives, the reforms and investments will rebuild and modernise infrastructure damaged by the war, such as energy infrastructure, and will develop and strengthen a sustainable green transition in all economic sectors, including the transition towards the decarbonisation of its economy.

The reforms proposed are in line with UN’s SDG 7 ‘Ensure access to affordable, reliable, sustainable and modern energy for all’.

5. Table of reforms and investments covered under Pillar I

Reforms and investments	Objectives and growth potential	Corresponding chapters of the EU Enlargement report	Name of the step (quantitative and qualitative steps to implement reforms/investments)	Agency responsible for implementation	Outcome	Timeframe
Reform 1. Integrated National Energy and Climate Plan	The INECP is designed to facilitate with coordination between existing strategies, plans and measures for reaching the goals of the EU and the Energy Community in the fields of energy and climate. It aims to ensure a transparent, timely and well-coordinated development process in respective sectors in the process of reaching targets of sustainable development, contribute to attracting investments and as well as support cooperation between the countries of the EU and the Energy Community to achieve climate goals. This approach requires the alignment of the objectives of all government agencies and provides a level of planning that will simplify public and private investment	Chapter 15. Energy Chapter 27. Environment and climate change	Development and approval of the Integrated National Energy and Climate Plan	Ministry of Economy	Entry into force of the Order of the Cabinet of Ministers on approving the Integrated National Energy and Climate Plan to establish national climate neutrality objectives and ensure appropriate planning after duly taking into account the recommendations from the Energy Community. The plan will define targets to be achieved by 2030 on: - GHG reductions, including through market-based carbon pricing mechanisms; - The share of renewable sources in gross final consumption of energy; - The energy saving in final energy consumption	Q2 2024
Reform 2. Improved regulatory framework for increasing renewable energy and ensuring stable operation of the energy system	Creation of new legal, organisational and technical terms and conditions for sustainable development of renewable energy on a competitive market basis is needed to stimulate new investments and increase in the share of renewable energy sources in Ukraine's energy balance pursuant to the international commitments of Ukraine and national strategies and plans, while ensuring security of supply to consumers. Further adjustments to increase transparency in the tariff calculation and collection and shortening the various permitting processes involved in the construction of new RES facilities would support investors in the sector	Chapter 15. Energy	Introduction of a market-based framework for renewable energy	Ministry of Energy	Adopted and entry into force of market-based legislative and regulatory framework for RES investments in line with EU rules namely necessary procedures and documents for competitive auctions. The following legislative act will be introduced/amended: - The Resolution of the Cabinet of Ministers 'On Amendments to the Resolution of the Cabinet of Ministers dated 29 December 2019 № 1175 on Improving the Procedure for Holding Auctions for the Distribution of Support Quotas' adopted and enters into force	Q4 2024
			Improvement of permit procedures for RES investments	Ministry of Energy	Adopted and entry into force of the legislation on shortening the permitting procedures for renewable investments in line with the EU rules	Q3 2026

			Introduction of the Roadmap of the process of separation of the Renewable Energy Surcharge from the Transmission Tariff	National Energy and Utilities Regulatory Commission (by consent)	Development and approval of the Roadmap of the process of separation of the Renewable Energy Surcharge from the Transmission Tariff with identifying legislative needed acts and terms of implementation	Q2 2025
Reform 3. Electricity market reform	Implementation of electricity market reforms in line with the EU *acquis* and good governance principles are the pre-conditions for creating a stable and transparent regulatory framework, enabling the necessary investments in the energy sector, supporting the development of a well-functioning market in Ukraine and its integration into the European energy market. Further integration of Ukrainian electricity markets to European ones will increase the volume of cross-border trade, increase the security of the markets of both Ukraine and the EU, making them less sensitive to the influence of external factors, unfair competition and possible abuses in the markets. Implementation of REMIT law, including through adoption of necessary secondary legislation and putting in place organisational, IT and data protection requirements, together with effective cooperation with other relevant authorities will enable the regulator to fully exercise the market oversight	Chapter 15. Energy	Adoption of the electricity integration package	Ministry of Energy	Adopted and entry into force of the Legislation on the transposition of the Electricity Integration Package. Legislation that aligns Ukrainian national legislation with the electricity integration package, as incorporated in the Energy Community *acquis* in December 2022. The Electricity Integration Package will approximate legislation in line with the following acts and network codes and guidelines: - Electricity Directive (EU) 2019/944 (recast); - Electricity Regulation (EU) 2019/943; - Risk-preparedness Regulation (EU) 2019/941 (recast); - ACER Regulation (EU) 2019/942. - the five Network Codes and Guidelines establish detailed rules related to different market segments and system operation: Forward Capacity Allocation Guideline; Capacity Allocation and Congestion Management Guideline; Electricity Balancing Guideline; System Operation Guideline; Network Code on Emergency and Restoration	Q4 2025
			Adoption of the legislation on changing the conditions of taxation of participants in the electricity market	Ministry of Energy	Adopted and entry into force of the legislation changing the regime of indirect taxation of participants in the electricity market, in order to facilitate the market coupling of day-ahead and intraday markets with day-ahead markets and intraday markets of neighbouring states and operations related to exports and import of electric energy within the framework of the implementation of the legislation of the Energy Community introduced by the decision of the Council of Ministers of the	Q2 2026

					Energy Community dated 15 December 2022 № D/2022/03/MC–EnC , namely to amend the Tax Code of Ukraine and to amend the Customs Code of Ukraine to enable market integration and market coupling. The list of specific laws will be finalised after the adoption of the basic law on the transposition of the Electricity Integration Package	
			Appointment of a Nominated Electricity Market Operator	National Energy and Utilities Regulatory Commission (by consent)	A nominated electricity market operator designated by National Energy and Utilities Regulatory Commission (NEURC) is appointed	Q4 2025
			Implementation of REMIT law	National Energy and Utilities Regulatory Commission (by consent)	Adopted and entry into force of the secondary legislation on REMIT law . The NEURC approves the following procedures and requirements: - The procedure for acquiring, suspending and terminating the status of a data transfer administrator; - The procedure for the functioning of insider information platforms; - Requirements for ensuring integrity and transparency in the wholesale energy market; - Procedure for Submission of Information on Economic and Trade Transactions with Wholesale Energy Products. Preparation of the Terms of Reference for the development of an information system defining the following functions of the NEURC: the system will be integrated with the systems of market operators, insider information platforms, data transfer administrators and will detect information indicating the presence of abuse	Q3 2024
Reform 4. Liberalisation of electricity and natural gas prices	Implementation of a timely and ambitious reform agenda aimed at addressing long-standing structural problems in the energy sector that have been exacerbated by the war needs to be carefully planned. This will, among other things, require the resumption and	Chapter 15. Energy	Adoption of a Roadmap for gradual liberalisation of gas and electricity market, to be implemented after the expiration of the martial law	Ministry of Energy	The Cabinet of Ministers adopted a Roadmap for gradual liberalisation of gas and electricity market with steps to take and the associated timeline, to be implemented after the expiration of the martial law. The Roadmap will be based on the technical analysis to	Q2 2026

	increased competition in the wholesale and retail natural gas and electricity markets. In addition, ensuring the sustainability of the system and reducing quasi-fiscal obligations will require a gradual increase in gas and electricity prices to cost recovery levels once the conditions allow and the martial law has been lifted, while allocating sufficient and targeted resources to protect vulnerable households				understand the financial condition of the sector. The Roadmap will be focused on: - Steps needed to reform the PSOs in order to gradually liberalise the market prices, once the martial law is lifted; - Steps to take to ensure vulnerable consumers are adequately protected once the prices for households are liberalised, including the new design of the subsidy system for vulnerable consumers which improve the targeting and ensures adequate levels of protection, as well as preparatory steps to be implemented before the end of the martial law, such as identification of vulnerable population and the associated digital solution	
Reform 5. Ensuring the independence of National Energy and Utilities Regulatory Commission	National energy regulator is subject to the requirements of the EU-Ukraine Association Agreement and Energy Community acquis regarding their status, independence and tasks. Although the respective EU legislation provides for a certain flexibility of the Contracting Parties in designing the establishment of regulatory bodies, their independence should remain intact. This is especially important for Ukraine in the context of the integration of its energy markets with the EU/ Energy Community, the need to attract investments necessary for Ukrainian economy and its energy sector in particular, in efforts to support Ukraine during the imposition of martial law and the future reconstruction of Ukraine	Chapter 15. Energy	Ensuring the independence of the National Energy and Utilities Regulatory Commission	National Energy and Utilities Regulatory Commission (by consent)	Adopted and entry into force of the amendments to Law dated 24 August 2023 № 3354–IX ‘On law-making activity’, which exempt the decisions of the National Energy and Utilities Regulatory Commission, which are regulatory legal acts, from the state registration procedure provided for by law. The changes focus on the following aspects: - Ensuring the independence of the Regulator as provided for by Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 on common rules for the internal market in electricity and Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 on common rules for the internal market in natural gas; - Implementation of Article 5 of the Law of Ukraine ‘On the National Energy and Utilities Regulatory Commission’ on the prohibition of state bodies to interfere in the activities of the Regulator	Q4 2024
			Defining the special status of the National Energy and Utilities Regulatory Commission	National Energy and Utilities Regulatory Commission (by consent)	Adopted and entry into force of the amendments to the Law of Ukraine ‘On the National Energy and Utilities Regulatory Commission’ and other acts, which will provide for:	Q4 2025

					- The specification of special status for ensuring the independence of the Regulator as provided for by Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 on common rules for the internal market in electricity and Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 on common rules for the internal market in natural gas	
Reform 6. Improved efficiency in the district heating	Improving the efficiency of the district heating sector, which will contribute to increasing the sustainability of district heating, improving the energy security of settlements, increasing the resilience of the integrated energy system and generating capacities, supporting the decentralisation of supply and attracting investment, improving the quality and accessibility of heating services, as well as supporting decarbonisation, reducing greenhouse gas emissions and expanding the use of renewable energy sources	Chapter 15. Energy	Cancelation of the moratorium on raising heat and hot water tariffs	Ministry for Communities, Territories and Infrastructure Development	Cancelation of the moratorium introduced by Law № 2479-IX ‘On the peculiarities of regulating relations in the natural gas market and in the field of heat supply during martial law and the subsequent restoration of their functioning’ in order to reach cost-reflectiveness of heat and hot water tariffs	Q4 2025
			Adoption of the State targeted economic program for the energy modernization of heat generating enterprises for the period up to 2030	Ministry for Communities, Territories and Infrastructure Development	The adoption of the State targeted economic program for the energy modernization of heat generating enterprises for the period up to 2030 by the Cabinet of Ministers, with the focus on the following: - Identifying measures to improve resilience, quality and availability of heat supply services; - Identifying measures to support decarbonisation, reduction of greenhouse gas emissions and expansion of renewable energy sources; - Providing measures to strengthen governance and management skills for local authorities in district heating sector	Q4 2025
			Support development of the efficient and more sustainable district heating	Ministry for Communities, Territories and Infrastructure Development	Entry into force of the Law of Ukraine ‘On amendments to some Laws of Ukraine to support development of the efficient and more sustainable district heating’. The law is focused on: - Setting clear rules for network connection / disconnection, zones of priority development of district heating systems; - Improvement of procedures for individual heat substations (IHS) installation in multi-apartment buildings to ensure proper remote control and demand management	Q3 2025

Reform 7. Improved energy efficiency in public buildings and improvement of public procurement procedures taking into account energy efficiency requirements	Increasing energy resilience in municipalities, improving the energy efficiency of the building stock, and launching its decarbonisation in accordance with the principles of 'energy efficiency first' and 'build back greener' as well as introducing mandatory energy efficiency standards in public procurement of buildings and products would help increase the energy sustainability of buildings and municipalities and support overall reduction of energy consumption	Chapter 15. Energy	Adoption of the Strategy for Thermal Modernization of Buildings until 2050 and the Action plan	Ministry for Communities, Territories and Infrastructure Development	The Cabinet of Ministers of Ukraine adopted an act 'On Approval of the Strategy for Thermal Modernization of Buildings until 2050' and Action plan for the Strategy, aimed at introducing market-based financial instruments and incentives, containing a roadmap with policy measures, including those aimed to support the introduction of nearly-zero energy building	Q2 2024
			Setting minimum energy efficiency performance levels for buildings and products covered by the EU ecodesign legislation	Ministry for Communities, Territories and Infrastructure Development	The Cabinet of Ministers adopted acts on setting minimum energy efficiency performance levels for buildings and also for products covered by the EU ecodesign legislation, Ministry for Communities, Territories and Infrastructure Development adopted acts on setting classes of energy efficiency performance levels for products covered by the EU energy labelling legislation	Q3 2026
			Implementing efficiency performance levels for buildings and products in public procurement	Ministry of Economy	The order of the Ministry of Economy regarding the application of established acts by the Cabinet of Ministers and the Ministry for Communities, Territories and Infrastructure Development requirements for energy labelling and eco-design as mandatory minimum criteria during public procurement was adopted and entered into force. These requirements make minimum energy efficiency performance levels for buildings and products covered by national standards, which are aligned with EU energy labelling and ecodesign legislation. The content of the order was communicated to the contracting authorities in the field of public procurement	Q1 2027
Investment 1. Investments in energy infrastructure	Investments will contribute to the restoration of the energy infrastructure damaged and destroyed as a result of the armed aggression of the Russian Federation, as well as construction of a new one, in accordance with the principles of 'Energy Efficiency First' and 'build-back-greener'. Supporting the construction of highly manoeuvrable and flexible capacities (energy storages, HPPs, HAPPs, biothermal power plants,	—	Investments to enhance Ukraine's energy infrastructure	Ministry of Communities, Territories and Infrastructure Development, Ministry of Energy, Ministry of Finance	Report of the Government (or Treasury report) showing that in the State Budgets for 2026 and 2027 the general Government budgeted at least EUR 550 million (in UAH equivalent) for strengthening the energy infrastructure of Ukraine, including at the regional level (as part of the indicator in the Decentralization section on allocating 20% to the sub-national level), among others for the following:	Q4 2027

	biothermal cogeneration, high-efficiency modern gas pickers) will help to balance the power system without the use of dirty coal generation, enable the commissioning of additional generation capacity to replace that which has been destroyed, and ultimately ensure a stable supply of electricity to consumers. The development of biogas and biomass production will create markets for these commodities and provide opportunities for farmers to earn additional income. Decentralised energy production like wind and solar will stimulate local economic development, providing income for business, prosumers and the public sector at local level. Such decentralised energy production will also substantially enhance Ukraine's energy security, as well as stimulate the investments into energy efficiency of district heating and of buildings				- Improving energy efficiency in district heating, in line with the State targeted economic program for the energy modernization of heat generating enterprises for the period up to 2030; - Financial contribution to the Energy Efficiency Fund to support improved energy efficiency in the residential sector; - Improving energy efficiency in public buildings, in line with the Strategy for Thermal Modernization of Buildings until 2050; - Physical protection of Ukraine's energy infrastructure; - Supporting the development of renewable energy sources, in line with the new market-based framework for renewable energy, and for the construction of highly flexible capacities	

CHAPTER 11. TRANSPORT

1. State of play

Transport is the backbone of the economy, providing connections for people and goods, access to jobs and services, and enabling trade and economic growth. Ukraine's progressive reorientation of trade flows has had a major impact on the transport flows since 2014: while trade with Russia and transit through Ukraine's territory had previously played a major role, the growing importance of trade with EU Member States has increased the importance of westward transport corridors.

Since the start of Russia's full-scale war against Ukraine, securing supply chains has become more crucial than ever and transport plays a key role in Ukraine's resilience. Quick repairs of damaged infrastructure and implementation of the EU-Ukraine Solidarity Lanes have allowed Ukraine to export over 122 million tonnes of goods and to import around 45 million tonnes of goods it needed between May 2022 and February 2024 through the Danube ports and road and rail connections (according to the European Commission). Since Russia's decision to terminate the Black Sea Grain Initiative on 17 July 2023 and bombings of ports and infrastructure needed to export Ukrainian grain, leveraging of the Solidarity Lanes has become even more critical to help sustain the Ukrainian economy. Furthermore the Solidarity Lanes lay the groundwork of Ukraine's future integration into the EU single market and the EU transport systems. Strengthened EU-Ukraine connectivity is also important as it provides safe trade routes.

Improved functioning of export routes, rehabilitation and increased capacity of key transport links as well as logistics reconstruction and diversification will ensure supply and competitiveness of Ukrainian products on external markets.

Enhancement of the transport system and of connectivity with the EU and Moldova should follow several important principles. Flexibility and resilience are needed to overcome challenges linked to the war and to reconstruction. The use of multimodality and intelligent transport systems would help make best use of the different transport modes and better integrate into global value chains, thus fostering the development of the country's agriculture and industry. Investments into improved transport connections are particularly important in view of the reinforced integration of Ukraine into the EU single market. Investments will need to be aligned with sustainability and decarbonation principles, in line with the objectives of the European Green Deal, as well as affordability and inclusiveness, including accessibility for the elderly and the disabled. To this end, Ukraine can also make full use of its participation as an observer in the work of the Transport Community, in support of EU *acquis* alignment and TEN-T project implementation. Despite the progress achieved pre-war, there is still significant room for improvement in transport safety aspects, which would have a major impact on both citizens lives and the economy.

Given the size of investment needs, prioritisation and coordination between the Ukrainian authorities and international donors is required. According to the RDNA3, total transport sector damage was estimated at EUR 30.5 billion, which is second highest after housing, while reconstruction and immediate recovery needs were estimated at EUR 66.8 billion. The largest concentrations of reconstruction needs are in national roads (29%), railways infrastructure, rolling stock, equipment, and other assets (24%), and local roads (16%). As a first step, further demining and quick repairs will be needed, followed by reconstruction according to the 'build back better' principle.

Reforms and investments have to complement each other and to deliver a boost to increased export logistics – Ukraine's candidate status should be both instrumental in and a motivation for developing a modern and efficient transport system aligned with EU standards. Therefore, there is a need to focus in the short term on those reforms that can spur economic growth and lay the groundwork for further modernisation. The top-priority task is to restore and develop export logistics potential of Ukraine, with a focus on the TEN-T network. Transport is a policy area with one of the largest EU *acquis*. In this context, reforms and investment in all sectors including road, rail, inland waterways, maritime transport and aviation will also be essential in the next few years. Reforms should be conducted with a view of improving market functioning which could lead to increasing private investments in the transport sector, specifically in ports and logistics centres and allowing the progressive participation of Ukrainian operators in the EU single market and vice versa on fair and competitive terms.

Developing, modernising and making more efficient and safer the transport sector will be essential to provide higher living standard conditions to Ukrainian citizens and sustain a competitive, market led economy and to ensure balanced economic expansion across Ukraine's regions. Significant efforts will be required to train, hire and retain highly qualified personnel needed to manage transport operations in all transport sectors as well as to plan, prepare and monitor the construction of new infrastructure. Increasing administrative and technical capacity of the competent authorities and in the implementing bodies will be equally important. This ties into the overall public administration reforms as well as the overall human capital strategy. Given the predominance of the state sector, and specifically the importance of the JSC Ukrzaliznytsia, JSC Ukrposhta and other state-owned transport sector enterprises, upholding corporate governance standards and efficiency improvements are important to ensure effective spending of limited resources and ensure continued support from international donors.

With respect to these goals, main areas to strengthen the transport sector and our strategic objectives in 2024-2027 are:

- Eliminating the consequences of armed aggression in the logistics sector and ensuring the population`s access to the basic services;
- Restoring and developing of Ukraine's export and logistics potential with a focus on the TEN-T network;
- Creation of conditions for liberalisation in the railway transport sector and for development of competition in the railway transport market;
- Bringing national legislation in line with international multilateral treaties on merchant shipping;
- Implementing key reforms to foster alignment with the EU *acquis*.

2. Overall reform agenda in 2024-2027

Revision and update of a comprehensive transport strategy is of utmost importance to provide direction during the reconstruction phase but also to ensure development of the transport system in a strategic manner and in line with EU objectives and standards. This is also crucial in light of geopolitical developments which require a much stronger integration into the EU transport area, as a basis for the integration into the EU single market. Moreover, a transport infrastructure development strategy shall show long term perspective, be appropriate to needs, financially sustainable, sustainable in terms of climate and environmental impacts and balanced in terms of territorial accessibility.

Transformation of the logistics system of Ukraine, with a particular focus on its integration into the EU system, will be a key task for the country in the coming years. Prior to the full-scale invasion in February 2022, seaports provided up to 90% of food export, as well as about 70% of total export. In view of this, focus should be on:

1) increasing efficiency of border infrastructure – border crossing points to EU Member States and the Republic of Moldova and access routes will need to be upgraded and procedures streamlined;

2) development and physical protection of the Danube port cluster and the maritime ports of Great Odesa and further on east of Ukraine;
3) development of multimodal container transportation;
4) restoration and protection of road infrastructure (priority – key bridges, which are critical for the logistics of goods). Once conditions allow, restoration and protection of airport infrastructure is also important to allow cargo movements and increase connectivity for the large community of Ukrainian refugees.

Upgrade of the TEN-T networks across transport modes is critical. The TEN-T network will be the backbone of the transport system, connecting major cities, border crossing points with EU Member States and the Republic of Moldova, and the major ports and airports. The upgrade of the TEN-T network across transport modes according to the relevant standards, including rail, roads, ports, will therefore foster connectivity between the regions and with neighbouring countries. Logistics centres in Western and Southern Ukraine and transhipment capacities at the borders will have to be scaled up.

Well-targeted investments in rail shall allow for modernisation of both the infrastructure and the rolling stock, and the development of a key 1,435 mm gauge lines on the TEN-T extended corridors in Western Ukraine and towards EU Member States and the Republic of Moldova.

An important step in addressing the consequences of armed aggression is the approval of a recovery strategy, where one of the priority areas will be logistics sector restoration.

Significant for the recovery of Ukraine will be demining and clearing of waterways and airports, reconstruction of seaports, restoration of airport infrastructure, air navigation and air traffic management systems, restoration of railway infrastructure, urban transport and infrastructure of inland waterways, investment attraction to improve transport connections in the country's largest agglomerations.

The Government also plans reinstating lifeline transport services in war-affected communities in need for restored operational urban public transport, school transport, and regional passenger connectivity. Hence, a need has arisen to ensure sufficient capacity to continue demining and emergency repairs.

In the maritime sector, a well-functioning maritime administration, appropriately staffed with the right expertise both in terms of quality and number of staff, will be a prerequisite for carrying out international obligations incumbent on Ukraine as a flag, port, or coastal state. In addition, Ukraine will have to align its legislation on maritime safety, technical rules, qualification, and social protection of seafarers. In order to ensure the efficient development of port services, Ukraine will make sure that its legislation on the provision of port services is aligned with that of the EU.

Capacity building is also very important in the aviation sector. It is critical to maintain an adequate level of staff and expertise to ensure readiness when airspace is reopened. Technical assistance will therefore be needed, including to support further alignment of Ukrainian legislation with the EU *acquis*. In addition, targeted investment is necessary to allow airports to restart operations as soon as possible.

Securing professional qualifications and recognition of certificates of qualification in inland waterways is also important. This involves taking decisions to increase administrative capacity in relation to professional qualifications and future requests for the recognition of certificates of qualification in inland waterways of Ukraine as per the respective legislation. Furthermore, Ukraine will continue its active participation in the activities of the Transport Community Permanent Secretariat with a special focus on the technical assistance on the *acquis* for inland waterways and the infrastructure components.

In the road sector, Ukraine will be required to ensure compliance with the rules on transport safety, driver training and qualifications, working hours and tachographs. Looking beyond the EU-Ukraine agreement on the carriage of freight by road and the European Agreement on the work of crews of vehicles engaged in international road transport (AETR) reforms leading to closer alignment with EU social and market rules (including driving and rest times rules and the use of the tachographs) will facilitate earlier and deeper integration in the road transport internal market. In addition, passengers' rights will have to be gradually enhanced across transport modes.

To reduce the administrative burden on the economic operators, make Ukraine's transport sector more efficient and more competitive, and help it integrate with the EU transport network and services, Ukraine should aim at modernising, simplifying, and digitalising the transport system. Ukraine should establish a solid legal framework supporting the deployment of intelligent transport systems and digital data exchange as well as secure Ukraine's future interoperability with the systems, standards, and data models in use/under development in the EU. Digital connectivity is important as it is an enabler for better efficiency, integration in the logistics chain and removing bottlenecks. Application of digital tools will allow for smooth flow of traffic between Ukraine and the EU.

2.1 Reforms to be pursued under Pillar I of the Ukraine Facility

Reform 1. Comprehensive planning of transport sector

State of play and context: The first measure to be implemented should be the development of a new approach for comprehensive transport planning. It is important to define the strategic objectives and priority directions that will enable implementation of a strategic vision within all transport modes by 2030, compliant with EU policy objectives and in particular ensuring development of a climate resilient, secure, smart and intelligent transport system. The strategic planning should address the recovery of the basic infrastructure deficit at national level in all transport areas, in line with EU policies and standards relating to Trans-European transport networks (as defined in the TEN-T Regulation) as well as the greening/decarbonisation targets of the transport sector set out at the international and European level. The plan shall reflect the newly established Solidarity Lanes as well as long term vision to ensure seamless connectivity with the EU with strong cross border dimension. The measure shall include an investment plan by 2030, which shall, first and foremost, identify damaged transport and logistic-related infrastructure and establish priority plans for reconstruction and development of the TEN-T, with particular attention to reinforcing connectivity with the EU based on clear indicators and criteria for prioritising more sustainable modes, in particular investment in rail infrastructure and waterborne transport as well as institutional arrangements necessary for the implementation of this mechanism and preparation of investment projects.

Recovery of the transport infrastructure is the top-priority task in recovering the economy on the war-affected territories as well as in recovering the country's export and logistic potential.

Description of the reform: Ukraine will adopt an updated National Transport Strategy for the period until 2030.

The Strategy focuses on achieving the following main strategic goals:

- Reconstruction and development of a competitive and efficient transport system inline with the EU policies and standards in particular relating to trans-European transport networks and the decarbonization targets of the transport sector set out at international and European level (including through the development of railway, road and inland waterway routes, included in indicative maps of the TEN-T network, digitisation of transport system management, etc.);
- High-quality passenger transportation and unimpeded mobility;

- Safe for people and the environment, sustainable, energy-efficient transport.

Potential impact of the reform: The new transport strategy shall provide a framework for an efficient, safe, sustainable transport system which will enable a swift reconstruction and post-war economic recovery and development, including war-affected territories and the country's export and logistics potential.

Reform 2. Development of Ukraine’s export logistics potential

State of play and context: In order to meet all the needs for transportation across the border of Ukraine with the EU, the volumes of which have increased significantly since the beginning of the full-scale invasion of the Russian Federation, modernization and increase in capacity of the existing network of checkpoints across the state border and border transport infrastructure is paramount. These efforts should reflect all needs at the border control posts (BCPs) (primary focus on main TEN-T BCPs as the traffic is expected to increase, but not necessarily limited to them) to ensure seamless traffic flows for passenger and freight. The measure should also include adequate information on the bottlenecks at the rail, road, and naval BCP and the investment needs to increase its capacity and bring it up to the EU standards in terms of infrastructure, equipment and digital solutions. The development of the relevant strategy began in January 2023. The result of the development was the signing of a Memorandum of Understanding between the Government of Ukraine and the Government of Romania on strengthening cooperation in ensuring the reliable transit of Ukrainian goods, of which the Strategy for the Development of Border Crossing Points between Romania and Ukraine and Adjacent Road Infrastructure (Strategy) is an integral part. At the same time, the draft Strategy for the Development and Construction of Border Infrastructure with the EU and Moldova until 2030 will include the Strategy.

Description of the reform: Ukraine will adopt the Strategy for the Development and Construction of the Border Infrastructure with EU Member States and the Republic of Moldova until 2030.

The Strategy will focus on these main areas:

- Reconstruction of BCPs on the border with Poland, Slovakia, Hungary, and Romania;
- Creation of a service area network;
- Simplification of border crossing procedures (digitalisation and introduction of joint control) in line with the EU standards.

Potential impact of the reform: This strategy is of utmost importance for the coordination of different investments available for the BCPs and shall ensure Ukraine, EU Member States and the Republic of Moldova enhanced transport connections in a well-coordinated manner.

Reform 3. Liberalisation in the railway transport sector

***State* of play and context:** As of today, a single railway carrier operates in Ukraine’s rail market – the JSC Ukrzaliznytsia that simultaneously functions as a rail infrastructure operator. So far, a competitive market has been introduced for freight car operators.

The reform provides for the creation of a competitive rail market as per the essential requirements of European Union legislation based on the principles of non-discrimination, openness, and competitiveness.

Description of the reform: The Law of Ukraine ‘On Railway Transport of Ukraine’, which aligns with the EU rail *acquis*, will be adopted, and the final provisions of the Law will enter into force.

The Law will focus on the following key areas:

- Create legislative conditions for the functioning of the competitive market for passenger and freight transportation, in particular, ensuring equal access of railway operators to the railway infrastructure;

- Creation of new state bodies in accordance with EU legislation, that will carry out public administration in the competitive transport market (regulator and safety authority);
- Functional separation of the infrastructure operator and railway operators;
- Introduction of safety management system;
- Introduction of technical investigation of railway accidents;
- Establishing the legal basis for technical regulation to ensure interoperability (the ability of railway transport to maintain safe transportation);
- A new approach to ensuring socially important transport.

Besides, the main legislative acts (by-laws) for the implementation of the Law of Ukraine ‘On Railway Transport of Ukraine’ will be developed and adopted for the introduction of mechanisms for the functioning of the rail transportation market, in particular, related to equal access to the rail infrastructure, licensing of railway operators, safety management systems, the procedure for the organisation of socially important passenger transportation.

Potential impact of the reform: Creation of a competitive rail market as per the essential requirements of European Union legislation will ensure improvements in the quality and effectiveness of passenger and cargo rail services and foster the integration of Ukraine’s rail network and markets with the EU.

Reform 4. Improved shipping and port services

State of play and context: Establishing a legislative framework to foster further development of the state safety navigation system, to improve the qualification level of Ukrainian seafarers, to ensure the proper level of security for vessels and ports, safety of life at sea in line with the Regulation on enhancing ship and port facility security (Regulation (EC) № 725/2004 of the European Parliament and of the Council of 31 March 2004 on Enhancing Ship and Port Facility Security) and EU Directives, and increasing the efficiency of service provision in seaports of Ukraine.

Description of the reform:

The reform will have two components.

As a first component, the Law of Ukraine ‘On Amendments to Certain Legislative Acts of Ukraine Concerning Merchant Shipping and Shipping on Inland Waterways’ will enter into force.

The Law of Ukraine will focus on the following key areas:

- Defining and regulating the principles of ensuring the safety of navigation in the territorial sea, inland sea waters, seaports, and inland waterways;
- Improvement of the mechanism for implementing the international regime for the protection of ships and seaports;
- Defining a detailed mechanism for controlling ships in a seaport;
- Review of the functions of the central executive body implementing state policy in the areas of maritime and inland waterway transport and shipping in the Merchant Shipping Code, the Laws of Ukraine ‘On Transport’, ‘On Inland Waterway Transport’ and ‘On Seaports of Ukraine’ in order to eliminate duplication of legislative norms and clarify the division of competence, in particular with the central executive body that ensures the formation and implementation of state policy in the areas of maritime and inland waterway transport;
- Simplification of administrative procedures, a clearer list of powers of state bodies, elimination of unnecessary administrative barriers, documents, etc.

As a second component, Ukraine will review and amend the existing national legislation (subordinate legal acts) to ensure full compliance with the provisions of Regulation (EU) 2017/352 of the European

Parliament and of the Council of 15 February 2017 establishing a framework for the provision of port services and common rules on the financial transparency of ports will be provided as well.

Potential impact of the reform: Ensuring further development of the state safety navigation system, improved qualification level of Ukrainian seafarers, the proper level of security for vessels and ports, enhanced efficiency improvements in Ukraine's performance of its obligations under international treaties in the field of merchant shipping to ensure safety of life at sea, increasing the efficiency of service provision in seaports of Ukraine. Improved shipping and port services along with a more environmentally friendly mode of transport is expected to contribute positively to the mitigation of climate changes, to the extent possible in a context of war or post-war recovery and reconstruction.

3. Overall investment needs and opportunities in 2024-2027

Repairing, rehabilitation, development, and modernising of the transport sector are essential for sustaining a competitive, export-oriented economy and to ensure creation of new jobs and economic expansion across Ukraine’s regions. In the context of the return of the population, an important role is given to the accessibility to safe roads and comfortable public transport as well as the restoration of the infrastructure destroyed by the war.

Ukraine’s progressive reorientation of trade flows has had a major impact on the transport flows from 2014 and increased the importance of westward transport corridors. Since the start of Russia’s war of aggression against Ukraine, securing supply chains has become more crucial than ever and transport plays a key role in Ukraine’s resilience. Quick repairs of damaged infrastructure and implementation of the Solidarity Lanes project allowed Ukraine to export over 122 million tonnes of goods and to import around 45 million tonnes of goods it needed between May 2022 and February 2024 through the Danube ports and road and rail connections.

According to the RDNA3, the reconstruction and recovery needs in the transport sector were estimated at EUR 66.8 billion, with EUR 2.1 billion needed for 2024. Around two-third of the needs are concentrated in four regions that have experienced protracted positional fighting (Donetsk, Kherson, Luhansk, and Zaporizhzhia oblasts).

The investment strategy will focus on addressing significant damage to critical local and national transport and logistics infrastructure, as well as its expansion and modernisation. Further demining and quick repairs will be needed, followed by reconstruction according to the ‘build back better’ principle. The wider use of public-private partnerships to implement infrastructure projects will be important for attracting private investment. The use of multimodality and intelligent transport systems would help make best use of the different transport modes and better integrate into global value chains, thus fostering the development of the country’s agriculture and industry. Investments will need to be aligned with sustainability and decarbonation principles, in line with the objectives of the European Green Deal, as well as affordability and inclusiveness, including accessibility for the elderly and the disabled. Despite the progress achieved pre-war, there is still significant room for improvement in transport safety aspects, which would have a major impact on both citizens lives and the economy.

Reforms and investments will complement each other to ensure a harmonious development. Ukraine will gradually implement the *acquis* in the transportation sector, to advance on its EU path and to follow up on the EU-Ukraine Association agreement. Investments under the Ukraine Plan as well as any further investments among other things could include:

Investment to address the immediate fall-out of the war:

- Restoring essential connectivity and logistics for access to basic services and supplies, including reinstating lifeline transport services, urban public transport, regional passenger and supply connectivity, restoration of road and rail infrastructure, equipment for repair and maintenance, which will encourage the wide-spread use of the public transportation system and, hence, contribute to climate change mitigation and pollution prevention;
- Reconstruction and upgrading a number of key bridges in line with TEN-T standards;
- Reconstruction and upgrading capacities in certain seaports and inland ports, including development of multimodal container transportation system, which will contribute to climate change mitigation and prevent pollution via supporting environmentally friendly transport modes, to the extent possible in a context of war or post-war recovery and reconstruction;
- Increasing efficiency of border infrastructure: enhanced physical infrastructure and access routes and digitisation of BCPs with the EU and Moldova;
- Restoration of airport infrastructure, air navigation and air traffic management systems;
- Purchase of new rolling stock, including with zero emissions, to replace the old fleet;
- Reconstruction and modernisation of city passenger transport terminals.

Restoring and improving freight and logistics infrastructure, including greening and digitalising of the transport sector, which would support climate change mitigation and air pollution prevention, to the extent possible in the context of war or post-war recovery and reconstruction:

- Expansion and modernisation of logistics infrastructure; centres, hubs, and industrial zones; storage, distribution and transhipment capacities, digital platforms;
- Support for digitisation e.g. though European Rail Traffic Management System (ERTMS) and Electronic Freight Transport Information (eFTI), as well as greening of transport, environmental and social impact mitigation, notably reducing emissions and improving safety, smart traffic and logistics management, digital platforms for mobility, infrastructure for expansion of electromobility. Through the support to the climate change mitigation and air pollution prevention, these investments would be aligned with the objectives of the ‘do no significant harm’ principle, to the extent possible in the context of war or post-war recovery and reconstruction.

Potential investment area

Upgrading the TEN-T rail networks and rolling stock

Rail transportation plays an almost crucial role in population mobility and cargo logistics during the period of martial law in Ukraine. The difference in track width in Ukraine and the EU results in a higher complexity level and cost of transshipment operations at border crossings impeding full compatibility of the respective networks of the EU, Ukraine, and Moldova.

The investment needs of the railways will include the rehabilitation of 13 traction substations and at least 30 bridges, reconstruction and repair of 1 thousand km of railway tracks of the existing 1,520 mm network on the TEN-T network and adjacent sections, rehabilitation and construction of 1,435 mm gauge tracks in the western regions of Ukraine, with a length of about 250 km, as well as the purchase of rolling stock, namely up to 250 electric locomotives, up to 40 diesel locomotives, up to 20 Intercity+ electric trains, renewal of the car fleet of passenger and suburban trains, etc.

Upgrading of certain sectors of the rail corridors will be in line with TEN-T standards (including electrification, replacement of rails, sleepers, substrates, consolidation/construction of bridges, ERTMS application, replacement of the railway substructure, and applying ‘quick wins’ where/if possible, with a particular focus on border-crossing points).

The implementation of these initiatives has been preliminarily estimated at EUR 4.6 billion from various funding sources.

The implementation of the above investment projects will foster uninterrupted operation of railway transport catering for the country's vital needs, technological and humanitarian integration into the EU, and international trade needs. In addition, infrastructure investments will contribute to the extension of the following TEN-T corridors towards Ukraine: North Sea – Baltic Sea, Rhine – Danube and Baltic Sea – Black Sea – Aegean Sea. At the same time, the renewal of rail rolling stock will facilitate comfortable return of the Ukrainian citizens temporarily residing in other countries and will also address the need for rail passenger and cargo segments in traction rolling stock.

Investment priorities include:

- Development of a first set of 1,435 mm gauge lines in Western Ukraine to integrate the Ukrainian (and Moldovan) rail system into the EU;
- Upgrading certain sectors of the rail corridors in line with TEN-T standards (including electrification, replacement of rails, sleepers, substrates, consolidation/construction of bridges, ERTMS application, replacement of traverse, broken stone, and applying ‘quick wins’ where/if possible, with a particular focus on border-crossing points;
- Purchasing of new, including zero-emission, rolling stock to replace the ageing fleet.

In the process of liberalisation in the field of railway transport and creation of conditions for the development of competition in the market of railway transportation, a wide range of projects will be implemented, the implementation of which will be possible and desirable to attract both private and public investments.

Upgrading the port infrastructure

As a result of Russia's military aggression against Ukraine, Ukraine's port industry has suffered significant damage. Some seaports in Zaporizhzhia and Donetsk regions are under occupation. The remaining ports on the Black Sea coast, the Buzka-Dnipro-Liman Canal and the Kherson Sea Canal cannot operate due to the blockade of sea routes and mining of territorial waters, which has significantly increased the importance of seaports located on the Danube River.

Ukraine continues to take measures to ensure freedom of navigation in the territorial waters of Ukraine in accordance with the provisions of Article 87 of the United Nations Convention on the Law of the Sea of 1982. In order to unblock the work of Ukrainian ports, Ukraine has introduced an alternative to the Grain Corridor – the Temporary Route, which has access from the sovereign waters of Ukraine to the territorial waters and exclusive (maritime) economic zone of the Republic of Romania and Bulgaria. Ukraine has notified the International Maritime Organisation (IMO), which has jurisdiction over the issue, and all its member states of its intention to ensure free navigation in the North-Western Black Sea. The work of this route is supported by international partners, including Romania, Bulgaria and Turkey.

However, as a result of constant intense rocket attacks, port infrastructure is being destroyed and severely damaged. In order to restore it and ensure further intensive development of seaports, it is necessary to implement and finance a number of infrastructure projects.

In order to ensure stable foreign economic activity of Ukraine and improve trade with other countries, it is planned to significantly increase the volume of transportation on the Danube River, which requires ensuring an adequate level of service and safety of navigation on inland waterways, as well as providing unified services in accordance with EU legislation and best practices. At present, the functioning of the River Information Service (RIS) does not comply with EU legislation, and RIS equipment, in particular the Automatic Identification System (AIS), does not meet up-to-date the current requirements set out in Directive 2005/44/EC of the European Parliament and of the Council of 7 September 2005 on harmonised river information services (RIS) on inland waterways in the Community.

Based on preliminary estimates, the State Enterprise Seaports Administration of Ukraine (SE SAU) needs to attract at least EUR 650.1 million (as of the date of the estimate documentation) to implement 38 investment projects.

With a view to promoting the enhanced navigation safety, the efficient inland waterway transportation and environmental protection, as well as the provision of unified harmonised services, a need has arisen to purchase appropriate equipment and software.

Repair (upgrading) of the Kakhovka shipping lock and construction of an additional shipping lock line, which was destroyed as a result of Russia's blowing up of the Kakhovka HPP dam, involves developing a project for upgrading and installation of modern equipment at the Kakhovka shipping lock to re-launch its operation and to maximise its capacity through automation, to enable a ‘river-sea’ connection, to provide the Dnipro River carrying capacity up to 45-60 million tonnes per year, to ensure uninterrupted passage of vessels in case of preventive works / repair of the existing shipping lock, and to ensure seamless navigation. The cost of this project implementation can be obtained after the survey is completed and the relevant project documentation is developed.

The implementation of projects in seaports and inland waterways will restore Ukraine's export potential, as well as ensure the restoration and reconstruction of the country's infrastructure, which was destroyed by bombing and hostilities.

Implementation of the projects will facilitate the maximum integration of the Ukrainian water transport system into the EU transport system, as well as increase the capacity of seaports and inland waterways, which in turn will help to reorient part of the cargo flow from roads to water transport.

In addition, conditions will be created for the development and resumption of maritime and inland waterway transportation, an increase in freight and passenger traffic, and full export and import of goods through Ukraine's sea and river ports (terminals).

Investment priorities include:

- Restoration of damaged/destroyed seaport infrastructure;
- Ensuring the functioning of the River Information Service (RIS) which requires the purchase of appropriate equipment and software, ensuring good navigation status on the Danube river, automation of navigation on inland waterways;
- Repair (modernisation) of the Kakhovka shipping lock with the construction of an additional branch of the navigable lock.

The restoration and further development of Ukraine's maritime and inland waterway transport infrastructure, as well as the enhancement of its logistics potential, should be carried out with the involvement of investment funds, international technical, grant and humanitarian assistance. In particular, the project to restore damaged/destroyed seaport infrastructure, and ensure the functioning of the River Information Service (RIS) in accordance with EU legislation, maximum automation of navigation on inland waterways, which requires the purchase of appropriate equipment and software, and repair (modernisation) of the Kakhovka shipping lock with the construction of an additional branch of the navigable lock are projects that have the potential to attract private investment.

Reconstruction and modernisation of facilities in selected seaports and inland waterways facilities, including the development of a multimodal container transportation system, will help mitigate climate change and prevent pollution by supporting environmentally friendly modes of transportation, as far as possible in the context of war or post-war recovery and reconstruction.

Upgrading the road infrastructure

The blockade of Ukraine seaports is forcing shippers and carriers to change the logistics of export transportation by directing cargo to western border crossings. Good transportation in wartime is challenging due to the low capacity of border crossings in Western part of Ukraine.

As the hostilities are ongoing on our country’s territory, it is impossible to count the total final amount of destruction on public roads.

Due to Russia's military aggression against Ukraine, a significant number of public roads of national importance and artificial structures on them have been destroyed and damaged in various ways. Since the beginning of full-scale aggression, the volume of destroyed and/or damaged public roads of national importance and artificial structures, as recorded by relevant balance holders, amounts to over 7,400 km of roads and approximately 196 artificial structures with a length of 20 thousand running metres.

Additionally, since the beginning of full-scale aggression, the volume of destroyed and/or damaged public roads of national importance and artificial structures on them, on the territory controlled by Ukraine (as of 1 February 2024), is over 4,200 km of roads, 140 artificial structures, with a length of 15,600 running metres.

According to the RDNA3, the amount of funding required for the rehabilitation (new construction, reconstruction and repair) of destroyed and damaged road facilities, namely national roads and their components, is about EUR 19.5 billion, and also EUR 6.6 billion for bridges on national roads.

According to the Agency for Restoration data, the funding required for the restoration (new construction, reconstruction, and repair) of destroyed and damaged objects in the road sector, specifically public roads of national importance and their components (located in the territory controlled by Ukraine), is approximately EUR 3.7 billion.

The estimated expenditure needs for the restoration of artificial structures in 2024 amounts to EUR 0.8 billion.

In present conditions, the country’s top priorities include the restoration of transport infrastructure, ensuring traffic safety, establishing effective logistics with the EU countries and the operation of the grain corridor (to mitigate the consequences of blocked access to the Black Sea and damage to Ukraine's transport networks).

Investment priorities include upgrading road infrastructure, including the TEN-T network:

- Construction of a certain share of the road infrastructure located on the TEN-T network, complying with the ‘do no significant harm’ principle and TEN-T standards;
- Restoring and improving non-TEN-T road infrastructure.

It is reasonable that rebuilding of Ukraine's road infrastructure, as well as reinforcing its logistics potential, involve funds from donor organisations and private investments, funds of international technical, grant and humanitarian assistance. In particular, projects for the construction of concession roads, the introduction of a system for collecting tolls from trucks, and others have the potential to attract private investment. The legislative framework to set up tolling arrangements is set out in Directive 1999/62/EC of the European Parliament and of the Council of 17 June 1999 on the Charging of Vehicles for the Use of Road Infrastructures.

Upgrading the aviation infrastructure

To date, in connection with the full-scale military invasion of the Russian Federation on the territory of Ukraine and the martial law introduced on 24 February 2022, the airspace of Ukraine is closed to civil aviation flights.

The closure of Ukrainian airspace for civil aviation flights makes it impossible for both Ukrainian and foreign airlines to operate. In addition, this led to the suspension of the provision of aeronautical services by Ukrainian air navigation service provider UKSATSE. Due to the aggression of the Russian Federation, airport complexes (runways, taxiways buildings) at many airports, as well as objects of the air navigation system of Ukraine, suffered varying degrees of damage. To restore aviation activity in Ukraine, it is necessary to restore the destroyed/damaged airport and air navigation infrastructure, to attract trained aviation personnel. According to preliminary calculations, only the airports of Boryspil, Lviv and the State Enterprise UKSATSE need to get about EUR 1.1 billion for the complete restoration of the infrastructure and the implementation of investment projects.

An accurate assessment of the destruction/damage caused to the aviation infrastructure is possible only after the end of hostilities.

The restoration of the aviation infrastructure and its further modernisation will allow civil flights to resume in the airspace of Ukraine, will contribute to the restoration and development of domestic and international passenger air transportation and the transportation of cargo and mail.

Investment priorities include:

- Restoration of damaged/destroyed airport infrastructure;
- Restoration of damaged/destroyed air navigation infrastructure;
- Maintenance of competence and professional skills of aviation personnel.

In order to rebuild and further develop the air transport infrastructure of Ukraine, it is advisable to attract funds from international institutions, grant and humanitarian aids, as well as private investments.

Intermodal transportation

The development of intermodal transportation is essential to increase export potential, establish efficient logistics with the European Union and minimise the effects of the blockade of Ukrainian ports.

Investment priorities include:

- Expansion and modernisation of logistics infrastructure;
- Construction and development of intermodal terminals, industrial zones, and industrial parks.

Public transport

It is crucial to restore socially important transportation services in war-affected communities by re-establishing urban public transport.

Investment priorities include:

- Renewal and electrification of the public transport fleet, will promote widespread use of the public transport system and thus contribute to climate change mitigation and pollution prevention.

The importance of reforms in the transport sector is emphasised in the European Commission's Report on Ukraine within the framework of the EU enlargement policy in 2023, published on 8 November 2023.

In sections 14 ‘Transport’, and 21 ‘Trans-European Networks’, the report notes that in the field of transport, Ukraine is implementing priority EU transport rules under the Association Agreement. These rules are aimed at promoting the development of the Trans-European Networks (TEN-T), restructuring, and modernising Ukraine's transport sector. This involves a gradual alignment with the current standards and policies of the EU and other countries worldwide.

3.1 Investments to be pursued under the Pillar I of the Ukraine Facility

Investment 1. Investments in transport infrastructure

State of play and context: The armed aggression of the Russian Federation fundamentally changed the transport system of Ukraine. Thus, as of today, due to hostilities on the territory of Ukraine, important infrastructure facilities have been destroyed, the airspace of Ukraine is closed to civil aviation flights. The Russian Federation conducts periodic shelling of both the infrastructure of seaports and civilian ships bound for Ukrainian seaports, as a result the Black Sea seaports do not carry out their activities as usual. The seaports located in the Azov Sea are temporarily occupied. As a result of the blocking by the troops of the Russian Federation of a part of the Dnipro River in the Kherson and Zaporizhzhia regions and the destruction of the Kakhovka HPP, with which the Kakhovka shipping lock is technologically connected, the transportation of the Dnipro in the section below the Zaporizhzhia shipping lock is stopped, navigation in the lower part of the Pivdenny Bug River is also impossible.

With the introduction of martial law, road and rail transport perform extremely important functions for the state's defence capability – ensuring the possibility of evacuation and mobility of the population, moving military equipment and humanitarian cargo, etc. These functions are mostly performed free of charge, and therefore are unprofitable for transport industry enterprises. In addition, the level of transit transportation of goods by road and rail transport has significantly decreased.

All of this in combination determines the need for a comprehensive solution to the existing problems in the transport industry, both those that existed before the beginning of the full-scale invasion of the Russian Federation, and those that appeared after the invasion.

Description of the investment: Government budgeted in the State Budgets for 2026 and 2027 at least EUR 350 million (in UAH equivalent) for the building, reconstruction, restoration, modernisation and upgrade of damaged and destroyed transport infrastructure facilities, in line with the National Transport Strategy of Ukraine until 2030, including some of funds to be directed to the regional level (as part of the indicator in the Decentralisation section on allocating 20% to the sub-national level), among others in the following sectors:

- Railways (in line with the new legislation on railway transport of Ukraine);

- Maritime and inland shipping (in line with the new legislation on merchant shipping and shipping on inland waterways);
- Roads;
- Aviation;
- And border crossing points (in line with the Strategy for developing and expanding the border infrastructure with the EU Member States and the Republic of Moldova until 2030).

Out of all investments in the transport sector funded under the Pillar I of the Ukraine Facility, those that target railways and port services will contribute to addressing environmental and climate challenges. These investments represent an estimated 80% of total investments in the transport sector under the Pillar I.

Potential impact of the investment: The allocation of EUR 350 million to the development of the transport network and cross-border infrastructure as the blood vessels of the national economy will not have a significant impact on the transport sector and export potential of Ukraine, as the scale of destruction and the need to rebuild the transport network, according to World Bank estimates, far exceeds this amount.

However, in case of significant investments in the development of transport infrastructure in accordance with the real needs of the transport sector of the economy, it will be possible to achieve a significant and rapid positive push to economic development, increase the capacity and development of transit potential of the southern and western regions due to the reorientation of export routes (as a result of restrictions on the activities of seaports), development of connections between borders and logistics hubs, and restoration of Ukraine's transport infrastructure. At the same time, the development of the transport network and its alignment with European standards will contribute to the development of almost all sectors of the economy, including the agricultural sector, increase the attractiveness of industrial production and industrial parks, which in turn will provide employment for residents of nearby regions and will further serve as an impetus for intensive regional development, creating an attractive climate for domestic and foreign investment. Upgrading the TEN-T, railway networks, rolling stock and port infrastructure contributes to climate change mitigation and air pollution prevention, to the extent possible in a context of war or post-war recovery and reconstruction.

4. Coherence with the objectives of the Ukraine Facility

The proposed reforms and investments constitute a coherent, comprehensive, and adequately balanced response to the general and specific objectives of the Ukraine Facility, including structural reforms involving comprehensive planning of transport sector development taking into account priority measures to eliminate the effects of the armed aggression in the logistical field and ensuring access to basic services as well as measures aimed at restoring and developing Ukraine’s export and logistics potential with a focus on the TEN-T network, liberalising rail transport, introducing a competitive rail market, restoring civil aviation and aligning the national legislation with international multilateral agreements on merchant shipping to promote the convergence with the European Union and increase the growth rate of the Ukrainian economy.

The implementation of the proposed reforms and measures will contribute to all three general objectives of the Ukraine Facility, by (a) addressing the social, economic and environmental consequences of the war, thereby contributing to the recovery, reconstruction and modernisation of the country; (b) fostering social, economic and environmental resilience and progressive integration into the European Union and global economy and markets; (c) progressively aligning of the transport sector with the EU rules, standards, policies and practices (*acquis*) with a view to future EU membership, thereby contributing to mutual stability, security, peace, prosperity and sustainability.

The above mentioned reforms and investments are in line with the specific objectives of the Ukraine Facility, particularly: rebuilding and modernising infrastructure damaged by the war, such as internal and cross-border transport networks including rail, roads and bridges and border crossing points; fostering modern, improved and resilient transport infrastructure; contributing to the demining effort; fostering the transition to a sustainable and inclusive economy and a stable investment environment; supporting the integration of Ukraine into the EU single market; strengthening economic and social development; developing and strengthening a sustainable green transition in all economic sectors, including the transition towards the decarbonisation of its economy; promoting the digital transformation as an enabler for sustainable development and inclusive growth.

The proposed reforms and investments focus on Ukraine modernising its transport sector and integrating more closely with both the EU and world economy. The proposed measures align with the imperative to mainstream climate change mitigation and adaptation, environmental protection, disaster risk reduction. They support progress towards the Sustainable Development Goals (in particular SDG 9 'Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation'). The proposed investments are guided by the principles of 'do no significant harm' and of 'leave no one behind' in terms of the target groups, as well as by the sustainability mainstreaming approach underpinning the European Green Deal.

Local and regional authorities, social partners and civil society organisations were consulted on the reforms and investments proposed under this chapter and their input was included in the final version.

5. Table of reforms and investments covered under Pillar I

Reforms and investments	Objectives and growth potential	Corresponding chapters of the EU Enlargement report	Name of the step (quantitative and qualitative steps to implement reforms/investments)	Agency responsible for implementation	Outcome	Timeframe
Reform 1. Comprehensive planning of transport sector	Design a long-term strategy (vision) for transport sector development in line with EU objectives and standards. Recovery of the transport infrastructure is the top-priority task to recover the economy in the territories affected by the hostilities and to recover the export and logistic potential of the country	Chapter 1. Free movement of goods Chapter 14. Transport policy Chapter 21. TEN-T	Adoption of the revised National Transport Strategy of Ukraine until 2030	Ministry of Communities, Territories and Infrastructure Development	The Cabinet of Ministers adopted an order of Ukraine on updating the National Transport Strategy of Ukraine for the period up to 2030. The Strategy focuses on achieving the following main strategic goals: - reconstruction and development of a competitive and efficient transport system inline with EU policies and standards in particular relating to trans-European transport networks and the decarbonisation targets of the transport sector set out at international and European level (including through the development of railway, road and inland waterway routes, included in indicative maps of the TEN-T network, digitisation of transport system management, etc.); - high-quality passenger transportation and unimpeded mobility; - safe for people and the environment, sustainable, energy-efficient transport	Q4 2024
Reform 2. Development of Ukraine’s export logistics potential	Modernising and increasing the traffic capacity of the existing network of border crossing points and the border transport infrastructure in order to satisfy all the needs for carriage across the border between Ukraine and the EU, the scope of which has materially grown since the beginning of the full-scale invasion by the Russian Federation	Chapter 1. Free movement of goods Chapter 14. Transport policy Chapter 21. TEN-T	Adoption of the Strategy for developing and expanding the border infrastructure with the EU Member States and the Republic of Moldova until 2030	Ministry of Communities, Territories and Infrastructure Development	The Strategy for Developing and Expanding the Border Infrastructure with EU Member States and the Republic of Moldova until 2030 has been adopted. The Strategy focuses on the following focal areas: - reconstruction of border crossing points on the border with Poland, Slovakia, Hungary, and Romania; - creation of a network of service areas; - simplification of border crossing procedures (digitalisation and introduction of joint control) in line with EU standards	Q4 2024
Reform 3. Liberalisation in the railway transport sector	Creating a competitive railway transport market in line with the main requirements of EU legislation	Chapter 1. Free movement of goods Chapter 14. Transport policy	Adoption of the Law of Ukraine ‘On Railway Transport of Ukraine’, entry into force of its final provisions	Ministry of Communities, Territories and Infrastructure Development	The Law of Ukraine ‘On Railway Transport of Ukraine’, which aligns with the EU rail *acquis*, was adopted, and the final provisions of the Law entered into force. The Law will focus on the following key areas:	Q4 2025

		Chapter 21. TEN-T			- create legislative conditions for the functioning of the competitive market for passenger and freight transportation, in particular, ensuring equal access of railway operators to the railway infrastructure; - creation of new state bodies in accordance with EU legislation, that will carry out public administration in the competitive transport market (regulator and safety authority); - functional separation of the infrastructure operator and railway operators; - introduction of safety management system; - introduction of technical investigation of railway accidents; - establishing the legal basis for technical regulation to ensure interoperability (the ability of railway transport to maintain safe transportation); - a new approach to ensuring socially important transport (PSO)	
			Adoption of the by-laws for the implementation of the legislation on railway transport of Ukraine	Ministry of Communities, Territories and Infrastructure Development	The main legislative acts (by-laws) for the implementation of the Law of Ukraine 'On Railway Transport of Ukraine' have been developed and adopted for the introduction of mechanisms for the functioning of the rail transportation market, in particular, related to: equal access to the rail infrastructure, licensing of railway operators, safety management systems, the procedure for the organisation of socially important passenger transportation (PSO)	Q4 2027
Reform 4. Improved shipping and ports services	Increasing the efficiency of Ukraine's fulfilment of its obligations under international treaties in the field of merchant shipping to protect human life at sea, creating legislative conditions for further development of the state system of ensuring safety of navigation, improving the skills of Ukrainian seafarers, ensuring proper security of ships and ports. In parallel, increasing the efficiency of service provision in seaports of Ukraine	Chapter 1. Free movement of goods Chapter 14. Transport policy Chapter 21. TEN-T	Entry into force of the legislation on merchant shipping and shipping on inland waterways	Ministry of Communities, Territories and Infrastructure Development, State Service for Maritime, Inland Waterway Transport and Shipping	The Law of Ukraine 'On Amendments to Certain Legislative Acts of Ukraine Concerning Merchant Shipping and Shipping on Inland Waterways' enters into force. The Law of Ukraine will focus on the following key areas: - defining and regulating the principles of ensuring the safety of navigation in the territorial sea, inland sea waters, seaports, and inland waterways; - improvement of the mechanism for implementing the international regime for the protection of ships and seaports;	Q2 2026

					- defining a detailed mechanism for controlling ships in a seaport; - review of the functions of the central executive body implementing state policy in the areas of maritime and inland waterway transport and shipping in the Merchant Shipping Code, the Laws of Ukraine 'On Transport', 'On Inland Waterway Transport' and 'On Seaports of Ukraine' in order to eliminate duplication of legislative norms and clarify the division of competence, in particular with the central executive body that ensures the formation and implementation of state policy in the areas of maritime and inland waterway transport; - simplification of administrative procedures, a clearer list of powers of state bodies, elimination of unnecessary administrative barriers, documents, etc	
			Ensuring full compliance with the provisions of EU Regulation 2017/352 on Port Services Regulation	Ministry of Communities, Territories and Infrastructure Development , State Service for Maritime, Inland Waterway Transport and Shipping	Review and amend the existing national legislation (subordinate legal acts) to ensure full compliance with the provisions of EU Regulation 2017/352 on Port Service Regulation	Q1 2027
Investment 1. Investments in transport infrastructure	Reconstruction and restoration of damaged/destroyed transport infrastructure facilities	Chapter 1. Free movement of goods Chapter 14. Transport policy Chapter 21 TEN-T	Investments of at least EUR 350 million in transport infrastructure	Ministry for Communities, Territories and Infrastructure Development, Ministry of Finance	Report of the Government (or Treasury report) showing that in the State Budgets for 2026 and 2027 the general Government budgeted at least EUR 350 million (in UAH equivalent) for the reconstruction, restoration, modernisation and upgrade of damaged and destroyed transport infrastructure facilities, in line with the National Transport Strategy of Ukraine until 2030, including some of funds to be directed to the regional level (as part of the indicator in the Decentralisation section on allocating 20% to the sub-national level), among others in the following sectors: - railways (in line with the new legislation on railway transport of Ukraine);	Q4 2027

					- maritime and inland shipping (in line with the new legislation on merchant shipping and shipping on inland waterways); - roads; -aviation; and border crossing points (in line with the Strategy for developing and expanding the border infrastructure with the EU Member States and the Republic of Moldova until 2030)	

CHAPTER 12. AGRI-FOOD SECTOR

1. State of play

Agriculture is an important source of value creation. The nation's vast black soils and favourable landscape significantly aid its agricultural productivity. Over 41 million hectares, or 70% of the country, is agricultural land. In 2021, Ukraine’s agriculture sector accounted for around 11% of the country’s GDP, 40% of export and 17% of its formal labour force. Ukraine’s production of grains, including wheat and corn, more than doubled between 1992 and 2020 and exports increased 42.3 times, making Ukraine a pivotal player in the global agricultural sector (SSSU, 2022). Recent data highlights Ukraine's contribution of 10% of global wheat exports and 50% of sunflower oil (FAOSTAT, 2022). Key importers include the Middle East, North Africa, and China. Agriculture is also an important source of livelihood for roughly 12 million Ukrainians living in the rural areas before the war. Aquaculture also plays an important socio-economic role. According to the State Agency for the Development of Melioration, Fisheries and Food Programs, in 2021, about 4,400 business entities were involved in aquaculture, which produced 16.8 thousand tonnes of fish, of which 12.9 thousand tonnes were fish were caught for human consumption, while the rest were intended for restocking.

Russia’s war resulted in major damages across the sector. The impact of Russia’s invasion of Ukraine on the agricultural sector after one year of full-scale conflict is immense. In 2022, the sector witnessed a 30% decrease in total production, with projected further sown area reduction of 25% in 2023 (compared to 2021). Livestock production experienced a 10% decline. The sector was also impacted by shelling of energy infrastructure, attributable to approximately 12% decrease in production.[21]

Direct damages amount to EUR 9.3 billion and indirect losses, including lower production of crops and livestock, as well as logistics disruptions and higher production costs, amount to additional EUR 63.2 billion. Inability to access inputs and cultivate crops, losses of farmland and risks of mining, destruction of physical machinery and soil damage will affect Ukrainian agricultural production for the years to come. According to the estimate of the Kyiv School of Economics Institute, the pre-war level of agricultural production will only be reached in 10 years.

Direct losses include damage to machinery and equipment destruction, theft of manufactured products, followed by damage to storage facilities, reductions in livestock numbers, damaged perennial crops, such as fruit orchards, and destroyed and stolen inputs, including agricultural chemicals and fuel. The physical infrastructure and land damages have been heaviest in the oblasts in the east and south that have seen the most fighting, i.e., in Luhansk, Donetsk, Kharkiv, Kherson and Zaporizhzhia. According to FAO, 25% of the Ukrainian rural population involved in agriculture stopped their activities or reduced their output due to the war, with the share climbing to over 40% in the most agriculture-dependent regions.

The combined damages and losses of the aquaculture sector[22] due to the war, corresponding to around EUR 19.9 million, account for 63% of the annual gross value of sales in the sector. Current challenges to the sector stem from an increase in input prices, followed by reduced access to markets and disrupted logistics. Producers need fish feed, fuel and access to markets. Additionally, the disruption of the electricity grid has heightened the demand for generators and fuel to power equipment such as refrigeration units and pumps. Cultivating market linkages can help address certain challenges. However, to enable the long-term

[21] Centre for Economic Recovery and GIZ, Assessment of the impact of war on the economy of Ukraine, September 2023.

[22] FAO. 2023. Ukraine – Damages and losses in the aquaculture and fishery sectors: Report on the impact of the ongoing war, January 2023. Rome. https://doi.org/10.4060/cc4018en

potential, reform of the aquaculture sector in line with the international standards and EU standards and rules needs to continue.

Further, the war affected the poorest segments of Ukrainian grain importers, threatening global food security, while in parallel sharply tightened revenue of Ukrainian farmers in agriculture and aquaculture. Improper storage and disruptions in export flows due to the destruction of transportation infrastructure and harbour facilities as well as the blockade of the Black Sea, increased the costs of Ukrainian grains and oilseed products' exports. While the Black Sea Grain Initiative and EU Solidarity Lanes temporarily allowed for a recovery of some of the trade losses, the losses are large.

The sector holds large potential to drive the economic growth of Ukraine but further EU integration, moving up the value chain and modernization are key. Completion of land reform, aligning legislation and standards with the EU *acquis,* improving evidence-based policy-making and sound financial management and control systems and strengthening associated institutions could boost investor confidence, create sustainable agriculture and aquaculture sector, generate jobs, and support rural communities. Institutional capacity strengthening of all state actors in the sector through timely implementation of public administration reform is critical for the reform's success. To ensure agricultural producers benefit from EU opportunities and market opening, further formalisation and ensuring access to finance is crucial.

Agricultural and aquaculture producers, especially small and family farms, are of key importance for rural development, creating local value chains, employment and income to rural families and contributing to the socio-economic structure of rural areas. Considering the integration into the European Union small and medium farms will be increasingly important, contributing to sustainable farming and food systems and to greening the sector. Stimulating and supporting agri-food technologies and more general automation and digitalisation, is a unique opportunity in rebuilding the sectors, to significantly and sustainably increase productivity and modernise. Major efforts and investments are needed to ensure that basic requirements for the recovery and growth of the sector are in place, including in interlinked sectors. Demining is critical to increase land availability as large swaths of land areas are currently at risk of being or having been mined.

With respect to these goals, main reform and investment areas to boost the agri-food sector and our strategic objectives in 2024-2027 are:

- Strengthening institutions and regulatory framework in the agri-food sector through further aligning with the EU *acquis* and standards in priority areas and advancing institutional reforms;
- Support strengthening agri-food value chains to help revitalisation and modernisation of the sector after the damages of war as well as to facilitate a shift towards higher value-added products and eco-friendly farming practices as well as compliance with relevant food safety, animal welfare and environmental standards;
- Demining of land and aquatic settings of all types as a precondition to safe rebuilding, resumption of farming activity and return to normality.

2. Overall reform agenda in 2024-2027

Finalisation and adoption of the Agriculture and Rural Development Strategy until 2030 will outline the national priorities in the food sector and the long-term vision. As such, it will guide the limited public funds and facilitate drawing-up and using strategically on other funding, including from international partners. To ensure evidence-based setting of strategic priorities, programming of support and successful implementation of this and other strategies, the Ministry of Agrarian Policy and Food needs to build-up analytical and policy-making capacities.

Ukraine will continue aligning the regulatory framework with the EU *acquis* in key areas, in particular those that significantly improve the governance set up and those that could lead to growth benefits through higher valued-added exports. This includes pursuing the reform of state agricultural institutions in line with the EU's Common Agricultural Policy (CAP), in particular with the focus on setting up management and control systems for sound financial management, adoption of EU-style set up of investment support programmes, ensuring transparent and inclusive support. Besides contributing to recovery and economic growth and long-term resilience, implementation of such schemes would raise public finance management standards in the sector, introducing effective governance principles in both the public and private domain, thereby gaining experience of EU procedures and preparing for the full implementation of EU pre-accession assistance programmes. Furthermore, the reforms will focus on expansion and improvement of the State Agrarian Registry (SAR), which is particularly important to encourage registration of the smaller producers and overall formalisation of the sector. Digital registry will also relate to animals, allowing for animal tracking and traceability. Work along those two priorities will also facilitate transparent and inclusive support and access to finance.

Legislation and regulatory framework will continue to be revised and implemented to align with the EU *acquis* on agriculture and rural development, food safety, official control systems in animal sector, fisheries, aquaculture and other priority areas. This could bring growth benefits through expanded exports or by climbing up the value chain. Building up policy and institutional framework and capacity for assessing compliance with sanitary and phytosanitary, animal welfare and environmental standards and controls in the agri-food sector as well as reform of competent authorities to ensure effective implementation is needed in parallel.

Development of a well-functioning open and transparent land market is an essential enabler for sustainable farming, investments and access to credit. This entails further opening of the market, ensuring security of land ownership and securing special mechanisms, including financial, to ensure access to land for small producers. It is necessary within the pilot project of the geoinformation system of comprehensive mass valuation of agricultural land and property based on actual transaction prices to ensure proper reflection of the true market value and the establishment of fair taxation, which is consistent with global real estate tax practices. Enhancing land valuation practices could support development of a land mortgage market.

Enhancing the functionality, transparency and capacity of pivotal agencies like State Geocadastre, responsible for maintaining the State Land Cadastre and aligning it with EU requirements, is a key objective. Ensuring full digital availability of services would eliminate administrative discretion, reduce cost of service delivery, make cadastral information freely available to local bodies for tax collection and planning and support transparency. Completing the reform of the State Register of Real Estate Rights using National Information Systems under the Ministry of Justice to improve interoperability with the State Land Cadastre would reduce the cost and complexity of registering land plots, land transactions and mortgages and provide the basis for regulatory reform to simplify foreclosure.

Post-decentralization, the majority of state-owned land has transitioned into the ownership of united territorial communities. In order to effectively use land resources, these territorial communities need to develop comprehensive spatial development plans. These plans will serve both as urban planning documentation at the local level and land management documentation, outlining the spatial organisation and functional designation of the territory. Improved local land use planning for investments, taxation, and sustainability would require creating and updating the territorial land use plans based on topographic maps, ensuring the operation and maintenance of the topographic data base, and ensuring its availability online.

Transformation of the agri-food sector and aquaculture sectors requires appropriate education and effective knowledge transfer and innovation, in addition to investments. This relates to the revitalisation and modernisation of the sectors after the damages of war as well as shifting towards higher value-added products and eco-friendly agricultural practices, an integral part of the EU CAP and also sustainable aquaculture, in line with the European Green Deal. More attention will be given to reform the Farm Advisory System and to introduce an Agricultural Knowledge and Innovation System (AKIS) in order to support farmers lagging behind, inform producers about public support programmes and promote innovations in the sector. Small and family farms as well as Small and Medium agri-food Enterprises (SMEs) would benefit the most from such mechanisms of advisory services to enhance expertise and sector know-how. Reform of the National Agricultural Academy of Sciences (NAAS) could help improve human capital in the sector and support agricultural research.

Reforms and investments in irrigation and drainage have potential to contribute to climate change adaptation and food security. Given the large scale of the needs and complex likely effects on ecosystems, understanding priorities in the irrigation sector will need to be based on the analysis of full economic benefits, careful considerations of environmental impact and good governance dimension in the water sector. This includes further reform of irrigation management institutions after establishing water user organisations, operation and maintenance of hydro-technical infrastructure to ensure efficient and transparent use of water resources, the creation of state reclamation system operators and attracting support from international partners.

Certain sub-sectors require particular attention to reach their potential. Ukraine has a competitive advantage in organic farming compared to the EU, which is a net importer of organic products. Further development of organic production and trade requires effective control and supervision by a competent authority equivalent to EU-based bodies to minimise reputational risks related to accreditation of certification bodies and organic producers. It also requires the adoption by Ukraine of the latest EU legislative framework and standards. A holistic strategy is needed for the livestock processing industry as it is faced by multifaceted challenges in the wake of war, including strategic approach in renovating existing and establishing new slaughterhouses and rendering facilities, sustainable practices, advanced digital systems, inclusivity in the workforce and undeterred support for breeders and SMEs.

Demining requires setting up a clear strategic guidance on mine action and approval of criteria to prioritise territories subject to immediate demining in view of their economic, social and security importance. It is necessary to set up clear methodology and processes to conduct initial assessments and non-technical survey of land at risk of being mined, including the quick certification process for the operators who could conduct the survey. As most of the land is at risk of, but not necessarily having been mined, this would allow for quick land release of areas that are mine-free. Demining will be followed by the wider decontamination efforts and ecological rehabilitation.

To stimulate innovation in the agri-food sector, it is essential to support the use of automation, IT, and Artificial Intelligence (AI) technologies to enhance productivity and promote innovation. However, this would come at the cost of lost working opportunities for rural inhabitants. Therefore, any investments in increasing automation would need to be ‘rural proofed’, taking into account potential effects on rural livelihoods. To stimulate automation, digitalisation, and promote innovation in agriculture and aquaculture, it is necessary to create proper conditions and incentives to involve agricultural and aquaculture producers in new technologies. Primarily, this can be achieved through data digitisation, notably by developing electronic registries. Special attention should be given to registries managed by the State Service on Food Safety and Consumer Protection, declaring rights for fishing and electronic catch data recording, as well as information exchange via the SAR. Ensuring transparency and traceability of product origin should be improved through the development of electronic documentation.

2.1 Reforms to be pursued under the Pillar I of the Ukraine Facility

Reform 1. Aligning the institutional framework and agriculture and rural development to the EU policy

State of play and context: Agriculture and Rural Development Strategy will outline the national priorities over a long-term and taking into account holistic view of the sector, including aspects like environmental standards and climate resilience, as well as the importance of agriculture and aquaculture for rural development. This is needed to ensure that investment support such as the one proposed under the reform 3 is meaningful, well targeted and most-effective, prioritising sectors, sub-sectors, types of investments and types of recipients. This is particularly important in the context of large needs in Ukraine and limited financial resources.

Description of the reform: The Strategy for Agriculture and Rural Development until 2030, adopted by Q4 2024, will focus on the following main areas:

- Harmonisation of Ukrainian agricultural and rural development policy with the new EU Common Agricultural Policy; incorporation of goals such as the national strategic plans of EU member states (candidate countries) and areas that require special attention in Ukraine, such as land reform, irrigation, post-war reconstruction and development support;
- Institutional strengthening and capacity building to develop necessary systems;
- Acceleration of the process to approximate legal acts and capacities for enforcement in agri-food and SPS to EU standards;
- Focusing public expenditures to small producers and rural communities;
- Defining environmental and climate action baselines and targets, building up evidence-based programming and sound financial management and control capacities.

Decision-making and policy formation in the agri-food and rural development sector will be executed within the framework of the Strategy. The Strategy, in this context, will serve as the primary document defining long-term goals and priorities for the development of the agri-food sector. This document will encompass specific goals, tasks, methods of achieving them, as well as strategic development directions.

The Strategy will aid Government bodies and other stakeholders in coordinating a joint action plan and determining priorities for further development of the agri-food sector. It will also serve as the basis for developing specific programmes, legislative acts, and regulatory provisions aimed at implementing strategic decisions.

As the prerequisite for disbursements is the availability of accurate information on the operation of agri-food enterprises, including their financial status, and for forecasting the impact of government policy on the development of this sector, Ukraine will establish and operationalise an EU-aligned Farm Sustainability Data Network (FSDN) system for recording data of agricultural producers.

Using this data, government entities can more effectively track the situation in the agri-food sector, make informed decisions regarding the development of policies that promote sustainable agri-food and the allocation of public support to agri-food producers, and provide accurate informational grounds for investment support and subsidies to farms. This system will also contribute to transparency and openness in the agri-food sector, enabling farms to utilise resources more efficiently and enhance their operations.

Potential impact of the reform: The development of strategic priorities in the sector and the subsequent implementation of support operations that would primarily focus on strengthening the development of agricultural value chains, including diversification of production, increase in quality and safety standards, necessary institutional capacities, educational and promotional capacities would support evidence-based policy making and overall strengthening of the agri-food sector. Aligning the institutional framework, agriculture, and rural development with the EU *acquis* fully embraces the objectives of the 'do no significant harm' principle, to the extent possible in a context of war or post-war recovery and reconstruction.

Reform 2. Ensuring functional land market

State of play and context: Finalising the land reform, establishing land ownership rights and an efficient land market are pre-conditions for sustainable development of farming, investments and access to credit. The first steps to be taken need to ensure unquestionable proof of ownership and an easy-to-access evidence of ownership. It should also entail completion within the pilot project of the geoinformation system of comprehensive mass valuation of agricultural land and property, must be based on actual transaction prices to ensure that true market value is well reflected and establishment of fair taxation that aligns with global real estate taxation practices must be introduced.

Further needed steps include improving and strengthening the capacity of relevant state institutions, in line with the EU standards. This relates to State Geocadastre, notably in relation to its responsibility for maintaining the State Land Cadastre, to ensure full digital availability of services to eliminate administrative discretion, reduce cost of service delivery, make cadastral information freely available to local bodies for tax collection and planning, and dissemination of information. Complementally, completing the reform of the State Register of Real Estate Rights under the Ministry of Justice is needed to ensure interoperability with the State Land Cadastre, reduce the cost and complexity of registering land plots, land transactions and mortgages, and provide the basis for regulatory reform to simplify foreclosure. Reforming StateGeocadastre in line with similar EU institutions would bring many benefits.

Description of the reform: To further improve the functioning of the land market, we will ensure that:

- Protocols of information interaction between the State Land Cadastre and the State Register of Property Rights on Real Estate have been improved, enabling automatic transfer of data and information between the two registers, in particular the price (value) and information on its property rights by Q1 2024;
- An automated system for public monitoring of land relations has been put into operation, functioning within the framework of maintaining the State Land Cadastre by Q1 2025;
- A geoinformation system for mass land assessment has been put into operation as part of the software of the State Land Cadastre by Q1 2025.

Potential impact of the reform: Ensuring full digital access to services will help reduce administrative discretion, improve service accessibility for the population and businesses, while also aiding tax collection and local government planning. This initiative will also contribute to greater transparency in the land market and, consequently, agricultural development.

Reform 3. Improving the institutional and administrative set up for managing investment programmes

State of play and context: The sector needs to be revitalised after the war, the value chains strengthened and modernised, and gradual shift towards eco-friendly agricultural practices must take place. This transition demands financial support, especially since the identified needs and sustainable practices might seem less immediately profitable than traditional ones. Access to finance must be transparent and inclusive, in particular for the smaller producers. At the same time and in line with Ukraine's EU ambitions, there is a need to improve the institutional and administrative set up for managing investment programmes that are similar to those of other EU candidate countries. Besides contributing to recovery and economic growth and long-term resilience, implementation of such a scheme would raise public finance management standards in the sector, introducing good governance principles in both the public and private domain, thereby gaining experience of EU procedures and preparing for the full implementation of EU pre-accession assistance programmes.

Description of the reform: To address these aspects, the Law on Amendments to the Law of Ukraine 'On State Support to the Agriculture of Ukraine' will enter into force by Q3 2025. The law will focus on the following main areas:

- Design future public support measures (mostly funded through donor programmes), including in selected priority sectors (including fisheries and aquaculture) based on sector and SWOT analyses, that comply with the EU standards, and the EU *acquis*;
- Design measures to support agri-food production for small-scale farms' to undertake private investments (physical assets of agricultural producers, for processing and marketing purposes);
- Design of future financial instruments (including credit guarantee facilities) for all farm categories in collaboration with International Financial Institutions;
- Digitalisation through electronic document management systems;
- State support exclusively channelled to beneficiaries enlisted in the State Agrarian Register, which has an access to other state electronic registers (incl. land cadastre, property register, animal register).

To ensure implementation of the law, basic institutions will be created following the CAP principles (such as a Paying Agency) enabling timely, transparent and accurate payment of support to agricultural producers, and also improving the capacity of the Ministry in developing evidence-based public support programmes.

Potential impact of the reform: Implementation of an EU-style investment public support programme would improve governance standards, increase transparency and efficiency of channelling public support to the agricultural sector. It would also enable Ukraine to gain experience of EU procedures, strengthen capabilities at the national and local levels and prepare for eventual implementation of EU pre-accession programmes in agriculture and rural development. This, in turn, allows for a more effective alignment with EU standards and the Common Agricultural Policy, which contributes to the criteria set out under the 'do no significant harm' principle, to the extent possible in a context of war or post-war recovery and reconstruction.

Reform 4. Improvement of the official public electronic farm register

State of play and context: A significant share of agri-food producers remains not covered by the state programmes due to the lack of registration. Recent introduction of the register of agricultural producers is widely seen as a success, with around 115 thousand producers registered after one year of existence. This is higher than the number of producers registered with the Ministry of Economy as legal entities around 75 thousand , but significantly lower than the number of farms estimated to exist in Ukraine. Potentially around 300 thousand farms could be registered in the SAR in the course of 2026.

To formalise and institutionalise the existence of the register, the legal framework needs to be revised to recognise the SAR as an official public electronic farm register and as means to plan and target technical and financial support in the field of agrarian policy. The new regulation will also expand the coverage of the register which would significantly improve the evidence-based analytics of the sector. Ensuring the registration in the register as a precondition for receiving any type of public support would further contribute to support transparency and formalisation of the sector.

Description of the reform: The Law on the State Agrarian Register will enter into force by Q4 2024, focusing on the following main areas:

- The SAR is recognised as an official public electronic register in the field of agrarian policy and food security with the regulation of its mandatory elements, such as the procedure for its administration, the definition of its data, access by the third parties etc.
- SAR coverage is expanded to register (and include information on) stakeholders throughout the entire agricultural value chain such as agricultural producers, food processors, water users, and others.
- SAR functionality is expanded, serving as a pre-condition for financial assistance and enabling targeted channelling of technical assistance, other administrative services, the introduction of analytical information etc.
- Registration in SAR is a precondition for receiving any type of public support in agri-food sector;
- Mandatory publication of the register of beneficiaries of any public support programmes in the sector implemented through SAR.

After adoption of the Law on the State Agrarian Register, relevant changes will be made to the subordinate legislation associated with the distribution of public support for agricultural producers. Over 80% of public support to agricultural producers planned to be provided in 2025 will be channelled through the SAR (by Q1 2026).

Potential impact of the reform: Completing registration of all agricultural producers, with a particular focus on encouraging registration of the smallest producers, would improve access to support programmes for those in need, lead to higher tax revenues and encourage sector formalisation. It would also improve functioning of the system of public support for agriculture through eliminating administrative obstacles and costs for agricultural producers when receiving state aid. Expanding coverage of the register would ensure the development of evidence-based policies in the sector, considering the variety of farms and any other stakeholders of agricultural value chains. Eventual interoperability of farm, land and animal registers will support implementation of integrated administration and control systems harmonised with the EU.

Reform 5. Long-term development of the irrigation system to increase climate resilience of the sector

State of play and context: Addressing Ukraine’s vulnerability to drought and declining irrigation in the context of climate change is paramount and will require long-term vision and planning for the improved and sustainable use of water resources for irrigation purposes. The sustainable management of water resources for irrigation shall play a key role in ensuring the country’s recovery and adaptation to changing climate. Given the adverse weather conditions and years of underinvestment in irrigation, drainage and the associated infrastructures, the investment needs for rehabilitation and modernisation are large. Before the war, irrigation covered 1% of agricultural land, but it is more important for certain crops (e.g. 15% of potatoes, almost all tomatoes) and regions (e.g. 14% Kherson region).[23] Recent challenges, such as the destruction of the Kakhovka Dam, only underscore the need to define a vision for the sector.

At the same time, the needs must be prioritised based on the analysis of full socio-economic benefits and environmental impacts of the 'build back better' principle. While private investments will play a key role, irrigation depends on the large-scale public infrastructure, the feasibility of which will need to be carefully assessed.

Description of the reform: The long-term plan for the development of the irrigation system will be adopted by Q1 2025, focusing on the following main areas:

- Priorities in the irrigation sector based on the analysis of full economic benefits;
- Alignment with the water sector strategy and the water basin-based water management principles;
- Indication of needed public and other investments and the need for further privatisation;
- Governance/management dimension of the sector;
- Environmental assessment to be carried out for any rehabilitation or construction project in line with EU recommendation on environmental impact assessment, environmental strategic assessment and Ukraine legislation in this area.

Potential impact of the reform: Utilising the available water resources in Ukraine for irrigation is extremely important to increase crop yields and reduce the risk associated with annual droughts in the southern regions. The development of an irrigation system will enhance the productivity of agricultural lands and help ensure production stability in the face of extreme climatic conditions. Such a project can help mitigate the risks associated with droughts and improve food security in the country. The restoration and long-term development of water irrigation systems will also support Ukrainians' ability to adapt to the negative consequences of climate, and, thus, this reform also supports the 'do no significant harm' principle, to the extent possible in a context of war or post-war recovery and reconstruction.

Reform 6. Demining of land and water areas

State of play and context: As of today, Ukraine has not developed and adopted a single and comprehensive Mine Action Strategy. However, in connection with the unprecedented scale of challenges related to the contamination of the territory of Ukraine with mines and other explosive objects, the development, adoption and implementation of the mentioned Strategy is an urgent challenge for the relevant state authorities of Ukraine.

The Government has formed an appropriate working group and consultations are being held with all relevant state authorities and other stakeholders, and a draft Strategy is being developed. Thus, during the second half of 2023 and the beginning of 2024, the draft Strategy was discussed with representatives of mine action operators, state authorities, and the international donor community.

Description of the reform: The National Strategy on Mine Action for the period up to 2033 will be approved by a relevant legislative document.

The Strategy will contain the following main components:

- Management in the field of Mine Action;
- Support of the effectiveness of Mine Action operators;

[23]https://documents1.worldbank.org/curated/en/917821550690263058/pdf/134794-WP-P160318-PUBLIC-Ukraine-Irrigation-Strategy-WB-Dec-2017-002.pdf

- Prevention of accidents;
- Comprehensive assistance to victims;
- Innovations;
- Gender balance and representation;
- Development of the private market;
- Effective and transparent donor coordination;
- Forming the system of prioritisation of tasks in mine action.

The Strategy is also aimed at solving the problem of the lack of systematic communication with society regarding the involvement in professional work in the field of mine action of representatives of social groups whose involvement is of state interest, in particular women, veterans, persons with disabilities and victims of explosive objects.

The strategy will be adopted not later than Q2 2024.

Potential impact of the reform: Adoption of the specified document will allow:

- To coordinate and determine on a long-term and planned basis both the general goals and priorities of the policy in the field of Humanitarian Demining and Mine Action, as well as the areas of responsibility, the role and tasks of state authorities, non-governmental and private demining operators, as well as priority areas for attracting support from international partners;
- To promote the attraction and maximise the efficiency of the use of resources from all sources of origin aimed at Mine Action and Humanitarian Demining.

In addition, demining contributes to green objectives as it helps prevent the war-related pollution of land and water areas and helps protect wildlife and biodiversity. It also supports the cleaning of water and protects marine resources, hence contributing to the 'do no significant harm' principle, to the extent possible in a context of war or post-war recovery and reconstruction.

3. Overall investment needs and opportunities in 2024-2027

Total investment needs of the sector in priority areas

Agri-food sector has a potential to recover, drive the overall economic growth, serve as a source of rural development and provide food for the Ukrainian population. According to RDNA3, the priority medium-term and longer-run needs (from 2024 to 2033) in terms of sector investments amount to EUR 50.8 billion. The most pressing investments include rebuilding the damaged assets, helping the sector in bouncing back by addressing liquidity issues, in particular of the small farmers, pursuing higher-value added and export-oriented opportunities, investing in resilience to climate change and in integrated food-energy systems and strengthening the agricultural public institutions to effectively support recovery and reconstruction as well as EU accession.

The National Mine Action Authority estimates that as of January 2024 approximately 26% of Ukrainian territory (156 thousand km2) is potentially contaminated with landmines and other explosive ordnance as a result of the invasion in 2022. Around 14.2 million hectares of Ukrainian lands and 14 thousand square kilometres of water areas of all types are currently at risk of contamination. For comparison, before the war, Ukraine had a total of 41 million hectares of agricultural land, covering 70% of the country. The clearance of explosive ordnance (landmines, unexploded ordnance, and improvised explosive devices) is a precondition to safe rebuilding, resumption of service provision, and return to normality in Ukraine. According to RDNA3, the needs for Explosive Hazards Management over 2024-2033 stand at around 31.3 billion EUR. About 88% of the costs would be required in 5 regions (Donetsk, Kharkiv, Kherson, Luhansk, and Zaporizhzhia).

Major efforts and investments are needed to ensure that basic requirements for the recovery and growth of the sector are in place, including in interlinked sectors. Improved functioning of export routes, rehabilitation and increased capacity of key transport links as well as logistics reconstruction and diversification will ensure the supply and competitiveness of Ukrainian agri-food products on local and external markets. Rehabilitation of irrigation infrastructure and investments in irrigation and drainage systems improvement, based on sound environmental principles and giving more management responsibility to water users, is an opportunity for farms of all sizes but requires major investments. The clearance of explosive ordnance (landmines, unexploded ordnance, and improvised explosive devices) is a precondition to safe rebuilding, resumption of service provision, and return to normality in Ukraine, in particular in the six most affected regions.

The key investment needs in 2024-2027 are:

- Liquidation of the fall-out of the war through decontamination and restoration of damaged infrastructure and facilities, respecting the ‘build back better’ principle and focusing on sustainable practices. This includes demining and decontamination of agricultural land and rehabilitation of irrigation and drainage infrastructure, including reconstruction of pipelines, pumping stations, on-farm infrastructure and restoration of vital structures like the Kakhovka Dam based on the priorities determined through an analysis of full economic benefits. Needs to ensure demining include technical material and equipment with a potential to localise the production, training centres and associated equipment, support schemes and incentives for the private sector undertaking demining activities.

- Support recovery during several production seasons to help agri-food production rebound through scaling up financial support to farmers. These funds should target farms that are economically viable and co-finance investments contributing to increased sustainability, and efficiency of agri-food production and processing and attractiveness to rural livelihoods. It is imperative that small-scale, medium scale and large-scale producers have access to these resources, however the tools will be adjusted for the size and needs, and particular focus will be paid to the smallest agricultural producers. This support could be implemented respecting the main principles of management of rural development pre-accession assistance, to allow building capacities in Ukraine to programme and manage funds in the area of agriculture and rural development.

- Supporting producers in higher value-added sectors. Priority sectors would be the producers and processing industry, including in the sectors of protein nutrition and purified protein extracts, organic food production, dairy, horticulture, viticulture and other higher value-added subsectors. In addition, upgrading of technology and techniques in production and harvest and post-harvest handling, storage and processing throughout value chains as well as marketing, particularly for perishable products, should be supported. A special focus will be given to the smallest producers, in line with encouraging formalisation and cooperation.

- Financial support should be complemented by the access to know-how, and it should include other forms of stakeholders such as producer organisations. Reform of the Farm Advisory System is needed as well as the introduction of an Agricultural Knowledge and Innovation System, informing producers about public support programmes, transferring knowledge and promoting innovations in the sector. In particular, the reformed advisory system should focus on increasing diversity of agri-food production as well as its inclusiveness, climate resilience, food-energy integration, and environmental and social sustainability, in line with the European Green Deal requirements. It should also promote eco-friendly agricultural practices that are an integral part of the EU CAP and other relevant elements from the European Green Deal. In doing so, this reform strengthens farmers' expertise and ability to adhere to environment-friendly practices, which in turn supports the objectives envisioned under the ‘do no significant harm’ principle, to the extent possible in a context of war or post-war recovery and reconstruction.

- Strengthening the full agri-food value chains and supporting logistics. This may include rehabilitation and improvement of damaged storage capacities and warehousing as well as rural roads and other infrastructure.
- Supporting the long-term recovery of agricultural production volume to enhance diversity, inclusivity, climate change resilience, energy and food integration, as well as ecological and social sustainability in accordance with the requirements of the European Green Deal and ecological farming practices is an integral part of the European Union's Common Agricultural Policy, as is the promotion of sustainable agricultural practices, ‘from farm to fork’ principle, landscape management, biodiversity, and so on.
- Stimulating digital integration and modernisation can have a direct impact on increasing productivity, reducing resource use and adaptation to climate change. This can include precision farming and use of automation, IT, and AI technologies across value chains such as global positioning systems, geographic information systems, farm management information systems, variable rate technologies, use of drones for livestock and crop monitoring, seed planting, fertiliser and pest control application, internet devices, smart farming management programmes, mobile sensors for data collection or IT solutions for climate resilience, drip irrigation, wireless sensor networks for fertilisation. Such technologies would contribute to reducing water and inputs use and allow farmers to increase soil quality as well as increase efficiency and productivity. This digitalisation further supports the efficient use of resources, and strengthens sustainable farming practices, thereby contributing to the objectives under the ‘do no significant harm’ principle, to the extent possible in a context of war or post-war recovery and reconstruction;
- Scaling up investment and capacity building in public institutions needed to assess compliance with sanitary and phytosanitary measures, including digitalised veterinary and phytosanitary laboratory facilities, soil testing for precision agriculture, official control systems in animal and plant sectors, fisheries, organic certification and other priority sectors. Interoperability of all relevant databases is important, in particular farms, animals and land registers.
- Survey and demining of land and water areas of all types, as well as, where necessary, carrying out reclamation and other works necessary to return certain territories to productive use. Under the condition of investments during 2024-2027 of about EUR 18.1 billion and the de-occupation of all temporarily occupied territories, it is potentially possible to achieve the following results: carrying out a non-technical survey of 100% of potentially contaminated areas; carrying out a technical survey of approximately 99% of the territories that must be based on the results of a non-technical survey; demining of approximately 29% of the territories that need it according to the results of a technical survey. At the same time, the indicated figures are only an approximate guideline, since the actual planning is carried out in accordance with the legislation by authorised bodies, primarily by the National Mine Action Authority and the Ministry of Defence. The corresponding planning is complicated by an ongoing full-scale war.

Potential for private investments is particularly high in the following areas:

Irrigation infrastructure

Ukraine belongs to states with insufficient water resources. Climate change significantly aggravates the situation with the provision of high-quality drinking water and with the attraction of available water resources for other public needs - the development of agriculture, energy, preservation and improvement of the environment. The use of irrigation will make it possible, regardless of weather conditions, to increase agricultural yields, which is especially necessary in the arid southern regions. Investment priorities for restoration of irrigation include pumping stations, canals, pipeline networks, and other engineering infrastructure facilities for irrigation and drainage systems. Large-scale expansion of irrigation systems will increase productivity and reduce the risks of farming. However, investments in irrigation and drainage must be well planned, taking into account all socio-economic and environmental impacts, as they can potentially have detrimental effects on valuable ecosystems.

Rehabilitation of irrigation and drainage infrastructure helps Ukrainians adapt to the negative impacts of climate change, and therefore also contributes to the ‘do no significant harm’ principle, as far as possible in war or post-war reconstruction and recovery, but due to its impact on sustainable use and protection of water and biodiversity will require careful analysis, planning, mitigation and compensation measures. Any investment in an irrigation system properly ensures that watersheds are not significantly impacted due to ex-ante studies.

For restoration or construction projects of reclamation systems in cases stipulated by law, an environmental impact assessment will be conducted, taking into account the water balance within the respective river basin (water management area) as approved in accordance with the Water Code of Ukraine.

Grain storage and transport facilities

Ukraine needs to improve its grain and oilseed products storage capacity to handle increased production volumes. At the same time, investments in transport logistics from farms to Black Sea and Danube ports and dry ports at the Western borders are needed to bring transport costs down to the pre-war levels.

While the country has sufficient steel, cement and construction industries to supply elevator materials and labour, allocation of the grain storage and reloading facilities and their economic viability must be carefully assessed.

Priorities are to first restore storage capacity damaged during the war, then construct new inland grain elevators to support expanded production and provide transfer points to alternate export routes. These investments will enable Ukraine to handle 75 million metric tons of grain storage.

The allocation of the grain storage and reloading facilities and their economic viability must be carefully assessed. Following the analysis of economic viability of grain terminal construction at the western border, such projects’ success depends on many factors.

Agricultural production and food processing

Significant potential lies across agricultural products and food production and processing value chains in export oriented and in higher value-added sectors, in particular those relying on the existing capacities and products. The country has sufficient grain and oilseed production to supply increased livestock, dairy, milling, oil crushing, starch and protein extraction facilities.

Priority investments include animal and horticulture farms, poultry plants, dairy operations, biogas and biomethane plants, oilseed crushing/refining, grain milling, starch/gluten factories and vegetable protein isolation facilities.

3.1 Investments to be pursued under the Pillar I of the Ukraine Facility

Investment 1. Investments in demining

State of play and context: As of today, the problem of land contamination with mines and other explosive objects is relevant for many agri-food producers, especially in the regions of Ukraine most affected by hostilities. At the same time, for a number of reasons, a large number of such producers have limited financial resources to purchase surveying and demining services of the territories they use.

Meanwhile, the market for demining services in Ukraine is in the initial stages of development and currently has a small number of certified mine action operators compared to the extent of contamination of the territory of Ukraine and the potentially necessary volumes of relevant work.

In connection with the mentioned factors, the Government is working on the development and adoption of a legislative act on partial financial support for the State Budget for the humanitarian demining of agricultural lands and the mechanism for its implementation. Thus, at the beginning of 2024, a discussion of the financial mechanism was held with representatives of mine action operators.

Description of the investment: Report of the Government (or Treasury report) showing that in the State Budgets for 2024, 2025, 2026, 2027 the Government budgeted at least EUR 150 million (in UAH equivalent) for the funds paid to agri-food producers for the costs of demining. The report will be available by the end of Q4 2027. Additionally an interim report of the Government (or Treasury report) showing that in the State Budgets for 2024 and 2025 the Government budgeted at least EUR 75 million (in UAH equivalent) for the funds paid to agri-food producers for the costs of demining will be prepared by Q2 2026.

Potential impact of the investment: Survey and subsequent demining of a part of agri-food land at the expense of the State Budget of Ukraine, which will contribute to faster economic recovery, revitalization of rural areas and faster return of refugees and internally displaced persons. In addition, this financing is intended to contribute to the development of the market for demining services and to increase the level of supply of these services. The restoration of land and sea areas via demining and decontamination practices reduces pollution stemming from the war and helps protect biodiversity, thereby aligning with the objectives of the ‘do no significant harm’ principle, to the extent possible in a context of war or post-war recovery and reconstruction. The investments in surveying and demining of land and water will contribute to addressing environmental and climate challenges.

4. Coherence with the objectives of the Ukraine Facility

The chapter proposes reforms and investments that constitute a coherent, comprehensive, and adequately balanced response to the general and specific objectives of the Ukraine Facility, including structural reforms and measures to promote the convergence with the Union and increase the growth rate of the Ukrainian economy.

Proposed activities are aligned with the broad pre-accession objectives of pursuing public administration reform in the sector and gradual *acquis* alignment. More specifically, activities should contribute to increasing the ability of the sector to compete in the EU single market, and set in place the main legal and governance elements necessary for evidence-based policy-making and sound financial management of any funds directed at the development of the sector.

Regarding the general objectives of the Facility, the chapter addresses the social, economic, and environmental consequences of the war, thereby contributing to the recovery, reconstruction, and modernisation of the country. Social consequences are addressed by the reforms that positively impact small farmers, which were severely affected by the war. Economic consequences are addressed through the combination of structural reforms and investments with a high growth potential, considering the 'leaving no one behind' important share of agriculture in the economy. Finally, environmental consequences are addressed by the promotion of innovative techniques in the proposed investments that are in line with EU practices (e.g. new and existing irrigation systems broadly in line with the EU water framework legislation and environmental requirements).

The chapter is in line with the specific objectives of the Facility, including the rebuilding and modernisation of infrastructure damaged by the war such as water systems, restoring agriculture and food production capacities, contributing to the demining effort, fostering the transition to a sustainable and inclusive economy and a stable investment environment, strengthening strategic economic sectors and support investment and private sector development in the areas of agriculture and rural development, aquaculture and assisting sustainable green transition.

The reforms and investments under this chapter focus on Ukraine adopting more sustainable agriculture practices and, hence, mainstreaming climate change mitigation and adaptation, environmental protection, disaster risk reduction, and supporting progress towards the Sustainable Development Goals (in particular SDG 2 'End hunger, achieve food security and improve nutrition and promote sustainable agriculture'). Investments are guided by the principles of 'do no significant harm' and of 'leaving no one behind' in terms of the target groups, as well as by the sustainability mainstreaming approach underpinning the European Green Deal. Local and regional authorities, social partners and civil society organisations were all consulted on the reforms and investments proposed under this chapter and their input was included in the final version.

5. Table of reforms and investments covered under Pillar I

Reforms and investments	Objectives and growth potential	Corresponding chapters of the EU Enlargement report	Name of the step (quantitative and qualitative steps to implement reforms/investments)	Agency responsible for implementation	Outcome	Timeframe
Reform 1. Aligning the institutional framework on agriculture and rural development to the EU policy	The development of strategic priorities in the sector and the subsequent implementation focused on strengthening the development of agricultural value chains, including diversification of production, increase in quality and safety standards, necessary institutional capacities, educational and promotional capacities would support evidence-based policy making and strengthening of the agri-food sector. Continuation of the reform of state agricultural institutions would help lay the ground for the implementation of the EU Common Agricultural Policy (CAP). Further institutional reforms and implementation of EU-approved payment mechanisms would help ensure transparent and fair support	Chapter 11. Agriculture and development of rural areas	Adoption of the Strategy for Agriculture and Rural Development until 2030	The Ministry of Agrarian Policy and Food	Adoption of the Strategy for Agriculture and Rural Development until 2030'. The strategy focuses on these main areas: - adapting Ukrainian Agriculture and Rural Development policies to the EU pre-accession context and areas of special Ukrainian concern, such as land reform, irrigation, war recovery and development support; - institutional strengthening and capacity building to develop necessary systems; - acceleration of the process to approximate legal acts and capacities for agri-food agriculture and SPS to EU standards; - promoting the development to small producers and rural communities; - defining of environmental and climate action baselines and targets, building up evidence-based programming and sound financial management and control capacities	Q4 2024
			Establishment of the Farm Sustainability Data Network (FSDN) system	The Ministry of Agrarian Policy and Food	The EU-aligned FSDN system, to be created under the Ministry of Agrarian Policy, is established and is operational. The system allows tracking the situation in the agricultural sector and making informed decisions regarding the allocation of state support to agricultural producers	Q1 2027
Reform 2. Ensuring functional land market	Development of a well-functioning open and transparent land market is an essential enabler for sustainable farming, investments and access to credit. The first steps to be taken need to ensure unquestionable proof of ownership and an easy-to-access	—	Implementation of automatic data transfer between the State Land Cadastre and the State Register of Property Rights on Real Estate	The Ministry of Agrarian Policy and Food	The protocols of information interaction between the State Land Cadastre and the State Register of Property Rights on Real Estate are enabling the automatic data transfer about the price (value) of a real estate and property rights to it to the State Land Cadastre	Q1 2024

	evidence of ownership. It should also entail completion within the pilot project of the geoinformation system of comprehensive mass valuation of agricultural land and property needs based on actual transaction prices to ensure true market value is well reflected and establishment of fair taxation that aligns with global real estate taxation practices further		An automated system for public monitoring of land relations is in place	The Ministry of Agrarian Policy and Food	An automated system for public monitoring of land relations has been put into operation, functioning within the framework of maintaining the State Land Cadastre. A geoinformation system for mass land assessment has been put into operation as part of the software of the State Land Cadastre	Q1 2025
Reform 3. Improving the institutional and administrative set up for managing investment programmes	There is a need to improve the institutional and administrative set up for managing investment programs in the sector. Setting up an EU-style institutional and administrative scheme, similar to other EU candidate countries, would improve public finance management standards in the sector, introducing good governance principles both in public and private domain. Implementation of such investment programme would help to gain experience of EU procedures, strengthen capabilities at the national and local levels, and prepare for the full implementation of EU pre-accession assistance programmes	Chapter 11. Agriculture and development of rural areas	Entry into force of the legislation on the public support of agriculture of Ukraine	The Ministry of Agrarian Policy and Food	Entry into force of the Law on Amendments to the Law of Ukraine ‘On State Support of Agriculture of Ukraine’. The Law focuses on these main areas: - Design future public support measures, including in selected sectors based on sector and SWOT analyses, that comply with the EU standards and the EU acquis. - Design measures to support agricultural production for small scale farms to undertake private investments (physical assets of agricultural holdings producers, for processing and marketing) - Design of future financial instruments (including credit guarantee facilities) for all farm categories in collaboration with International Financial Institutions. - Digitalisation through electronic document management systems. - State support exclusively channelled to beneficiaries enlisted in the State Agrarian Register, which has access to electronic registers (incl. land cadastre, property register, animal register)	Q3 2025
Reform 4. Improvement of the official public electronic farm register	Ensuring agricultural producers are registered supporters of the sector, improves access to support programmes for those in need and leads to higher tax revenue. It also improves the functioning of the system of state support for agriculture, eliminating administrative obstacles and costs for	Chapter 11. Agriculture and development of rural areas	Entry into force of the legislation on the State Agrarian Register	The Ministry of Agrarian Policy and Food	Entry into force of the Law of Ukraine ‘On the State Agrarian Register’. The law focuses on these main areas: - The State Agrarian Register (SAR) is recognised as an official public electronic register in the field of agrarian policy and food security with the regulation of its mandatory elements, such as the procedure	Q4 2024

	agri-food producers when receiving state aid. Improvement of information in the sector, including the number, type and size of farms and any other stakeholders of agri-food value chains, would support the development of evidence-based policies in the sector				for its administration, the definition of its data, access by the third parties etc. - SAR coverage is expanded to register and include information on stakeholders throughout the entire agricultural value chain such as agricultural producers, food processors, water users, and others. - SAR functionality is expanded, serving as a pre-condition for financial assistance and enabling targeted channelling of technical assistance, other administrative services, and the introduction of analytical information etc. - Registration in SAR is a precondition for receiving any type of public support in agri-food sector; - Mandatory publication of the register of beneficiaries of any state support programmes in the sector implemented through SAR	
			Implementation of the public support through the State Agrarian Register	The Ministry of Agrarian Policy and Food	Submission of the report on the implementation of state support through SAR showing that minimum 80% of public support to agricultural producers provided in 2025 was provided through the State Agricultural Register (SAR)	Q1 2026
Reform 5. long-term development of the irrigation system to increase climate resilience of the sector	The development of a long-term plan for the development of the irrigation complex, detailed by region, is an important step for the restoration of the reclamation complex of Ukraine, which will contribute to increasing the productivity of agriculture and food security. Given the large needs, limited funds and potential environmental impact, priorities will need to be based on the analysis of full economic benefits and the 'build back better' principles	Chapter 11. Agriculture and development of rural areas	Adoption of the long-term plan on the irrigation system	The Ministry of Agrarian Policy and Food	Adoption of the 'long-term plan for the development of the irrigation system'. The plan focuses on these main areas: - Priorities in the irrigation sector based on an analysis of full economic benefits - Alignment with the water sector strategy and the water basin-based water management principles; - Indication of needed public and other investments and the need for further privatisation; - Governance/management dimension of the sector; - Environmental assessment to be carried out for any rehabilitation or construction project in line with EU recommendation on environmental impact	Q1 2025

					assessment, environmental strategic assessment and Ukraine legislation in this area.	
Reform 6. Demining of land and water areas	Adoption of a The National Strategy on Mine Action for the period up to 2033. The adoption of these documents will: i) allow coordination and definition on a long-term and planned basis both the general goals and priorities of the policy in the field of Humanitarian Demining and Mine Action, as well as the areas of responsibility, the role and tasks of state authorities, non-governmental and private demining operators, as well as priority areas for attracting support from international partners ii) promote the attraction and maximise the efficiency of the use of resources from all sources of origin aimed at Mine Action and Humanitarian Demining	—	Entry into force of the strategic document on Mine Action for the period up to 2033.	Ministry of Economy Other involved authorities	Adoption of the legislative document on the approval of the strategic document on Mine Action for the period up to 2033 (the Act of the Cabinet of Ministers or the President). A legislative document will contain the following main components: - Management in the field of Mine Action; - Support of the efficiency of Mine Action operators; - Prevention of accidents; - Comprehensive assistance to victims; - Innovations; - Gender balance and representation; - Development of the private market; - Effective and transparent coordination with donors; - Forming the system of prioritisation of tasks in mine action	Q2 2024
Investment 1. Investments in demining	Creation of conditions for humanitarian demining of agri-food land contaminated with explosive objects	—	Investments of at least EUR 150 million (in UAH equivalent) in demining of agriculture land	Ministry of Economy, Ministry of Finance	Interim report of the Government (or Treasury report) showing that in the State Budgets for 2024 and 2025 the general Government budgeted at least EUR 75 million (in UAH equivalent) for the funds paid to agri-food producers for the costs of demining	Q2 2026
					Report of the Government (or Treasury report) showing that in the State Budgets for 2024, 2025, 2026, 2027 the general Government budgeted at least EUR 150 million (in UAH equivalent) for the funds paid to agri-food producers for the costs of demining	Q4 2027

CHAPTER 13. MANAGEMENT OF CRITICAL RAW MATERIALS

1. State of play

Deposits of 22 out of the EU's 34 critical minerals are concentrated in Ukraine. Ukraine is among the top 10 producing countries for titanium, zirconium, graphite, and manganese, and also has proven reserves of metals such as lithium, beryllium, rare earth elements, nickel, required to meet Europe's growing consumption for green energy and innovative technology. Ukraine has a developed mining complex as a base for the development of mining and beneficiation of critical materials, which before the war generated more than 6% of Ukraine's GDP. Also, Ukraine historically has a powerful engineering and technical base and professional personnel for the implementation of complex mining and industrial projects for the extraction and beneficiation of minerals. It is estimated that the discovered reserves of lithium, graphite, nickel and iron ore will be enough to produce Li-batteries with a total capacity of 1000 GWh to support the manufacturing of around 20 million Electric Vehicles (which is more than the global annual production in 2023, standing at 14 million); the known reserves of Ukrainian titanium are equal to 15 years production of titanium globally, and it could be melted into the metal to construct airliners or be a white pigment for products of chemistry industry; the development of combined apatite and rare earth deposits could produce 100 million tons of phosphate fertilisers for the agriculture industry, for instance, of Ukraine for over 30 years of current consumption for the agriculture industry.

Russia's military aggression against Ukraine, which began in 2014, challenged the realisation of the potential of the critical materials sector in Ukraine. After 2014, Ukraine continued to mine minerals whose deposits had already been developed before 2014 – for example, titanium, zirconium, graphite and manganese. However Ukraine lost its capacity for the production of titanium oxide and titanium sponge due to the occupation of Crimea and did not develop further in-depth processing and new projects in the field of critical materials. Russia's full-scale invasion of Ukraine in 2022 worsened the situation in the industry due to the occupation of territories, military risks on the territories controlled by Ukraine, funding shortages and the difficulty of attracting modern technologies to the industry due to the ongoing war. The sector has a shortage of human capital due to migration and the participation of the population of Ukraine in the defence of the country.

The sector has great potential to stimulate the economic growth of Ukraine through the involvement of modern technologies and the integration of Ukraine into global supply chains of critical materials and products based on them. It should strengthen the competitiveness of Ukraine and the EU and build new sustainable high-tech export-oriented clusters, manufacturing Li-batteries, products of metallic titanium and other products based on critical minerals. In line with the EUn Critical Raw Materials Act 2030 and with regard to the Strategic Partnership between the EU and Ukraine on raw materials and batteries, Ukraine encourages to develop sustainable, responsible, environmentally friendly critical minerals value-chains inside of Ukraine and produce added-value e.g. finished goods in Ukraine, as the single part of the EU.

Ukraine and the EU have agreed on 21 measures in the framework of EU-Ukraine Critical Raw Material Partnership Roadmap 2023-2024. The partnership aims to better integrate critical raw materials and batteries value chains to develop minerals resources in Ukraine in a sustainable and socially responsible way. To do so, it will engage the European Raw Materials Alliance and the European Battery Alliance as platforms for EU and Ukrainian stakeholders, including funding and investment organisations, to collaborate and develop joint venture projects and other business opportunities. Ukraine will continue developing its critical materials policy in line with the EU partnership roadmap and will, in particular, continue its regular dialogue with the EU on the implementation of the partnership, also with the European private sector through the Business Investment Platforms of the European industrial alliances.

The development of the critical minerals sector requires significant investment and the involvement of modern technologies to create products with high added value and reduce the sector's dependence on logistics constraints and reduce the price of logistics in the final cost of products. The involvement of modern technologies in the processing industry and the training of qualified employees will lead to an increase in labour productivity, a reduction in the industry's impact on the environment, the development of green technologies and a reduction in injuries in the industry. Simplifying the conditions for obtaining permit documentation and shortening the terms of construction and commissioning of industrial facilities will significantly speed up the implementation of projects, which will positively affect the payback period of investments and the beginning of the economic effect for the state and investors.

Moreover, to secure a booming but environmentally and socially responsible sector, better regulation of the sector is needed. This will allow to decarbonise raw material mining, extraction and processing, including production of green steel, and limit the environmental and social impact. Predictability of fiscal policy, such as concessions and environmental legislation, along with the EU standards, is key for attracting investment. Ensuring transparency in the extractive industries remains a priority, including via a continuous active engagement in the Extractive Industries Transparency Initiative (EITI).

Finally, supporting services are needed as well. To secure the availability of geological data, it is necessary to expand and develop the mineral and raw material base and conduct further exploration of deposit areas. Geological data should be grouped, catalogued, digitised and accessible to future subsoil users.

With respect to these goals, the main reform and investment areas to boost the critical raw materials (CRM) sector and our strategic objectives in 2024-2027 are:

- Strengthening of strategic planning and ensuring optimum framework for strategic investors;
- Improving administrative procedures;
- Use of modern extraction technologies and integration of Ukraine into modern processing value chains.

2. Overall reform agenda in 2024-2027

Ukraine will continue to develop the national policy and legislative framework in the critical raw materials sector, including the development and adoption of the National Geological Strategy. It will also actively work to attract strategic foreign investment through international partnerships, cooperation and agreements, taking into account the country's security. To strengthen the institutional capacity of the Ukrainian Geological Survey, it is planned to resume funding for the geological industry, which is in line with Ukraine's participation in the implementation of the EU Critical Raw Materials Act 2030.

In order to prepare for Production Sharing Agreement (PSA) tenders Ukraine will work to verify and re-assess the CRM reserves using international classification systems (e.g. UNFC, JORC).

The strategic aim of the CRM investments is to add as much value as possible to critical materials and their application in Ukraine, involving domestic knowledge and workforce, thus positively impacting employment and value added from CRM extraction and processing and at the same time strengthening the sustainable supply of CRMs to the EU.

Ukraine will continue efforts for improvement and digitalisation of the services of the Ukrainian Geological Survey, such as ensuring free online access to geological data regarding deposits and occurrences of mineral resources, development and setting up the National Geological Portal to combine all geological registers, catalogues, and GIS interactive maps as a single online solution.

In line with the EU-Ukraine Critical Raw Materials Partnership Roadmap 2023-2024 Ukraine will digitalise/scan geological reports and create the access to such reports in the investors e-cabinet to ensure provision of free and unhindered access to relevant data, information on areas not under development, areas where extraction is (or was) conducted, and assets proposed for privatisation (investment portfolio).

To ensure the new PSA tenders are attractive for strategic international investors, Ukraine through attraction of International Technical Aid by the EU will enable preparation of a list of mining investment opportunities, including relevant pre-feasibility studies, translation of tender documentation in English, will conduct promotion, enable electronic access to information and will participate in the EU marketplace during global mining conferences.

In order to enhance transparency, a model PSA will be created and procedures for concluding Production Sharing Agreements will be streamlined and made publicly available. Administrative steps will also be digitised to increase efficiency of the process. The procedure for concluding Production Sharing Agreements (PSAs) should be faster and more transparent for investors. It can be achieved with the help of digital solutions that will make the procedure clear for the investor as well as enable investors to follow all stages of concluding the deal.

Ensuring adherence to environmental, social and governance criteria to ensure sustainability of projects as well as financial returns will be a priority. Regulation of the sector will follow the EU standards with focus on the approximation of regulatory mining frameworks, and notably the environmental, social and governance criteria across all activities, from initial surveys to extraction and processing of critical raw materials. Sustainability considerations will be based on the OECD Guidelines for Multinational Enterprises (responsible business conduct and supply chain management) and the UNGP on Human Rights and Business.

Further, Ukraine will develop and adopt a low carbon strategy and roadmap to decarbonise raw material mining, extraction and processing. This will serve as an enabler for competitiveness of the Ukrainian industry in light of the upcoming launch of the EU Carbon Border Adjustment Mechanism in 2026.

2.1 Reforms to be pursued under the Pillar I of the Ukraine Facility

Reform 1. Strengthening strategic planning and ensuring optimum framework for strategic investors

State of play and context: Updating the National Programme for the Ukrainian Mineral Strategy 2030 is a prerequisite for implementing the EU-Ukraine Critical Raw Material Partnership Roadmap 2023-2024. The State Programme for Development of Mineral Resource Base of Ukraine up to 2030 will make it possible to define the terms of strategic and critical raw materials, the need for regular methodological risk assessment of the level of security of their supply, the definition of a group of partner countries, and update the priorities of the national geological/exploration programme, as provided for by the EU Critical Raw Materials Act (Draft 2023). The new State Programme will also ensure strengthening of institutional capacity of the Ukraine Geological Survey to participate in the implementation of the EU Critical Raw Materials Act (Draft 2023) by resumption of funding for the geological industry through a dedicated state fund. In line with the EU-Ukraine Critical Raw Material Partnership Roadmap 2023-2024 Ukraine will work to verify and re-assess the CRM reserves using international classification systems (e.g. UNFC, JORC) to be used for preparation of the PSA tenders and a list of mining investment opportunities (investment project pipeline).

Description of the reform: The law on amendments to the Adaptation of the State Programme for Development of Mineral Resource Base of Ukraine up to 2030 will be adopted and enter into force, as well as amendments to the Code of Ukraine on Subsoil, which will resuming the funding of the geological industry and the financing of the activities of the Ukrainian Geological Survey in order to strengthen its capacity and ensure maintaining and development of the State Geological Electronic Geoinformation System and its components within the framework of the state-targeted programme.

Verification/re-assessment of CRM reserves and resources of Ukraine using international classification system (e.g. UNFC, JORC) will be conducted in the form of a report and made available to investors through the investor e-cabinet and further used for the preparation and promotion of the list of mining investment opportunities in Ukraine through online auction bidding and Production Sharing Agreements tenders for solid minerals.

Potential impact of the reform: The adoption of the amendments to the State Programme of Development of Mineral Resource Base of Ukraine up to 2030 will create prerequisites for further attraction of investments in the CRM extraction and processing. In the medium to long term, this measure will unlock substantial investment, growth and employment opportunities by providing legal and financial instruments for investment promotion. Security conditions permitting, verification/re-assessment of CRM reserves of Ukraine using the international classification system as well as preparation and promotion of the list of mining investment opportunities in Ukraine through online auction bidding and Production Sharing Agreements tenders for solid minerals are both measures that could potentially have an immediate economic impact through attraction of new foreign direct investments.

Verification and re-assessment of Ukrainian resources of CRVs according to the EU Critical Raw Materials Act 2030 shall stipulate forming value chains for CRM raw materials supply. The report on the re-assessment of Ukrainian CRM`s reserves using the international classification system will help investors to make appropriate decisions.

Reform 2. Improving administrative procedures

State of play and context: Optimising the procedure and reducing the administrative burden saves time for potential investors and reduces the total investment cost.

In order to achieve such progress three components of reform should be realised – forming a pipeline of investment projects, international PSA tenders launch and digitising access to geodata and services by regulator.

Development of a publicly available portfolio of investment projects will contribute to the more active involvement of investors (including foreign ones). The launch of an Electronic Cabinet of a Subsoil User will allow for the gradual digitalisation of administrative services for issuing subsoil user permits. The complex Cabinet's final launch will introduce the mechanism of obtaining special permits electronically, a transparent application process for its applicants, and ensured remote access to the application. Consequently, it is expected to minimise bureaucracy issues and create conditions for transparent business conduct. Electronic Cabinet of a Subsoil User shall be connected to investors data room providing free and unhindered access to digitalised/scanned geological reports, relevant data as well as information on greenfields, brownfields and privatisation assets. In order to enhance transparency, a model PSA will be created and procedures for concluding Production Sharing Agreements will be developed and the corresponding procedural algorithm regarding PSA will be presented to investors. In order to increase the effectiveness of the PSA mechanism, procedures for concluding PSAs must be simplified and made public, and all administrative stages should be digitised as much as possible. The procedure for concluding PSAs and their subsequent support should be faster and more transparent for investors. It can be achieved with the help of digital solutions that will make the procedure clear for the investor as well as enable investors to follow all stages of concluding the deal. Also, a pipeline of investment projects should be formed and made public in order to attract investors including foreign.

Elimination of barriers for investors through abolition of classification of data on reserves and resources of critical minerals through amendments to List of Classified Data (Security Service Order № 383 of 23 December 2020). Amendments will entry into force after termination of martial law.

Description of the reform: Developing a pipeline of investment projects**,** development and launch of E-Cabinet of Subsoil User linking it to digitalised secondary (state-owned) geological data as well as data on extraction entities and subsoil plots and e-license module should result in speeding up the procedures for concluding and realisation of Production Sharing Agreements including digitised administrative steps. PSA international tenders will be launched, using transparent and standard model agreement terms as agreed by the Government and made public. Transparency of PSA tenders and Agreements will be ensured through the open access to its terms.

Potential impact of the reform: The three measures – pipeline of investment projects, launch of E-Cabinet of Subsoil User and launch of the concluding and realisation of Production Sharing Agreements on a 'one-stop shop' basis will serve to improve transparency, speed and cost efficiency for new investment decisions. Both measures have the potential of immediate economic impact through the attraction of new foreign direct investments.

Reform 3. Use of Modern Extraction Technologies and Integration of Ukraine into Modern Processing Value Chains

State of play and context: Critical raw materials are essential to address today's societal challenges and needs, such as the transition to low-carbon energy production, development of renewable energy, and clean mobility. The industry has the potential not only to unlock the green transition of the entire economy, but it also has to undergo decarbonisation of its own industrial processes. In this respect, introduction of mandatory Environmental, Social and Governance reporting (ESG) for the mining and extractive sectors will contribute to transparency as regards environmental, social and corporate governance practices.

Description of the reform: Endorsement and publication of a study assessing the current legislation on Environmental, Social and Governance reporting for the mining and extractive sector, proposing recommendations on what legislative gaps need to be covered.

Potential impact of the reform: Progressive introduction of mandatory ESG reporting for the mining and extractive sectors will ensure transparency, checks and accountability as regards ESG standards for the industry. It will consequently contribute to sustainability development of the industry and attracting investments. These initiatives, in turn, contribute to climate change mitigation and adaptation efforts, as well as the protection of the water, marine resources, and biodiversity, the transition to a circular economy, and pollution prevention. As such this reform is aligned with the 'do no significant harm' principle, to the extent possible in a context of war or post-war recovery and reconstruction.

3. Overall investment needs and opportunities in 2024-2027

Ukraine possesses significant potential for critical materials extraction and utilisation, especially critical in view of Europe's growing needs related to green energy and innovative technology.

Despite the war, the existing private businesses in the critical raw materials industry continue their operations, including the production and export of natural graphite and further exploration of graphite potential in Ukraine's regions, examination of the potential production of battery grade lithium carbonate, etc. These operations (including foreign capital investments) remain active and envisage the EU market as the key destination for their products.

Further development of the critical materials sector requires significant investment and the involvement of modern technologies to create products with high added value, reduce environmental and social impact and dependence on logistics constraints.

Investments in CRM in Ukraine over the 2024-2027 period shall cover the following:

- Broadly speaking, investments across the whole CRM value chain, from upstream to downstream, covering exploration, extraction, processing, recycling, components manufacturing, R&D, product assembly and manufacturing. Investments in a number of CRM-related areas are also relevant, such as decarbonisation of industry, electrification, batteries, circular economy, resource efficiency, digitalisation and manufacturing, all possibly with a specific focus on innovation. These investments will encourage a circular economy, to the extent possible in a context of war or post-war recovery and reconstruction;
- Investments in CRM with a focus on process activities with benefits from resource efficiency, innovation and circular economy perspective;
- Investment in modern, efficient, and sustainable extraction technologies and higher value added processing and refining operations, using local knowledge and labour force and attracting processing industries – with the view of producing finished goods in Ukraine. In the processing sector, significant potential lies within the Lithium linked manufacturing sector, such as for lithium-ion batteries, computers, electric cars, glass, and ceramics. And products of titanium for the airline and chemistry industry and production of phosphate fertilisers;
- Investments in exploration using modern methods including remote sensing and verification of reserves of mineral deposits;
- Investment in the development and uptake of innovative low-carbon technologies;
- Investments in the processing, refining and preparation of precursor materials for industrial applications;
- Investments in Research, Development and Innovation (RDI) including digitalisation and advanced manufacturing, including but not limited to investments in RDI in resource efficiency and circularity in downstream industries, investments in RDI in equipment and machinery to improve sustainability and safety of extraction and processing;
- Investments related to the circular economy, including investments in reduced waste and recycling remanufacturing, including industrial-scale recycling plants for base, precious and specialty metals;
- Investments related to environmental protection including investments in new technology and processes for improved energy and resource efficiency as well as investments in environmental improvements of existing plants;
- Infrastructure development, including transportation, power supply, and logistics;
- Promotion of innovation, including establishment of technology parks and innovation hubs. Development of technical universities and specialised educational programmes. Creation of partnerships between higher education institutions and industry to tailor specialists to the specific needs of the market;

- International partnerships – collaborating with international mining and mineral processing companies, joint ventures and other business opportunities can bring expertise, technology, and access to global markets;
- Consultancy services – regulatory and legal support (compliance with international standards), market analysis and risk assessments, feasibility studies. It be noted that preparation of feasibility and pre-feasibility studies may require significant resources ranging from EUR 2 to 5 million for scattered deposits and from EUR 6 to 11 million for indigenous rock deposits depending on available data, type of mineral and required additional information;
- Investment in increasing availability of geological data, including digitisation.

Certain investments, like those in the processing, refining and preparation of precursor materials for industrial applications may have an impact on air quality and water. However, many investments in this chapter make CRM-related areas more efficient and contribute to the greening of the industry. In doing so, they foster key objectives of the ‘do no significant harm’ principle, such as climate change mitigation, promote the circular economy, contribute to pollution prevention, and help protect water resources and biodiversity, to the extent possible in the context of war or post-war recovery and reconstruction.

4. Coherence with the objectives of the Ukraine Facility

The chapter proposes reforms and investments that constitute a coherent, comprehensive, and adequately balanced response to the general and specific objectives of the Ukraine Facility, including structural reforms and measures to promote the convergence with the European Union and increase the growth rate of the Ukrainian economy.

The chapter contributes to the general objectives of the Ukraine Facility, particularly by fostering economic resilience and progressive integration into the European Union and global economy and markets as well as contributing to the modernisation of the country.

The chapter is also in line with the specific objectives of the Ukraine Facility, particularly: helping to maintain the macro-financial stability of the country and ease Ukraine’s external and internal financing constraints; fostering modern, improved and resilient infrastructures; fostering the transition to a sustainable and inclusive economy and a stable investment environment; supporting the integration of Ukraine into the EU single market; strengthening economic development; strengthening strategic economic sectors and supporting investment and private sector development; supporting transparency, structural reforms and good governance at all levels; developing and strengthening a sustainable ‘green’ transition in all economic sectors, including the transition towards the decarbonisation of its economy.

The reforms and investments proposed in this chapter focus on Ukraine modernising its critical raw materials sector and integrating more closely with both the EU and world markets. The measures align with the imperative to mainstream climate change mitigation and adaptation as well as environmental protection. They support progress towards the Sustainable Development Goals (in particular SDG 15 ‘Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss’). Investments are guided by ‘do no significant harm’ principle for the proposed investments. The principles of sustainable development, which is the basis of the European Green Deal, will be taken into account as a priority. Local and regional authorities, social partners and civil society organisations were all consulted on the reforms and investments proposed under this chapter and their input was included in the final version.

5. Table of reforms and investments covered under Pillar I

Reforms and investments	Objectives and growth potential	Corresponding chapters of the EU Enlargement report	Name of the step (quantitative and qualitative steps to implement reforms/investments)	Agency responsible for implementation	Outcome	Timeframe
Reform 1. Strengthening strategic planning and ensuring optimum framework for strategic investors	The reform shall allow to define at the legislative level the terms of strategic and critical raw materials, the need for regular methodological risk assessment of the level of security of their supply, the definition of a group of partner countries, and update the priorities of the national geological programme, as provided for by the EU Critical Raw Materials Act 2030. The strengthening of institutional capacity of the Ukraine Geological Survey to participate in the implementation of the EU Critical Raw Materials Act (Draft 2023) was increased through the resumption of funding for the geological industry through the National Mineral Program	—	Adoption of the Law on amendments to the adaptation of the State Programme for the development of the Mineral Resource Base of Ukraine for the period up to 2030	Ministry of Environmental Protection and Natural Resources, Ministry of Finance, Ukrainian Geological Survey	The Law of Ukraine on Amendments to the State Programme for the Development of the Mineral Resource Base of Ukraine for the Period up to 2030 is adopted and enters into force. The law focuses on these main areas: - Introduction of State Compensatory Fund for geological area; - Prioritising the goals of extraction area in line with the EU Strategies; - Define the terms of strategic and critical raw materials, the need for regular methodological risk assessment of the level of security of their supply, the definition of a group of partner countries	Q4 2024
	Verification/reassessment of reserves of strategic minerals in Ukraine	—	Publishing of a report on the verification of Critical Raw Material reserves of Ukraine	Ukrainian Geological Survey	Publication of a report on the verification of Critical Raw Material reserves of Ukraine using international classification system conducted and results made available to investors	Q3 2025
Reform 2. Improving administrative procedures	Creation of favourable conditions and instruments for investors (including foreign) attraction	—	Publishing of a pipeline of investment projects for extraction of critical raw materials. Preparation and promotion of the list of mining investment opportunities in Ukraine through online auction bidding and Production Sharing Agreements tenders for solid minerals	Ukrainian Geological Survey	Pipeline of investment projects for extraction of critical raw materials is published	Q2 2025
			Launching of PSA international tenders ensuring their transparency	Ministry of Economy Ministry of Energy	PSA international tenders have been launched, using the model agreement terms as agreed by the Government and made public.Transparency of PSA tenders and	Q2 2025

				Ukrainian Geological Survey	Agreements ensured through the open access to its terms	
	Introduction of modern digital technologies for storage and use of geodata shell facilitate investor`s analysis and investment decisions	—	An upgraded e-cabinet of subsoil users, digitalization of secondary (state-owned) geodata; interactive data on extraction entities and subsoil plots, e-licence (extraction from the National Register)	Ukrainian Geological Survey	An upgraded e-cabinet of subsoil users with additional functionalities of access to state register of special permits for subsoil use allowing requesting and obtaining e-licences (extract from the Register) and providing access to digital geological data is operational	Q1 2025
Reform 3. Use of Modern Extraction Technologies and Integration of Ukraine into Modern Processing Value Chains	Introduction of mandatory (ESG) reporting for the mining and extractive sectors will ensure transparency, checks and accountability as regards ESG standards for the industry	—	Publishing of a study on the legislation on ESG reporting	Ministry of Environmental Protection and Natural Resources, Ukrainian Geological Survey	Endorsement and publication of a study assessing the current legislation introducing on Environmental, Social and Governance reporting (ESG) for the mining and extractive sector, proposing recommendation on what legislative gaps need to be covered	Q4 2025

CHAPTER 14. DIGITAL TRANSFORMATION

1. State of play

Digital transformation plays a central role in Ukraine's quest for a green, digital, and inclusive economy. The integration of digital solutions in different sectors, aligned with EU standards, in terms of digital sustainability, will accelerate sustainable development, promote the spread of circular economy practices and stimulate economic growth, as well as promote inclusion and ensure equal access to digital opportunities. Ukraine has already achieved significant results in digital transformation. Digitization is a powerful tool for building a transparent state.

The digital sector is increasingly becoming an important economic driver of Ukraine, also since it has shown remarkable resilience throughout Russia's war of aggression. It was already thriving before Russia's full-scale invasion of Ukraine with over 4 thousand domestic IT companies, a strong 4G network in Europe, and the fourth-highest number of certified tech professionals globally. It accounted for 4% of GDP and employed roughly 200 thousand people and some of the country's highest salaries. With the start of the war in February 2022 up to 20% of all workers in the IT industry left Ukraine during the war – that's approximately 57 thousand people, of whom the majority – 64% were women. While GDP dropped by 29.1% in 2022, the digital sector generated an impressive EUR 6.8 million in annual export revenues, a 5% y-o-y growth. In the first quarter of 2023, the Ukrainian digital sector earned EUR 1.54 million in exports. The average income for the month was EUR 514 million. The share of digital services in the total export of goods and services reached 12.3%.

Today, the digital sector is the economic pillar of the state, and in the future, it can become a technological driver of the country's development. Therefore, the state creates favourable conditions for businesses, so that they can continue to work and develop stably. In particular, at the beginning of 2022, Diia.City was introduced – a unique legal and tax space for IT companies. Diia.City has proven to be an effective tool in attracting investment even in wartime conditions. As of the end of 2023, more than 760 Ukrainian companies have chosen Diia.City to develop their business. The Ministry of Digital Transformation with the support of Diia.Business, has launched a fund to finance scholarships for internally displaced women to enter creative and tech professions.

In addition, Ukraine has capabilities and sees great potential in developing innovations. Examples of Ukrainian startups that have reached the level of unicorns, including Grammarly, People.ai, Reface, and GitLab, convincingly prove that Ukraine has significant potential in this area.

A study[24] was conducted, the results of which identified defence tech, security, deep tech, agro-food tech, and biotech as priority areas for investing in startups. The Innovation Development Fund currently provides grant support to startups, in particular, in 2023, grants were issued for implementing 126 projects.

According to the Oxford Governmental AI Readiness Index 2020, Ukraine is the leading AI provider in Eastern Europe. There are more than 2,000 companies developing AI solutions in the Ukrainian market.

The Committee for the Development of Artificial Intelligence works under the Ministry of Digital Transformation, which includes more than 50 experts in the fields of innovation, science, and education.

[24]https://business.diia.gov.ua/cases/novini/u-aki-ukrainski-startapi-investuvatimut-najbilse-doslidzenna-mincifri-spilno-z-vencurnim-fondom-ta-ventures-ta-ukrainian-startup-fund

The Government has started work on the formation of the concept of a legal framework of AI, and in the near future, the popularisation of the Ukrainian language in human-computer systems and the establishment of international partnerships in this field.

Ukraine continues to develop the field of open data, so in the annual European Open Data Maturity 2022 survey, Ukraine rose to 2nd place and once again entered the group of ‘trendsetter’ countries.

One of the key directions of the Government's work is the digitalization of public services for the convenience of citizens and businesses. As of the end of 2023, access to more than 115 electronic public services is provided on the Unified State Web Portal of Electronic Services (Portal Diia), and through the mobile application of Portal Diia (Diia) to more than 40 electronic public services. As of December 2023, 19.8 million Ukrainians use the Diia application with digital documents and government services directly on their smartphones, and 20.5 million use the online portal.

In order to introduce the electronic interaction of national electronic information resources, the system of electronic interaction of state electronic information resources ‘Trembita’ (Trembita system) was created and implemented with the EU support.

The Trembita system is intended for the automation and technological provision of data exchange between subjects of electronic interaction from electronic information resources based on uniform rules and exchange protocols during the provision of public (electronic public) services and the exercise of other powers in accordance with the tasks assigned to them. The Trembita system is one of the key elements of the infrastructure for providing electronic services to citizens and businesses, which provides convenient, unified access to state register data.

The Trembita system was put into commercial operation on January 2, 2020. As of the end of 2023, 115 electronic information resources are registered in the industrial environment of the Trembita system, and electronic interactions between them are being built. Since the start of the Trembita system, the number of transactions has already exceeded 4 bn and is constantly growing.

In the face of Russia’s full-scale invasion of Ukraine, Ukraine confronts the challenge of safeguarding its digital and electronic communications infrastructure. The numerous attacks on digital infrastructure accentuate the demand for formidable cybersecurity safeguards. Numerous targeted attacks on electronic communications infrastructure require not only to rebuild/repair damaged infrastructure but also to increase even more its resilience and stability. The digital economy assumes resilience, good Internet connectivity, and large infrastructure projects (restoration, modernisation, deployment of networks and providing the population with access to electronic communication services throughout Ukraine), all destined to augment the GDP.

Bringing the regulatory environment and digital development of Ukraine closer to the EU level would help to enhance Ukraine’s integration of the EU Digital Single Market and increase the export of services from Ukraine to the EU 7.6 to 12.2% and export of goods 11.8 to 17%. Conversely, EU’s exports of services to Ukraine might rise 5.7 to 9.1% and exports of goods 17.7-21.7%[25]. These figures represent the cumulative potential increase in trade during the entire phase of implementing reforms for regulatory and digital convergence. The transformation will not only bolster the economic bond between Ukraine and the EU but also reduce non-tariff trade barriers through the digitisation of cross-border transactions and regulatory alignment in the digital domain.

[25] http://ucep.org.ua/wp-content/uploads/2021/01/dig_ukraine_eu_15.12.2020-_WEB_3.pdf

The ongoing full-scale war against Ukraine has added additional challenges and demands to the resilience of Ukraine's digital infrastructure and electronic communications networks, and has, among other things, led to their physical destruction, affecting the availability of electronic communications services. The Government provided support for the functioning of electronic communications and the provision of priority digital public services, even in the absence of electricity, by introducing new services. The Government plans to further improve digital infrastructure and electronic communications networks, increasing their resilience, stability and functioning in emergency situations, as well as in liberated territories.

Estimated losses from destruction and damage to digital and electronic communications infrastructure as of 31 December 2023 have reached EUR 1.9 billion according to RDNA3, and this amount is constantly increasing. Therefore, there is a need to restore the digital infrastructure in Ukraine as soon as possible and improve the availability of digital services for the local population affected by Russia's full-scale invasion of Ukraine.

The social impacts of the war-related damage to the digital sector include effects on inequality, educational attainment, and gender equality. As detailed in RDNA3, inequality is likely to increase, as the least protected parts of the population are more likely to stay behind in areas with destroyed infrastructure (broadband, etc.), and to suffer from adverse effects of having no internet access and hence no access to government services provided via internet. The adverse educational effects for students forced to study online are also more likely to be felt by those who remain in territories temporarily not under government control or in areas of active fighting. The planned projects are aimed at restoring the digital infrastructure, as well as increasing their resilience and stability, including through the use of new technologies. Furthermore, in order to cater for the population still not having access to state electronic services and not being able to work remotely using broadband Internet access, it is advisable to introduce a universal electronic communication service, primarily in the de-occupied territories.

In the conditions of the full-scale war against Ukraine, it is especially important to increase the cyber resilience of the state and the effectiveness of responding to cyber security incidents. From the beginning of the full-scale invasion on February 24 and until the end of 2022, the Computer Emergency Response Team of Ukraine (CERT-UA) has processed 2,194 cyber incidents - 120 related to the financial sector, 156 to commercial organisations, and 92 to the electronic communications and software development sector.

2. Overall reform agenda in 2024-2027

Reforms will include measures aimed at supporting the institutional capacity of state authorities, regulatory approximation of Ukrainian legislation to EU law in the field of electronic communications and its practical application, and projects aimed at increasing the resilience and stability of electronic communications infrastructure and introducing the latest technologies. Ukraine will also strive to obtain an internal market treatment in the telecommunications services sector, with a particular emphasis on joining the EU roaming area, i.e. ‘Roam like at home’. It will require the full approximation to and implementation of the EU roaming *acquis*, including the European Electronic Communication Code as relevant for roaming. In addition, the development of the Electronic Communications Code of Ukraine and the adoption of the Electronic Communications Development Strategy are planned for 2024.

Ensuring the independence of the regulatory authorities, in particular, the necessary financing and human resources for enacting the legal rules on the expansion of the regulators' competencies and capacity (both electronic communications and media regulators) and for the performance of the central executive body in the area of electronic communications will be vital for the functioning of the digital and media market, and further integration of Ukraine in those areas with the EU. This shall also contribute to the efforts to ensure the independence of media and an open space for the expression of free speech. This is also part of the recommendations of Chapter 10 of the Enlargement report 2023.

High-speed broadband and a stable Internet connection are important prerequisites for the development of the digital economy, the digital market with the EU (integration into EU Digital Single Market), and the adaptation of EU digital strategies such as Global Gateways, Digital Decade, etc. In order to launch 5G in Ukraine, there is a need for investment support to release the 700 MHz band from broadcasting and special users. This primary action is Ukraine's spectrum harmonisation obligation in accordance with the Association Agreement between Ukraine and the EU. The 5G launch has been slowed down due to challenges caused by the full-scale war against Ukraine, but the harmonisation of spectrum policy and the creation of cross-border 5G corridors with the EU will ensure the development of the wireless broadband infrastructure and electronic communications services, especially on main railways and roads that connect Ukraine with neighbouring EU member countries. In addition, these 5G networks must be secure and resilient, as they will provide the foundation for a wide range of services essential for the functioning of the economy. Therefore, Ukraine will comprehensively implement the measures of the 5G Cybersecurity Toolbox (from the moment of 5G technologies full launch in Ukraine) to the extent possible given the circumstance of a full-scale invasion. The 5G Cybersecurity Toolbox is a key instrument to secure 5G networks in the Union and an important prerequisite for developing a resilient connectivity infrastructure in Ukraine, using trusted suppliers. Moreover, the security of data traffic requires stable and secure backbone connectivity bypassing the territory of Russia (Submarine Cable Project).

The cybersecurity and resilience of critical infrastructure cannot be limited to the digital sector. The recently updated framework for a high common level of cybersecurity across the Union (now set out in the NIS2 Directive) applies to a larger number of sectors that are critical for the society and economy. Among others, the NIS2 Directive requires Member States to have national authorities competent for cybersecurity and cybersecurity strategies and entities to have cybersecurity risk-management measures and report significant incidents. Due to the interdependencies between sectors and operators and to reduce the risks of spill-over effects of incidents, it is crucial that Ukraine moves towards an alignment with the requirements established at the EU level by the NIS2 Directive. Strengthening cybersecurity would support state functioning and protect businesses and people against disinformation, hacking and other cyberthreats.

According to the results of study[26], 53% of the population of Ukraine between the ages of 18 and 70 have a level of digital literacy below the ‘basic level’ mark, due to which Ukrainians are limited in using online services, as well as exposed to security risks on the Internet, therefore it is important to provide citizens with conditions for the development of digital competences. The key priorities of Ukraine in this direction are overcoming the digital divide and ensuring that every citizen can develop the skills necessary for success in the era of digital technologies. To this end, Ukraine will promote the development of the updated Diia.Education platform. Creating conditions for innovative and technological development is also a key task.

Protecting citizens' rights and safety online, supporting the digitalisation of businesses and harmonising Ukrainian legislation in the field of e-commerce with EU regulatory acts is an essential in the development of the digital society and economy as well as the priority task due to the EU integration processes and commitments of the candidate state. Ukraine is planning to implement the Digital Services Act (DSA) and the Digital Markets Act (DMA). Implementation of the European approaches to regulation of digital services and digital markets under the DSA, DMA and other EU *acquis* is important to ensure the following

[26] https://osvita.diia.gov.ua/research

in Ukraine: a safe and reliable online environment, characterised by empowered citizens, a contestable and fair operation of all gatekeeper digital services, the protection of rights and legitimate interests of end users and of business users as well as harmonisation with the EU *acquis*. In this context, the independence of the relevant digital services regulator will be key, similar to the areas of electronic communications and media, as will be an investment in media literacy, quality journalism and other work strands that need to complement regulation.

Ukraine will establish a network of European Digital Innovation Hubs (EDIHs) to support companies and the public sector in the green and digital transitions. Ukraine will create EDIHs that will contribute to increased awareness and application of digital technologies, know-how and innovation by businesses. It will help enterprises to become more competitive and improve their business models through the use of new technologies, promote the transfer of experience and know-how between regions, in particular by connecting SMEs, start-ups and mid-cap companies established in the same region with EDIHs, created in other regions that are best suited to provide the relevant services.

Ukraine will also increase the number of electronic public services, in particular those available on the Unified State Web Portal of Electronic Services (Portal Diia), including the Diia mobile application. The launch of digital public services is intertwined with reforms in the judicial sector, anti-corruption, social stability and business. These joint efforts simplify the interaction between the state and citizens and curb corruption. Digitalisation will also help Ukraine to improve electronic payments and facilitate seamless and secure cross-border movements of payments. At the same, the customs and tax administration will also benefit largely from the rollout of digital tools. This will reduce opportunities for informal payments thus decreasing tax avoidance and fraud, increasing compliance, and helping the authorities in their audits. The progressive integration of existing govtech systems and building greater interoperability in government services will also be part of this overall process.

It also plans for the modernisation of the integrated electronic identification system ID.gov.ua, which includes updating components, integrating with government registries, and ensuring cross-border interoperability with the eIDAS Node.

To create conditions for detecting and counteracting the facts of illegal access to personal data and informing the subjects of personal data about the facts of access to their data, which are processed in information systems (state electronic information resources), a subsystem for monitoring access to personal data of the Trembita system is currently being developed and implemented. Its implementation will allow citizens to track information about the facts of access to personal data through the Diia Portal ecosystem.

The Trembita system, like all modern information systems, continues to actively develop and adapt to today's challenges. In order to ensure the systematic development of the Trembita system, it is planned to modernise it, in terms of expanding (updating) the functionality of its components, namely the creation of the Trembita version 2.0 system.

In order to establish effective electronic information interaction and ensure semantic interoperability between public electronic registers and information systems, a number of measures are planned for the introduction of the European standards of the e-Government Core Vocabularies handbook in Ukraine.

As part of the integration into the EU Digital Single Market, an important element is obtaining the internal market treatment in the sector of electronic identification, authentication and trust services. This will facilitate access to public services online, the conclusion of contracts in electronic form with foreign counterparties, the receipt of international electronic invoices, etc. Ukraine will continue its efforts to harmonise its legislation in this area, taking into account the developments brought by the upcoming adoption of the European Digital Identity Framework and in accordance with the obligations provided for in the Association Agreement. In addition, Ukraine is the first non-EU country to be included in the third country AdES trusted list. Mutual recognition of electronic identification, authentication and trust services is a priority for Ukraine. To be granted internal market treatment on eIDAS, Ukraine will have to offer an equivalent level of personal data protection as in the EU.

The development of the National Informatization Program will ensure the sustainable functioning of information systems of state authorities and increase the level of their cyber protection, will contribute to the development of an effective electronic government system in Ukraine. Measures aimed at the development of the field of open data will ensure transparent processes of post-war reconstruction and increase the transparency of the activities of state authorities.

It is planned to increase the efficiency of executive authorities by improving interaction between civil servants by modernising the personnel management system using digital technologies.

The development of the digital economy and integration into the EU Digital Single Market covers all areas described in this document. By synchronising Ukrainian digital rules with EU standards, we strive for strong digital sustainability. This will require the implementation of infrastructure projects, which will also increase the number of jobs and affect GDP growth. The development of secure, stable, and resilient access to the Internet, implementation of 5G and ensuring of Connectivity throughout Ukraine are inextricably linked with the digital economy, and with the reforms in transport and export logistics, like improving connectivity/connection on transport routes with the EU, in particular for export.

The development of startup ecosystems in Ukraine will ensure that there are no legal or administrative impediments that would put startups at a disadvantage compared to other participants in innovation procurement opportunities. Public buyers and procurement services will be officially encouraged to procure innovations from startups.

2.1 Reforms to be pursued under the Pillar I of the Ukraine Facility

Reform 1: Secure and efficient digital infrastructure

State of play and context:

To launch 5G in Ukraine there is a need for financial support to release the 700 MHz band from broadcasting and special users as well as potential investments in 5G pilots might be needed. It is Ukraine's spectrum harmonisation obligation in accordance with the Association Agreement between Ukraine and the EU. Moreover, the 5G launch has been slowed down due to challenges caused by the full-scale war against Ukraine. Nevertheless, harmonisation of spectrum policy and the creation of cross-border 5G corridors with the EU could ensure the development of the Broadband (Internet) infrastructure and communication, especially on main railways and roads that connect Ukraine with the neighbouring EU member states. The security of data traffic requires stable and secure backbone connectivity bypassing the territory of Russia (Submarine Cable Project). Delays in the approximation to the EECC might also delay a possible internal market treatment decision on roaming, given that the EECC is also considered by COM as relevant legislation for roaming as specified in the Decision for the amendment of Appendix XVII-3.

Ukraine's National Security and Defence Council is implementing a national cybersecurity strategy. The Administration of the State Service of Special Communications and Information Protection of Ukraine is taking steps within the overall framework of the EU-Ukraine cyber dialogue towards closer institutional cooperation with EU counterparts, including the EU Agency for Cybersecurity (ENISA) and CERT-EU.

Ukraine adopted the regulations to exchange on cyber incidents as of 9 February 2023, with the objective to move towards alignment with the requirements established at the EU level by the framework for a high common level of cybersecurity across the Union (now set out in the NIS2 Directive). Ukraine has made efforts to align itself with the EU NIS Directive. This process should continue, also taking into account the development of the *acquis* on the EU side such as the NIS2 Directive.

Description of the reform: The reform has two steps:

- Implementation of a revised Plan for allocation and use of the radio spectrum in Ukraine
- Entry into force of the legislation on strengthening the cyber security capabilities of state information resources and critical information infrastructure

Step 1: Adoption of a revised Plan for allocation and use of the radio spectrum in Ukraine

The reform will require approving the Plan for Allocation and Use of the Radio Spectrum and completing the harmonisation of the radio spectrum.On December 19, 2023, the Resolution of the Cabinet of Ministers on amending the Resolution of the Cabinet of Ministers ‘On Approving the Plan for Allocation and Use of the Radio Spectrum in Ukraine’ was adopted. The Resolution defines the radio technologies that are allowed for use in Ukraine, with the definition of the radio frequency bands and radio services to which they correspond, as well as the terms of termination of their development and use, as well as the list of promising radio technologies for implementation in Ukraine with the definition of the radio frequency bands and radio services to which they correspond, as well as the terms of their implementation in line with the *acquis*. Within a year from the date of entry into force of the Plan, licences for the use of the radio frequency spectrum should be reissued, unless otherwise provided for in this Plan. The reform will be implemented by the Ministry of Digital Transformation, the National Commission for the State Regulation of Electronic Communications, Radio Frequency Spectrum and Provision of Postal Services (NCEC) and the Cabinet of Ministers and will be finalised by Q1 2025.

Step 2: Entry into force of the legislation on strengthening the cyber security capabilities of state information resources and critical information infrastructure

Ukraine will align with the NIS and NIS2 framework and with the 5G Security Toolbox (from the moment of 5G technologies full launch in Ukraine). Specifically, this was partially transposed by the Resolution of the Cabinet of Ministers № 497 dated May 16, 2023, which approved the Procedure for Searching and Identifying Potential Vulnerabilities of Information (Automated), Electronic Communication, Information and Communication Systems, Electronic Communication Networks (hereinafter – the Procedure). The Procedure focuses on these main areas: allows specialists to legally test information (automated), electronic communication, information and communication systems, and electronic communication networks for vulnerabilities, and system owners get a tool to significantly increase the level of cybersecurity of such systems. Furthermore, alignment with certain provisions of the NIS and NIS2 framework will be provided by the respective legislative acts. The acts focus on these main areas: regulate the mandatory implementation of measures aimed at creating an appropriate legal framework for the implementation of measures to prevent, detect and suppress acts of aggression in cyberspace in the context of the Russian Federation's war against Ukraine, increasing the level of protection of state information resources and critical information infrastructure against cyberattacks, as well as to comprehensively improve the regulatory framework in the field of cybersecurity and information protection to strengthen the capabilities of the national cybersecurity system to counter cyber threats. The reform will be implemented by the Administration of the State Service of Special Communications and Information Protection, the Ministry of Digital Transformation and will be finalised by Q1 2025.

Potential impact of the reform: Cyber security is a prerequisite for all digital transformation efforts, particularly in the context of the ongoing Russian hybrid aggression against Ukraine. Alignment with the EU cybersecurity standards will facilitate Ukraine's integration into the EU Digital Single Market.

Reform 2: Digitalisation of public services

State of play and context: Ukraine has made impressive progress in digital transformation including relying on transparent digital tools in public administration like digital services and making them available through mobile phones. The Government plans to increase the number of electronic public services, in particular those available on the Unified State Web Portal of Electronic Services (Diia Portal), including the Diia Portal mobile application (Diia). It is also planned to establish efficient interaction of civil servants and improve their performance by upgrading the staff management system with digital technologies. The Diia.Engine Platform was launched, which is an innovative solution that will help ministries and government agencies to conveniently create and manage registers. This will allow for the orderly and secure storage of data in registers, automation and digitisation of public services, thus boosting the launch of online services and digitalisation in general. One of the most popular registers developed with the help of Diia.Engine is the Register of Damaged and Destroyed Property. Today, the register contains more than 520,000 reports from Ukrainians. It became the basis for the launch of the comprehensive eRecovery program, which is the foundation of Ukraine's transparent reconstruction. Thanks to the registry, Ukrainians can receive a unique and technically complex service in a few clicks. There are more than 400 state registers in Ukraine. Many of them are technologically outdated and vulnerable to cyberattacks. This makes it impossible to launch many digital services and develop a digital state. The Diia.Engine platform is a system solution that changes the approach to creating and managing registries. Currently, 20 ministries and central executive authorities use the Diia.Engine platform to create more than 50 registers and over 100 public services.

As a part of integration into the EU Digital Single Market, it is important to obtain the internal market treatment in the sector of electronic identification, authentication and trust services. Ukraine has already harmonised its legislation in this field pursuant to its commitments under the Association Agreement. In addition, Ukraine is the first non-EU country to be included in the EU trust list. That is why mutual recognition of electronic identification, authentication and trust services is a priority for Ukraine. Further legislative work needs to be done however in order to fully approximate the revised eIDAS Regulation. For this purpose, the modernisation of the integrated electronic identification system ID.gov.ua (update of components, interaction with state registers and cross-border interoperability with eIDAS Node) is planned in Ukraine.

Description of the reform: This reform will have two steps:

1) Adoption of the Action Plan for digitalisation of public services till 2026.

2) Entry into force of the legislation on supporting electronic identification schemes aligned with eIDAS regulation

Step 1: Adoption of the Action Plan for digitalisation of public services till 2026.

Ukraine will create the legal and regulatory preconditions for the digitalisation of most common public services. Specifically, the Order of the Cabinet of Ministers on approving the action plan for digitalisation of public services till 2026 will enter into force. The Action Plan focuses on these main areas: recovery, education, health care, services for veterans, military servicemen, customs, e-social sphere. The reform will be implemented by the Ministry of Digital Transformation.

Step 2: Entry into force of the legislation on supporting electronic identification schemes aligned with eIDAS regulation

The reform will involve supporting electronic identification schemes through the entry into force of the Act of the Cabinet of Minister on Supporting Electronic Identification Schemes (within the framework of the implementation of the Law of Ukraine ‘On Electronic Identification and Electronic Trust Services’) aligned with eIDAS revised regulation and EU standards. More exactly this will involve the creation of a modern electronic identification infrastructure in Ukraine and ensuring its sustainable development; ensuring interoperability (technological compatibility) of electronic identification means, intermediate electronic identification nodes (hubs) and electronic identification schemes; protection of information resources processed in the system. The reform will be implemented by the Ministry of Digital Transformation and will be finalised by Q2-2026.

Potential impact of the reform: The launch of digital public services is intertwined with reforms in the judicial sector, anti-corruption, social stability and business. These joint efforts simplify the interaction between the state and citizens, curb corruption and create conditions under which individuals and legal entities can receive high-quality and affordable administrative services according to convenient and understandable procedures. Digitization is a powerful tool for building a transparent state. In just two years, its real anti-corruption effect was more than UAH 16 billion, and the potential — UAH 48 billion.

This measure will simplify online access to public services, conclusion of electronic contracts with foreign counterparts, receipt of international electronic invoices, etc., thus contributing to a more connected, open, transparent and prosperous economy and society.

3. Overall investment needs and opportunities in 2024-2027

The digitization of any sector or the launch of any digital solution primarily requires a stable, secure, and accessible digital infrastructure. Therefore, significant attention in the investment program should be devoted to restoring the damaged digital infrastructure resulting from Russian military aggression, as well as further development and deployment, including the launch of 5G. Considering that even amidst the war, the IT sector remains the fastest-growing sector of Ukraine's economy and holds great potential for retaining and attracting highly skilled specialists, key directions for investment attraction include: creating business ecosystems for human capital development; development, financial support, and scaling of IT projects; cybersecurity and infrastructure protection; stimulating innovation through startup support.

Investment needs and opportunities in 2024-2027:

The development of the information technology and communications sector is critically important for the country's economic advancement. The modern world is transitioning into a digital economy, where innovation and technological progress determine competitiveness on the international stage. The IT industry plays a pivotal role in shaping new industrial and service models, enabling the country to secure its position in the global economic landscape.

Investments in IT and communications create a favourable ecosystem for innovation and entrepreneurship. This enables the creation of new jobs, attracts talented individuals, and mobilises capital for the development of promising projects. The expansion of the IT sector also contributes to economic diversification, reducing reliance on traditional industries and stimulating innovation across all sectors. Additionally, investments in IT and communications have the potential to improve the quality of life for citizens. The implementation of cutting-edge technologies in various areas such as education, healthcare, transportation, and energy promotes increased productivity and efficiency of services, enhances resource utilisation, and reduces negative environmental impacts. This opens new opportunities for human capital development and enhances the overall standard of living for society.

Digitization of the Ukrainian economy and the development of e-Government.

- The digitization of the economy, including through the development of the Diia platform, plays a critical role in strengthening the competitiveness and stability of the Ukrainian economy. This strategy promotes more efficient resource utilisation, reduces bureaucracy and corruption, and improves access to public services for all citizens. Investments in this direction create a favourable environment for business development, stimulate innovation, and contribute to the creation of a highly productive digital society in Ukraine.

- A promising direction for digitization is the implementation of innovative solutions in education and services for the population (medical, communal, educational, etc.), which will improve the accessibility and quality of services (including in hard-to-reach regions with high military risk), increase their efficiency and productivity (reducing time and resource costs), enhance individualization and personalization (to meet the specific needs and capabilities of each individual), promote research and innovation development, stimulate innovative entrepreneurship, and improve the management and analytics system, which will contribute to making better management decisions.

- Another important sub-direction is the development of SMART cities and the Internet of Things (IoT), which will optimise the work of municipal services, reduce city management costs, and increase the efficiency of providing public services, thus improving the quality of life for residents, and implementing an inclusive approach. This will create new business opportunities by introducing new markets and digitising processes. Additionally, the implementation of SMART technologies allows for reducing energy consumption and environmental risks, as well as improving security in urban environments.

Support for the development of infrastructure and services in cybersecurity.

- The risk of cyber threats and the level of their consequences for Ukraine are at their highest due to the war with Russia. With the development of the digital economy and the automation and digitization of processes, the level of risks and negative consequences will continue to increase steadily. In 2023, Russia continued to carry out between 10 to 15 serious cyberattacks daily, following approximately 4,500 such attacks during the first year of full-scale invasion.

- Reducing vulnerabilities in critical infrastructure, enhancing technical capabilities in key institutions, developing, and implementing cutting-edge cybersecurity solutions, as well as fostering a qualified workforce in this field, can protect critical information assets, foster trust in digital services, and attract relevant foreign enterprises. This includes developing the potential of existing experts and forming a dedicated workforce in the field of cybersecurity based on operational partnerships, threat data sharing, and experience exchange. Investing in advanced threat detection, encryption, and incident response capabilities will be crucial in combating and preventing growing external digital threats.

The implementation and support of existing educational projects aimed at increasing the number of IT professionals with a high level of fundamental knowledge are essential. This includes the development of STEM specialities.

- Investments in educational projects aimed at increasing the quantity and level of IT professionals will ensure that the industry is supplied with skilled talent. Education investments foster an environment conducive to innovation. Establishing ecosystems for the development of the IT sector, involving universities, training centres, enterprises, and non-governmental organisations, will facilitate the implementation of cutting-edge technologies through the preparation of professionals capable of working with new tools and concepts.

- Ukraine can significantly improve its STEM educational landscape by supporting the development of a robust digital economy and reinforcing its position in the global technology sector, while simultaneously supporting local technological enterprises, which will have a long-term positive impact on the economy.

Innovation development involves creating and fostering the growth of technoparks and innovation clusters, as well as incentivizing R&D.

- Infrastructure development: Investments in creating and modernising the infrastructure of technoparks, clusters, and hubs help create a conducive environment for the development of innovative enterprises and research institutions. Additionally, infrastructure development may include establishing robotics laboratories, artificial intelligence and big data analysis research laboratories, semiconductor manufacturing clusters, implementing cloud technologies, and more.

- Creating favourable ecosystems that bring together businesses, universities, research centres, and government agencies to foster collaboration, technology transfer, knowledge sharing, and resource exchange.

- Support for startups and small businesses, which may include both financial and technical assistance, helping them to develop and grow. This support can involve assistance with entering new markets, attracting expertise, organising business processes, conducting research, and more.

- Targeted grants for highly promising technical teams and organisations will enable support for research efforts, promote innovation, and sustain economic growth. With international partnerships, supporting R&D centres in Ukraine will broaden the horizons of Ukrainian R&D teams in the global technological landscape.

- Providing access to technical and scientific resources, including access to high-tech equipment, laboratory facilities, and scientific resources, will facilitate research and innovative development.

- Facilitating the transformation of research into commercial products through co-funding R&D, implementing pilot projects, and promoting the dissemination of innovations and the commercialization of successful products and services will stimulate economic development.

- Supporting and strengthening acceleration programs for the IT sector will enable the development and scaling of startup projects, promote startup culture in Ukraine and abroad, stimulate corporate innovation and digital business transformation, and attract venture capital and investments.

Increasing investment volumes and developing companies in the venture capital and private equity sphere (launching a Fund of Funds and other programs and initiatives to stimulate investments)

- Currently, innovative companies and startups in Ukraine face limited access to investments, which negatively impacts the development of the IT sector and the country's economy. This shortage of funding is particularly evident at key stages such as Series A and Series B, where companies encounter significant financing deficits, making it challenging to secure further funding domestically. This compels many early-stage companies to consider relocating abroad to gain access to capital, representing a critical gap in the ecosystem. Unlike some other countries, Ukraine lacks mechanisms for attracting international financial organisations such as the European Investment Fund, the European Bank for Reconstruction and Development, the International Finance Corporation, and others, for joint investments with the state in Ukrainian projects. A Fund of Funds, established with the participation of private investors, international financial institutions, and sovereign wealth funds of other countries, will have the ability to indirectly invest in portfolio companies through other Ukrainian investment funds specialising in investments in Ukrainian IT companies.

- It is also important for international financial institutions to directly participate in financing Private Equity and Venture Capital Funds that invest in Ukrainian startups. This will contribute to attracting private investments into the IT sector.

Restoration and development of digital infrastructure:

Deployment of high-speed Internet and stable network connectivity.

- These are essential prerequisites for the development of the digital economy, the digital market with the European Union (integration into the EU's Digital Single Market), and the adaptation of EU digital strategies. To launch 5G in Ukraine, support for financing is needed to free up the 700 MHz band from television broadcasting for mobile communication, funding for practical measures, and conducting scientific research on the use of frequency spectrum, considering the needs of all users.

The development of 5G in Ukraine.

- The harmonisation of spectrum policies and the creation of transnational 5G corridors with the EU will facilitate the development of broadband internet and communication infrastructure, particularly along major railway and road routes connecting Ukraine with neighbouring EU countries. 5G is expected to be one of the most significant steps towards Ukraine's digital economy and society over the next decade. 5G mobile networks are geared towards industry (enterprises) and enable economic sectors to reinvent themselves, including new and revolutionary methods of production (known as Industry 4.0). 5G corridors can be defined as 5G systems that meet extremely high requirements for security services and digital railway operations, particularly in terms of high reliability, security, low latency, and high throughput. The European Commission has recognized the key role of 5G corridors with international participation both in the Digital Decade strategy for Europe and in the sustainable and smart transport strategy. 5G corridors are also one of the intergovernmental projects identified in the Digital Decade strategy, thus representing one of the main strategic investment areas of the Recovery and Resilience Facility.

Restoring the network and infrastructure to provide communication to the population in the areas affected by the war.

- The war has significantly impacted the digital infrastructure in Ukraine. Over the past years, Ukraine has made significant progress, although losses associated with the war have affected communication as well. In 2021, 83% of Ukrainian households had access to the Internet at home, representing an increase of over 20% in three years. According to ITU data as of July 2022, 12.2% of settlements have completely (and 3.1% partially) lost access to mobile communication, and 11% of mobile operator base stations are not operational. Internet access is fundamental to all aspects of the economy, serving as a foundational factor for businesses, consumers, and citizens. According to RDNA3, the total recovery and reconstruction needs in the electronic communication sector are estimated at EUR 4.2 billion over 10 years. Some of these needs have been met by private operators. For example, of 3,285 mobile towers damaged as of February 24, 2023, 1,796 had been restored by private operators as of June 2023. Private fixed operators undertake these recovery efforts on an ongoing basis. However, continued strikes on infrastructure mean many of these assets will likely be damaged again. And the lack of Internet access disproportionately impacts socially vulnerable segments of the population. The population in the de-occupied, front-line, and border areas lacks the ability to exercise their rights and meet basic needs: education, conducting business, the ability to call emergency services when needed, and access to reliable information about the situation in the country and the world.

- Projects can also include financial support for communities to connect to the network and improve the reliability of social facilities.

Increasing the resilience of electronic communications networks through the support of territorial communities.

- One of Russia's goals, in addition to energy infrastructure, is digital infrastructure. The majority of Ukrainian electronic communications networks are built in the air, that is, they are terrestrial. The problem is that many networks are destroyed after a bombing or missile attack, but if they are built underground, the risks of damaging the networks are much lower. Currently, Ukrainian operators are forced to go to dangerous areas several times a day in order to restore the operation of networks and communications for Ukrainians. Those providers who built their networks underground were almost unaffected, so it can be concluded that this method of construction is safer and more sustainable. In addition, Russia is shelling the energy infrastructure of Ukraine, and electricity is necessary for the operation of Internet provider networks. To avoid problems with the Internet in the event of partial and total blackouts, Internet networks should be less dependent on centralised power supply. That is why it is necessary to invest in the construction of energy-saving networks underground when connecting settlements. Such costs can be covered through territorial communities, within which settlements will be connected.

To provide stable communication for emergency services throughout the country and creation of MCC – a communication system for critical tasks performed by various state, communal, private organisations with the aim of ensuring public safety.

- The lack of protected stable confidential communication for Ukrainian emergency services, state bodies and other institutions affects the well-being of citizens. The main users of such communication are fire brigades, ambulances, police, rescue services, transport security services, oil and gas companies and road services. Existing mobile communication standards do not provide the required reliability; however, requirements have been developed for LTE/5G that allow maintaining reliability and continuity. Funding is needed for conducting research, preparing the base for building, and launching the MCC, and the construction itself.

The creation of a confidential Internet connection separate from Russia, which will be more protected and sustainable.

- The experience gained because of the war for almost 2 years confirmed the importance of the stability and security of networks. Ukraine is dependent on Russia in international Internet traffic from Asia and the Middle East to Europe. The same as Baltic and Scandinavian countries, European countries must get rid of the traffic compromised by the special services of the terrorist country, which monitor the user behaviour of the free world at various levels of communications: B2B, B2C, G2G, B2G. A new fibre-optic line (for instance, across the Black Sea connecting Europe and the Caucasus via Ukraine) will facilitate data exchange.

The modernization of the monitoring of the state of the networks of providers in Ukraine.

- The creation and implementation of a tool for monitoring the state of Ukrainian providers' networks and services through the quality of service provided to users is planned.

The development of cloud infrastructure and the expansion of data centre capacity are crucial for enhancing digital capabilities.

- Robust data centres serve as the foundation for securely storing, processing, and accessing critical information, enabling effective decision-making and strategic planning for economic entities. Data centres have a high level of resilience to failures and can operate under increased loads and during emergencies.

- Investing in these technologies enhances the country's ability to protect sensitive data, ensures reliable communication, and supports backup and data recovery for critical sectors. Cloud services additionally enable organisations to reduce costs and potential threats associated with maintaining their own infrastructure, while providing high availability and reliability of their services. Since the beginning of the full-scale war, the timely migration of thousands of projects and tens of thousands of systems to the cloud has allowed the country to avoid significant disruptions in business operations and services, many of which were critical to the state. Although there is the option to use external cloud services from large corporations, investing in the country's own cloud infrastructure and distributed data centre network offers several advantages in terms of strategic data control, enhanced cybersecurity, customization capabilities, wider availability for economic entities, and support for economic development and job creation.

- It is important to plan and invest in the preservation, further development, and scaling of this infrastructure, which is critically important for the long-term development of a resilient and efficient digital economy and is a necessary factor for increasing the competitiveness of the national technological ecosystem.

4. Coherence with the objectives of the Ukraine Facility

The chapter proposes reforms and investments that constitute a coherent, comprehensive, and adequately balanced response to the general and specific objectives of the Ukraine Facility, including structural reforms and measures to promote convergence with the Union and increase the growth rate of the Ukrainian economy.

The chapter contributes to the general objectives of the Facility, particularly in terms of fostering economic resilience and progressive integration into the Union and global economy and markets as well as progressively aligning with Union rules, standards, policies and practices (*acquis*) with a view to future Union membership, thereby contributing to mutual stability, security, peace, prosperity and sustainability.

The chapter is also in line with the specific objectives of the Facility, particularly: fostering modern, improved and resilient infrastructures; fostering the transition to a sustainable and inclusive economy and a stable investment environment; supporting the integration of Ukraine into the single market; strengthening economic and social development; strengthening strategic economic sectors and supporting investment and private sector development; reinforcing the effectiveness of public administration; promoting the digital transformation as an enabler for sustainable development and inclusive growth.

5. Table of reforms and investments covered under Pillar I

Reforms and investments	Objectives and growth potential	Corresponding chapters of the EU Enlargement report	Name of the step (quantitative and qualitative steps to implement reforms/investments)	Agency responsible for implementation	Outcome	Timeframe
Reform 1: Secure and efficient digital infrastructure	In the face of a full-scale war, Ukraine confronts the challenge of safeguarding its digital and electronic communications infrastructure. The country's march towards a robust digital economy necessitates digital resilience, unwavering internet connectivity, and large infrastructure projects (restoration, modernisation, deployment of networks and providing the population with access to electronic communication services throughout Ukraine), all destined to augment the Gross Domestic Product (GDP). To launch 5G in Ukraine there is a need for financial support to release the 700 MHz band from broadcasting and special users. It is Ukraine's spectrum harmonisation obligation in accordance with the Association Agreement between Ukraine and the EU. Moreover, 5G launch has been slowed down due to challenges caused by the war. Nevertheless, harmonisation of spectrum policy and the creation of cross-border 5G corridors with the EU could ensure the development of the Internet infrastructure and communication, especially on main railways and roads that connect Ukraine with the neighbouring EU member states. The security of data traffic requires stable and secure backbone connectivity bypassing the territory of Russia. The measures needed to unlock the full digital potential of Ukraine include regulatory approximation of Ukrainian	Chapter 10 Information society and media	Implementation of a revised Plan for allocation and use of the radio spectrum in Ukraine	Ministry of Digital Transformation National Commission for the State Regulation of Communications and Informatization (by consent) National Council on Television and Radio Broadcasting (by consent)	The Resolution of the Cabinet of Ministers on amending the Resolution of the Cabinet of Ministers 'On Approving the Plan for Allocation and Use of the Radio Spectrum in Ukraine' enters into force. The Resolution defines the radio technologies that are allowed for use in Ukraine, with the definition of the radio frequency bands and radio services to which they correspond, as well as the terms of termination of their development and use, as well as the list of promising radio technologies for implementation in Ukraine with the definition of the radio frequency bands and radio services to which they correspond, as well as the terms of their implementation in line with *acquis*.	Q1 2025

	legislation to the EU in the field of electronic communications, including in particular the institutional capacity of regulatory authorities. Ensuring the necessary financing and human resources for enacting the legal rules on expansion of the Regulator's competencies (both electronic communications and media regulator) and for the performance of the central executive bodies in the area of electronic communications will be vital for further integration of Ukraine in those areas with the EU					
	Cyber security is a prerequisite for all the digital transformation efforts, particularly in the context of the ongoing Russian hybrid aggression against Ukraine. Alignment with the EU cybersecurity standards will facilitate Ukraine's integration into the EU Digital Single Market. Furthermore, alignment with 5G Toolbox is also required for Ukraine's integration into the EU Digital Single Market (from the moment of 5G technologies launch in Ukraine)	Chapter 10 Information society and media	Entry into force of the legislation on strengthening the cyber security capabilities of state information resources and critical information infrastructure	The State Service of Special Communications and Information Protection Ministry of Digital Transformation, National Commission for the State Regulation of Communications and Informatization (by consent)	Entry into force the respective legislative acts to align with the NIS and NIS2 framework. The acts focuses on these main areas: - regulate the mandatory implementation of measures aimed at creating an appropriate legal framework for the implementation of measures to prevent, detect and suppress acts of aggression in cyberspace in the context of the Russian Federation's war against Ukraine; - increase the level of protection of state information resources and critical information infrastructure against cyberattacks; - improve the regulatory framework in the field of cybersecurity and information protection to strengthen the capabilities of the national cybersecurity system to counter cyber threats	Q1 2025
Reform 2: Digitalisation of public services	The Government plans to increase the number of electronic public services, in particular those provided by means on the Unified State Web Portal of Electronic Services (Diia Portal), including the Diia mobile application (Diia). It is also planned to establish efficient interaction of civil servants and improve their performance by upgrading the staff management system with digital technologies. As a part of integration into the EU Digital Single Market, it is	Chapter 10 Information society and media	Adoption of the Action Plan for digitalization of public services till 2026	Ministry of Digital Transformation	The Order of the Cabinet of Ministers on approving the action plan for digitalisation of public services till 2026 approved and entered into force. The Action Plan focuses on these main areas: - recovery; - education; - health care; - services for veterans; - military serviceman; - customs; - e-social sphere	Q1 2025

	important to obtain the internal market treatment in the sector of electronic identification, authentication and trust services. , which must be based on approximation to the EU legislation and standards, notably eIDAS RegulationIt will simplify online access to public services, conclusion of electronic contracts with foreign counterparts, receipt of international electronic invoices, etc. Ukraine is in the process of harmonising its legislation in this field pursuant to its commitments under the Association Agreement. In addition, That is why mutual recognition of electronic identification, authentication and trust services is a priority for Ukraine. For this purpose, modernisation of the integrated electronic identification system ID.gov.ua (update of components, interaction with state registers and cross-border interoperability with eIDAS Node) is planned	Chapter 10 Information society and media	Entry into force of the legislation on supporting electronic identification schemes aligned with e-IDAS regulation	Ministry of Digital Transformation	The Act of the Cabinet of Ministers on supporting electronic identification schemes aligned with e-IDAS regulation and EU standards enters into force. The Act will approve the Regulation on the integrated system of electronic identification (part three of Article 15-3 of the Law of Ukraine ‘On electronic identification and electronic trust services’). The main tasks of the integrated electronic identification system are: - creation of a modern electronic identification infrastructure in Ukraine and ensuring its sustainable development; - ensuring interoperability (technological compatibility) of electronic identification means, intermediate electronic identification nodes (hubs) and electronic identification schemes; - protection of information resources processed in the system.	Q2 2026

CHAPTER 15. GREEN TRANSITION AND ENVIRONMENTAL PROTECTION

1. State of play

Already before the war, Ukraine’s economy was very carbon-intensive and inefficient due to its dependence on fossil fuels, a large industrial sector dominated by energy-intensive production at the bottom of the value chain, and outdated infrastructure. Other challenges faced by Ukraine included environmental governance, pollution reduction and control (industrial pollution and industrial risks, air, water, chemicals), waste management, nature protection, and administrative capacity to implement and enforce environmental legislation.

Russia's armed aggression is further exacerbating environmental problems in Ukraine. The shelling and destruction are increasing environmental risks, and the amount of waste generated, including hazardous and demolition waste, is a growing challenge.

As of 1 January 2024, information is available on damage and losses caused to water and land resources, air, territories and objects of the nature reserve fund. The amount of losses is UAH 2.189 trillion.

16 million hectares of land are contaminated with ammunition, and large-scale contamination threatens food security and water quality. More than 4.6 million people have problems with access to drinking water. As a result of the destruction of the Kakhovka HPP alone and the related uncontrolled water leakage, 14.8 km^3 of water, or more than 70% of the reservoir, was lost.

Almost 3 million hectares of forest have been affected by the hostilities. Today, 2.5 million hectares of protected areas are under threat of destruction from the actions of the Russian Federation. About 160 Emerald Network sites - habitats of species and habitats protected at the European level and 17 Ramsar sites covering 627.3 thousand hectares - wetlands of international importance - are negatively affected by the hostilities.

As of October 2023, about 500 enterprises, plants and factories, including chemical companies, were damaged or destroyed as a result of hostilities, and this number is constantly growing. The operations of a number of extractive industry enterprises have stopped, and the condition and environmental safety of many deposits and mining facilities are out of control. State environmental management is critically limited in resources, personnel, access to territories and facilities, reliable information on the state of the environment, and tools for assessing environmental damage and the costs of its restoration.

Ukraine is highly vulnerable to climate change, which leads to significant socio-economic losses. Hazards such as droughts, floods, frosts, and hail are significant. The most vulnerable sectors are agriculture, health, water, forestry, transportation, and energy. Droughts have a serious impact on harvests and economic growth. In this context, government policies aimed at mitigating and adapting to the effects of climate change are essential.

Ukraine's green transformation is slowed down by the scale of the devastation described above, the need to rebuild infrastructure quickly and to provide the population with minimal essential services.

Nevertheless, recognizing global trends and challenges, Ukraine is committed to reconstruction in a green, i.e. low-carbon, circular, nature-positive and zero-pollution approach and in line with EU standards, which will lead to greater prosperity and competitiveness in the short to medium run, invaluable health benefits for citizens, flora and fauna, and increased resilience to natural disasters and the negative effects of climate change. Fighting climate change, ensuring environmental protection from pollution, improving waste management towards more circularity, and protecting biodiversity are all important elements of the Ukraine Plan.

Green transition and climate

In the context of the green economic transformation, the key task under the Plan is to decarbonise the main carbon-intensive sectors of the economy and build climate change-adapted infrastructure in the course of reconstruction. This is a complex process that requires significant financial expenditures, long-term planning, and socio-economic changes associated with the changing profile of the economy. It is crucially important to set the right incentives for public and private investments, in particular through a predictable carbon price which avoids an economic shock when Ukraine becomes a member of the EU and joins the EU ETS. One of the important sources of such financing for Ukraine is European funds and assistance from IFIs.

Ukraine's reconstruction should be carried out using the best available technologies and climate-friendly management practices. Infrastructure reconstruction should be based on the principles of ‘do no significant harm’ to the environment and climate and ‘leaving no one behind’ ensuring a reduction in fossil fuel consumption, pollution, resource consumption and the preservation of biodiversity while taking measures to avoid negative socioeconomic consequences for vulnerable groups.In the context of the green transformation of the economy, the key task under the Plan is to enable the country to leapfrog to a prosperous low-emission, resilient economy, by decarbonising the economy as a whole, with 2050 as a time horizon for reaching net-zero-emissions, notably in the main carbon- and energy-intensive sectors of the economy, and to increase the climate resilience of the country.

This will enable Ukraine to thrive in a global decarbonised economy and to minimise external shocks caused by climate change. A key component of this process will be connected to rebuilding a consistent network of infrastructures that will, on the one hand, be resilient to the effects of climate change and minimise their impacts and, on the other hand, be conducive to decarbonisation, notably (but not only) through electrification of energy usage and generation of renewable energy. It is however a complex process that requires significant financial expenditures, long-term consistent planning, and socio-economic changes associated with the changing profile of the economy.

Ukraine has made significant progress over the past 30 years in terms of reducing greenhouse gas emissions (total GHG emissions and removals decreased by 62.2% between 1990 and 2021), however much more needs to be done.

Decarbonisation of the energy sector requires boosting the production of low- and zero-emission energy sources, including drastic increased generation and use of sustainable renewable energy, as well as flexible capacity, grid modernisation and refraining from building new coal capacities.

Energy efficiency measures will be an important element in achieving energy security, climate-neutrality and pollution reduction. Transition and modernisation of industry in line with EU standards is also key. The transition to more efficient and environmentally friendly heating, waste management, water supply, and sewage systems, as well as the energy efficiency of buildings and the thermal modernisation of old housing stock, will contribute to the modernisation and decarbonisation of municipal infrastructure.

In transport, it is important to make public transportation more attractive, change routes and methods of freight transportation, and create the basis for the development of electric vehicle infrastructure.

In order for the agricultural sector to move from an intensive to a sustainable production model, it is necessary to promote the adoption of environmentally friendly and climate-friendly practices by prioritising access to finance for sustainable businesses, focusing on organic production and utilising the potential of biogas from agricultural waste.

Environmental practices in line with the EU standards and best practices are a key issue for reducing emissions in agriculture and to increase the coverage of and improve the quality and productivity of forest resources.

Pollution

Reducing air, water and soil pollution remains a major challenge for the country. Ukraine is a highly industrialised country with a large share of metallurgical, cement, chemical, and mining industries, which can have a significant harmful impact on human health and the environment.

Improving the environment requires an effective and transparent system of environmental permits for industry and businesses in line with EU principles, as well as monitoring and enforcement of permit conditions by authorities and courts.

Alignment with the Directive 2010/75/EU is currently ongoing, however many other issues related to industrial pollution persist. The existing national limits for the emission of pollutants and discharge do not meet emission levels associated with the best available techniques set out under EU law.

Mandatory automated pollutant emission control system procedures were introduced in March 2023 for new equipment, but they excluded the most polluting equipment from the Soviet era.

Further work is needed on air quality information collection, processing, reporting and dissemination procedures as well as monitoring and control. Relevant investments should be planned for this purpose. Systemic compliance monitoring of the fuel products containing sulphur is missing. Measures on the control of volatile organic compound emissions resulting from the storage of petrol and petrol vapour recovery must be developed.

Water and wastewater

Ukraine's water and wastewater infrastructure were outdated even before the war, but the damage caused by the hostilities to water resources and water infrastructure, including water supply, wastewater and hydraulic structures, is significant. This leads to large-scale pollution of watercourses and poor-quality drinking and sanitary water.

Therefore, it is important to continue the alignment with the EU water *acquis* and ensure implementation of the legislation already adopted. This will include carrying out the first cycle of river basin management planning, collection and use of water quality monitoring and other relevant data and applying economic instruments to facilitate investments in water infrastructure.

Waste management and circular economy

The existing waste management system needs to be brought in line with EU legislation. This must be made closely abiding by the sustainable waste management hierarchy, whereby landfilling and incineration remain a last recourse when waste cannot be properly sorted or recycled. In addition, since the start of the full-scale invasion, nearly 60,000 buildings, structures and other infrastructure have been destroyed, resulting in the generation of 650,000 tonnes of construction waste.

Rebuilding and reconstruction will also require huge amounts of ‘new’ natural resources, which could lead to further damage to natural ecosystems. For this reason, Ukraine will need to ensure a high recycling rate of this demolition debris, thanks to existing and proven technologies.

Nature protection and biodiversity

Actions on nature and biodiversity protection, including those related to sustainable management of protected areas and the balanced use of natural resources, including forest resources, are essential to preserve ecosystems and protect biodiversity, as well as to fulfil obligations under the UN Convention on Biological Diversity and EU acts and strategies. Ukraine’s networks of protected areas (including the Emerald Network) lack a strong and well-implemented legal and institutional framework to ensure those areas can be effectively protected.

Currently, 20% of Ukraine's protected areas are damaged or at risk of damage, as they are either in the occupied territories or in areas where military operations are underway, 600 species of fauna and 750 species of flora from the Red Data Book of Ukraine are currently under serious threat of extinction. Out of the total 10.4 million hectares of forests, 0.5 million hectares are in the occupied territories, 1.9 million hectares are in the areas where hostilities are taking place, and another 2.4 million hectares need to be restored, some of which are inaccessible due to the risk of mines.

The National Biodiversity Strategy and Action Plan will serve as a framework document to guide policy-making and address issues in the field of wildlife. This strategy and the action plan for its implementation will be developed taking into account the Kunming-Montreal Global Framework for Biodiversity Conservation.

The strategy will aim to increase the area of protected areas, restore damaged ecosystems, including those resulting from the full-scale aggression of the Russian Federation against Ukraine, significantly reduce and stop the loss of biodiversity, taking into account the ‘do no significant harm’ principle. This principle is an important mechanism under the EU Taxonomy Regulation to ensure that investments are aligned with environmental objectives. While this guidance is not directly applicable to the current situation in Ukraine, it will be adjusted in the future to ensure that sustainable financial flows are implemented.

One of the main tasks of the biodiversity conservation strategy will be to strengthen control over alien species, which are considered to be one of the key factors of biodiversity loss.

Implementation of the biodiversity conservation strategy will also contribute to mitigating the effects of climate change, adaptation to climate change, sustainable use of bioresources and their restoration.

Another area of work will be the further development of cross-border cooperation in the field of biodiversity conservation and protected areas, in particular, within the network of biosphere reserves.

2. Overall reform agenda in 2024-2027

In recent years, Ukraine has taken important steps in establishing a legal framework for environmental protection, as well as some steps in reforming its institutional framework and climate legislation. Gaps in the level of legislative coherence have increased with the expansion and deepening of the EU legal framework in these areas after the adoption of the European Green Deal.

Overall, challenges need to be addressed in terms of the capacity to adopt relevant EU legislation, integrate European Green Deal commitments across all policy areas and government departments, and implement and enforce legislation.

The approach Ukraine will take when dealing with reconstruction will also have a critical impact on Ukraine’s green transformation. Ukraine's reconstruction should be carried out using the best available technologies and most advanced regulatory instruments for mainstreaming sustainability at large. The whole Ukraine Plan will mainstream climate and environmental considerations and will be based on the principles of ‘do no significant harm’ and ‘leaving no one behind’. Within this context, one key objective will be ensuring a sharp reduction in fossil fuel production and consumption and facilitating Ukraine’s coal phase-out by 2035 while taking measures to avoid negative socioeconomic consequences for vulnerable groups.

For cross-sectoral mainstreaming of environment and climate in the reconstruction plans of the country, implementation of the EU rules on environmental impact assessments and strategic environmental assessments is important. Ukraine will ensure open access to environmental information as required by the international treaties and EU legislation, build environmental monitoring systems, and improve enforcement of environmental legislation including in the forestry sector where a separation of functions is needed and the implementation of an empowered and specific control and inspection body is required to increase transparency in the sector and decrease illegal, unregulated and unreported (IUU) tree felling. Environmental liability requirements will be aligned with those of the EU. Strengthening the environmental administration’s capacity for policy and legislation formulation, implementation and enforcement, in particular via proper public administration reform and allocating adequate financial resources is necessary.

In addition, the regime of suspension of the full application of a number of legal instruments due to war-time circumstances, most notably rules on environmental impact assessments and strategic environmental assessments, will be amended so that it only applies in specific instances (geographical areas or matter areas strictly defined in a legislative or executive instrument; time-bound suspension) and when a decision is explicitly taken to this effect by independent and transparent authorities, as opposed to a general, by-default, and unlimited suspension of application in all cases where an indirect connection to war activities can be established.

Key strategic documents will be developed and guide Ukraine’s environmental and climate policies, including:

- To implement the Paris Agreement, ratified by the Law of Ukraine № 1469-VIII of 14 July 2016, an Integrated National Energy and Climate Plan, the second updated Nationally Determined Contribution and an Action Plan to the first updated NDC, a long-term low-emission development strategy and a Climate Change Adaptation Plan, as well as a Framework Law on Climate, which shall introduce the architecture of climate governance in Ukraine and ensure the mainstreaming of climate change issues;

- A National strategy and action plan for the implementation of the Kunming-Montreal Global Biodiversity Framework;
- A National legal framework for implementing the Global Framework on Chemicals;
- Adopt a clear strategy for enhanced administrative capacity at national and subnational level needed to adopt the environment/climate *acquis*;
- Ratification of the Kigali Amendment to Montreal Protocol on Ozone Depleting Substances, and development and approval of a plan for phasing down the fluorinated greenhouse gases;
- A detailed action plan for the implementation of the 'Governmental Strategy of Forest Resources Management in Ukraine to 2035' and related institutional reforms.

In terms of developing the institutional foundations for environmental management and ensuring compliance with environmental legislation, key strategic documents and ensuring coordination among key stakeholders, Ukraine will implement the following reforms:

- Adoption of the law on ensuring the constitutional rights of citizens to a safe environment for life and health, which introduces a reform to prevent, reduce and control industrial pollution;
- Ensure transparent and open exchange of environmental data in accordance with the principles of the Aarhus Convention;
- Establish comprehensive environmental monitoring systems to collect and provide information on air, water and soil quality, as well as biodiversity;
- Fully implement EU rules on environmental impact assessments (EIA) and strategic environmental · assessments (SEA);
- Ensure proper application of environmental legislation, rules of access to justice in environmental matters, as well as environmental liability and environmental control requirements in line with the EU directives to ensure cross-sectoral integration of environmental and climate measures in reconstruction;
- Increase the capacity of public administration to ensure compliance with the EU environmental regulations in all investments and reforms. Reform education and training policy to provide opportunities to acquire skills in the sphere of environment, climate and green transition.

In terms of creating tools to support the decarbonisation of the economy, Ukraine will implement the following reforms:

- Establishment of an emissions trading system, carbon shadow pricing instruments, and financial incentives for decarbonisation, including methane metering and climate and governance architecture;
- Resumption a mandatory system of monitoring, reporting and verification of greenhouse gas emissions (MRV);
- Prepare methodologies for accounting for greenhouse gas emissions in reconstruction projects, including electronic e-platforms on reconstruction;
- Alignment with the Carbon Capture and Storage Directive (2009/31/EC (CCS Directive));
- Establish energy efficiency standards in line with EU regulation for housing and public buildings.

In terms of improving air quality, Ukraine will implement the following reforms:

- Ratification and implementation of the Protocols to the UNECE Convention on Long-Range Transboundary Air Pollution;
- On 8 October 2023, the Law of Ukraine 'On the National Register of Emissions and Transfers of Pollutants', which implements Regulation № 166/206/EU and the Protocol on Registers of Emissions and Transfers of Pollutants (RETP) to the Convention on Access to Information, Public

Participation in the Decision-Making Process, and Access to justice on issues related to the environment. Currently, the National RETP is fully operational. Ukraine will continue to strive to improve public access to information;
- Reduce emissions from transportation, energy production, and industrial activities by approximating EU air quality directives in all sectors;
- Put in place effective air quality monitoring infrastructure and administrative bodies.

Ukraine will implement the following reforms in the areas of industrial pollution reduction:

- Establish the legal and organisational framework for the prevention, reduction, control and elimination of pollution arising from industrial activities to ensure a high level of environmental protection through the introduction of an integrated permit. Defining the types of activities that require an integrated permit, requirements for the use of the best available technologies and management methods, monitoring of emissions and control of business entities that have received an integrated permit;
- Aligning legislation with EU chemical legislation, including management of hazardous industrial waste and compliance with REACH (Registration, Evaluation, Authorisation and Restriction of Chemical) and polychlorinated biphenyls and terphenyls regulations;
- Updating legislation to meet the requirements of the UNECE Convention on Transboundary Effects of Industrial Accidents.

Ukraine will implement the following reforms in the field of nature protection:

- The legal framework for nature and biodiversity protection, including to bring it in line with key EU acts and strategies, UN Convention on Biological Diversity and other international treaties;
- Development of national legislation taking into account the requirements of the EU birds and habitats directives;
- Creation of new nature conservation territories, in particular the territories of the Emerald Network in Ukraine, taking into account their potential acquisition of the status of territories of the EU Natura 2000 network;
- Carrying out a reform to create a system of management and control of alien invasive species;
- Approval of the rules for the formation and functioning of the state cadastre of territories and objects of the nature reserve fund.

In terms of ensuring sustainable forestry, Ukraine will implement the following reforms:

- Establish a transparent and independent system of control and (field) inspection over timber and timber products by further implementing the required institutional reforms (including the status of the national forest guard corps) and expanding the use of the existing electronic timber accounting system to combat illegal unregulated and unreported (IUU) logging, deforestation and forest degradation. Develop tracking systems for deforestation-related products. Introduce a certification system for wood products and extend the existing system of issuing certificates of origin for timber and timber products to all timber trade operations;
- Implement EU and international standards against deforestation and forest degradation and for sustainable forest resources management, reforestation and other measures aimed at restoring damaged forest areas;
- Update the regulatory framework for regulating relations in the timber market. Based on the forest management strategy until 2035, implement institutional reform in the forest sector to create a transparent and independent system of control over the circulation of timber and timber products and (territorial) inspections.

In terms of ensuring sustainable water management, Ukraine will implement the following reforms:

- Ensure effective implementation of EU water legislation, including in particular by ensuring water quality monitoring, control of polluting activities, enforcement of compliance with environmental regulations and restoration of water bodies;
- Restore and develop water management infrastructure based on a fully costed strategy, implement measures to reduce water pollution to ensure access to quality drinking water.

In terms of the waste management as a component of the circular economy, Ukraine will implement the following reforms:

- Alignment with EU waste legislation to ensure environmentally sound waste management, while reducing GHG emissions, notably methane, from the waste sector, in particular methane;
- Development, approval and implementation of a Circular Economy Strategy and Action Plan to align regulations for key industries and consumers with the EU Circular Economy Action Plan;
- Support for the creation of a modern waste management infrastructure, including the development of value chains for the recycling and reuse of electronics, batteries, plastic and packaging, textiles, food, metallurgical products, and construction materials;
- Create infrastructure for the recovery and reuse of construction and demolition waste generated due to Russian military aggression.

In terms of sustainable production and consumption, Ukraine will implement the following reforms:

- Development and implementation of environmental standards for goods, services and construction projects. Application of these standards in public procurement to determine the requirements for the subject of procurement;
- Development of a reporting and eco-labeling system that defines the requirements for manufacturers to inform consumers about the environmental characteristics of goods, services and construction projects;
- Approximation with the EU ecomanagement and audit regulations, including for state owned enterprises;
- Establishing the legal and organisational framework for the introduction of extended producer liability;
- Proper application of environmental legislation, rules of access to justice in environmental matters, environmental liability requirements to ensure cross-sectoral integration of environmental and climate measures in reconstruction, implementation of EU rules on environmental impact assessments and strategic environmental assessments.

2.1. Reforms to be pursued under the Pillar I of the Ukraine Facility

Reform 1. Prevention, reduction and control of industrial pollution

Entry into force of the legislation on prevention, reduction, and control of industrial pollution

State of play and context: There are a number of regulatory and institutional reasons that lead to the problem of environmental pollution by business entities in Ukraine. The environmental permitting system is based on a component-based approach to regulating environmental impacts: the legislation provides for the issuance of permits for emissions of pollutants into the atmosphere by stationary sources, special water use, and implementation of waste management operations - permits in the field of environmental protection. This approach does not allow for the cumulative impact of a business entity on the environment, partially ignoring issues related to soil protection and groundwater pollution, efficient consumption of energy and raw materials, decommissioning conditions and restoration of the industrial site to a safe environmental condition.

Description of the reform: The first step of the reform is the adoption of the draft law on ensuring the constitutional rights of citizens to a safe environment for life and health, which was registered in the Verkhovna Rada on 4 January 2023 under № 6004-d, adopted in the first reading as a basis and is currently being prepared for the second reading. The draft law introduces a reform on industrial pollution prevention, reduction and control. It introduces integrated approaches to permitting and control of industrial pollution based on the application of the best available technologies and management methods in accordance with the Directive 2010/75/EU on industrial emissions (integrated pollution prevention and control).

These components of the reform will be implemented by the Ministry of Environmental Protection and Natural Resources and will be completed by Q3 2024.

Potential impact of the reform: The Law 'On Ensuring the Constitutional Rights of Citizens to a Safe Environment for Life and Health' introduces a reform in the field of prevention, reduction and control of industrial pollution, which is adopted and comes into force together with bylaws adopted 12 months later, and some provisions come into force four years after the end of martial law.

The conclusions on the best available technologies and management methods shall be applied no earlier than four years after the end or lifting of martial law, except for facilities that are put into operation for the first time, to which the conclusions on the best available technologies and management methods shall be applied from the date such conclusions entry into force.

Reform 2. Climate policy

The reform has two components.

Entry into force of the legislation on the State Climate Policy

State of play and context: Ukraine needs to establish long-term national climate goals that will contribute to the country's low-carbon development, introduce a system for tracking policies and activities, climate change forecasting, and create a climate governance architecture in Ukraine. This will allow for the introduction of a political framework for climate action in Ukraine. It will include national targets for climate change mitigation and adaptation, climate governance, integration of climate issues into other areas of public policy, and mandatory sectoral contributions to climate goals.

Description of the reform: The first step of the reform is the adoption of the Law 'On the Basic Principles of State Climate Policy'. The law focuses on the following main areas:

- Goals and basic principles of the state climate policy;
- Governing bodies in the field of climate change;
- Strategic planning in the field of climate change;
- Mechanisms and tools for achieving climate goals;
- National system for tracking the implementation of policies and measures, and climate change forecasting;
- National system of inventory of anthropogenic emissions by sources and absorption by sinks of greenhouse gases;
- Scientific and expert council on climate change and preservation of the ozone layer;
- International cooperation in the field of climate change.

Civil society and the business community should be closely involved in the development and implementation of the law.

The second step is to approve regulation on the Scientific and Expert Council on Climate Change and Ozone Layer Preservation (Board). The Regulation will focus on the following main areas:

- Consideration of scientific conclusions of the Intergovernmental Panel on Climate Change (IPCC) reports and scientific climate data and information, in particular, concerning Ukraine;
- Scientific support and proposals, including preparation of reports on climate goals, policies and measures, tracking their implementation, climate change forecasting, and compliance of goals, policies and measures with Ukraine's international obligations;
- Facilitating the exchange of scientific achievements in the field of modelling, monitoring, advanced research and innovation aimed at reducing greenhouse gas emissions and increasing absorption by sinks;
- Scientific reasoning of ways and means to achieve climate goals;
- Informing, raising awareness and educating on climate change and its consequences, as well as developing dialogue and cooperation between scientific institutions on climate change.

The independence of the decision-making of the said Board in its activities and the diversity of the personal composition of the said Board will be ensured.

The final step of the reform is the adoption of bylaws for the rapid implementation of the Law 'On the Basic Principles of State Climate Policy'. The reform will be implemented by the Ministry of Environmental Protection and Natural Resources and will be completed within a year after the adoption of the draft law.

Potential impact of the reform: Implementation of the reform will create an architecture for climate governance in Ukraine and form the basis for an appropriate regulatory framework for the development and implementation of state policy in the field of climate change. Setting a long-term goal of achieving climate neutrality will also allow us to define short- and medium- term goals and ways to achieve climate neutrality, which will influence other sectoral policies and measures for their implementation.

Adoption of the second Nationally Determined Contribution of Ukraine to the Paris Agreement

State of play and context: The Low Carbon Development Strategy of Ukraine until 2050 was adopted in July 2018, but this strategy became outdated before the adoption of the updated NDC in July 2021. The National Economic Strategy of Ukraine until 2030 (NES-2030) envisages achieving climate neutrality no later than 2060. It is important to accelerate the achievement of climate neutrality by 2050 and to take into account the concept of a green transition in the process of recovery and reconstruction. The next, second, Nationally Determined Contribution of Ukraine will be more progressive than the current Nationally Determined Contribution and will represent the highest possible ambition, differentiated responsibilities, and appropriate capabilities, taking into account national circumstances and current challenges.

The NDC focuses on the following main areas:

- Reference points for calculating greenhouse gas emissions (including the base year);
- Duration of implementation and/or time periods of the proposed measures;
- Scope and coverage of economic sectors and greenhouse gases;
- Process planning, assumptions and methodological approaches used, including for estimation and accounting of anthropogenic emissions by sources and removals by sinks of greenhouse gases;

- Justification of the equity and ambition of NDCs in the light of national circumstances. Contribution to the goal of the UN Framework Convention on Climate Change to limit greenhouse gas emissions / enhance sinks in accordance with the objective set out in Article 2 of the UN Framework Convention on Climate Change and the objectives of the Paris Agreement.

Potential impact of the reform: The development and approval of the second NDC will allow setting short- and medium-term targets (for 2030 and 2035, respectively) for reducing greenhouse gas emissions in Ukraine.

The component will be implemented by the Ministry of Environmental Protection and Natural Resources and will be completed in 2025.

Reform 3. Market mechanisms of carbon pricing

The reform has two components.

Entry into force of legislation to resume a mandatory MRV system for facilities covered by the scope of the existing legislation, except for those that are not controlled, destroyed or located in the temporarily occupied territory, or have officially announced the suspension of operations in terms of production.

State of play and context: The MRV system is an important transparency requirement and a cornerstone for the establishment of an emissions trading system (ETS). The Law 'On the Principles of Monitoring, Reporting and Verification of Greenhouse Gas Emissions' was adopted in 2019, and a significant number of bylaws have already been adopted. Since the outbreak of war, reporting under the MRV is voluntary due to the introduction of martial law. It is important to encourage operators to report during martial law to ensure reliable data collection before the introduction of the ETS. Before the Russian military aggression, about 500 installations were registered.

Description of the reform: The component aims to resumption a mandatory MRV system for facilities covered by the scope of the existing legislation, except for those that are not controlled, destroyed or located in the temporarily occupied territory, or have officially announced the suspension of operations in terms of production.

The reform encourages operators to report to the MRV system based on the provisions of the 2019 law and relevant regulations. The reform will also improve verification mechanisms in line with EU practice. The second step envisages the adoption of the Action Plan for the creation of a National Greenhouse Gas Emissions Trading System, which focuses on the following main areas: phasing of the ETS implementation, timeframe of the phases, provision of necessary infrastructure, and organisational measures.

Potential impact of the reform: Implementation of the component will allow us to move to the second step of establishing an emissions trading system and introduce the most efficient market-based mechanism for reducing greenhouse gas emissions in Ukraine and will allow to establish a fair price for carbon. The reform will be implemented by the Ministry of Environmental Protection and Natural Resources and will be completed by Q2 2025.

Adoption of the Action Plan for the Establishment of a national greenhouse gas Emissions Trading System (ETS)

State of play and context: in line with Association Agreement between Ukraine and EU, Ukraine is committed to develop a national legislation and introduce an Emission Trading System. An Emission Trading System is a complex mitigation instrument of climate change policy toolkit, requiring development of significant regulatory framework covering different elements of ETS, preparing necessary infrastructure and also to capacitate various groups of ETS participants. An ETS Action Plan shall be developed and serve as an instrument to ensure predictability to participants regarding Government plans for reform in this area, establish a basis for developing the regulatory framework required to implement and administer ETS, and to improve inter-agency coordination while developing and administering ETS in Ukraine.

Description of the reform: The component aims to resumption a mandatory MRV system for facilities covered by the scope of the existing legislation, except for those that are not controlled, destroyed or located in the temporarily occupied territory, or have officially announced the suspension of operations in terms of production.

The Component Reform encourages operators to report to the MRV system based on the provisions of the 2019 law and relevant regulations. The component reform will also improve verification mechanisms in line with the European Union's practice.

The second component envisages the adoption of the Action Plan for the establishment of a National Greenhouse Gas Emissions Trading System, which focuses on the following main areas: stages of the ETS implementation, timeframe of the stages, provision of necessary infrastructure, and organisational measures.

Potential impact of the reform: Adoption of the Action Plan is a critical step towards the establishment of a National Greenhouse Gas Emissions Trading System in Ukraine and thus introduces a carbon pricing instrument compatible with EU practices. The reform shall harmonise carbon pricing approaches in Ukraine and in the EU, contribute to promoting decarbonisation, establish an equal playing field for Ukrainian industrial and energy installations as compared with their EU counterpart and allow for deeper market integration.

The reform will be implemented by the Ministry of Environmental Protection and Natural Resources and will be completed by Q1 2025.

Reform 4. Restoration and conservation of natural resources

Entry into force of the legislation on reducing deforestation and forest degradation.

State of play and context: There is a need to strengthen the capacity to trace the origin of timber and reduce illegal logging, as well as to prevent illegally, uncontrolled and unreported (IUU) harvested timber from entering the market.

It is necessary to change the structure of forestry to increase the share of native tree species in reforestation. Increasing the share of native woody plant species will create conditions for the reproduction of habitats and local ecosystems with a set of forest species ecologically related to native tree species, which will contribute to the restoration of local biodiversity.

Description of the reform: The reform will improve and extend the existing timber tracking system to all operations related to the trade in timber and wood products, which will make it impossible to market and sell illegally harvested timber and reduce illegal logging by adopting a law that will regulate the issue of confirming the sustainability of the origin of timber and other goods that may lead to deforestation and forest degradation.

The Law will focus on the following:

- expanding the use of electronic timber accounting which will ensure tracking of timber movement and confirmation of the legality of the origin of timber and timber products;
- ensuring that the certification system for wood products was introduced and the existing certification system for manufactured wood was extended to cover all wood trading operations;
- establishing requirements for confirming the origin of wood, including wood products in trade.

The reform implements Council Regulation (EC) № 2173/2005 of 20 December 2005 establishing a FLEGT licensing scheme for imports of timber into the European Community and Regulation (EU) 2023/1115 of the European Parliament and of the Council of 31 May 2023 on the making available on the Union Market and the export from the Union of certain commodities and products associated with deforestation and forest degradation and repealing Regulation (EU) № 995/2010.

Potential impact of the reform: In the long term period, the reform will prevent illegally harvested timber from entering the market, which will lead to a reduction in illegal logging and help mitigate environmental crimes.

The component will be implemented by the Ministry of Environmental Protection and Natural Resources and will be completed by Q2 2026.

Reform 5. Increased circular economy

The reform has two components.

The first component is implemented by the Ministry of Economy and should contribute to the modernisation of the Ukrainian economy, increase its resource efficiency and competitiveness with economic growth decoupled from the use of natural resources, and protect the health of citizens from risks associated with environmental impact.

The second component is implemented by the Ministry of Environmental Protection and Natural Resources and envisages the adoption of the National Waste Management Plan for Ukraine until 2033, and its harmonisation with EU waste legislation is critical.

Adoption of the Strategy for implementing the principles of the Circular Economy and the Action Plan.

State of play and context: Currently, Ukraine has adopted the Law ‘On Waste Management’ and is developing bylaws for its implementation, but has not yet approved a circular economy strategy. To date, a number of regulations have been developed that will allow us to start implementing the National Waste Management Plan of Ukraine until 2033, namely the draft law ‘On Packaging and Packaging Waste’, which has been submitted to the Verkhovna Rada, the draft law ‘On Waste from the Extractive Industry’, and the draft law ‘On Electrical and Electronic Equipment and Waste Electrical and Electronic Equipment’. The introduction of waste recycling is a key indicator of a circular economy.

Description of the reform: The first component of the reform is being implemented through the adoption by the Cabinet of Ministers of the Strategy for implementing the principles of the Circular Economy, the Action Plan.

This component consists in the publication of a report with a revised research methodology and a detailed work plan for developing a circular economy strategy. The report identifies potential opportunities and impacts of the transition to a circular economy in Ukraine for 5-10 pre-selected priority sectors and value chains such as waste, textiles, plastics, batteries, electronics, agriculture, construction and repair, and metals and minerals.

Ukraine will carry out a public consultation and a strategic environmental assessment process before adopting the Circular Economy Strategy and corresponding Action Plan.

Potential impact of the reform: The reform contributes to the modernisation of the Ukrainian economy, increasing its resource efficiency and competitiveness with economic growth decoupled from the growth of natural resource use, and improving the protection of citizens' health from environmental risks.

The circular economy strategy contributes to climate change mitigation by reducing greenhouse gas emissions at different stages of the product life cycle. Longer product life cycles and reduced production of new goods lead to lower emissions from production. Implementation of the strategy will ensure the transformation of products into more sustainable ones; ensure the transformation of services, business models and consumption patterns to reduce waste generation. The strategy will be implemented gradually, and key product value chains will be prioritised. Measures will also be taken to reduce waste and create a domestic market for high-quality recycled materials.

The component will be implemented by the Ministry of Economy and will be completed by Q1 2026.

Adoption of a National Waste Management Plan of Ukraine until 2033.

State of play and context: In the course of military operations, Ukraine has faced an additional challenge of demolition waste. Such waste is a significant problem for Ukrainian cities, whose rebuilding and reconstruction involves the removal of huge amounts of materials, as well as the excessive use of natural resources, which causes further damage to natural ecosystems.

According to the Ministry of Communities and Territories Development, as of 1 June 2022, 5% of all existing garbage collection vehicles, 17% of all biogas plants, and 9% of sorting lines were destroyed or damaged. Direct losses to the waste management sector amounted to EUR 89.1 million, the estimated cost of removing construction waste/debris was EUR 299.5 million, and the loss of profits by waste disposal companies was EUR 11.1 million. This estimate was made only for certain regions of Ukraine, such as Donetsk, Luhansk, Kharkiv, Kyiv, and Chernihiv regions, but it provides an indication of the overall scale of potential losses across Ukraine.

The cleanup of the areas adjacent to damaged (destroyed) facilities can be carried out if there is no threat of accidental collapse of the facility as a whole or its individual parts.

The amount of waste generated due to the damage (destruction) of buildings and structures as a result of hostilities, terrorist attacks, and sabotage is already comparable to the amount of solid waste generated in the country on average per year.

Description of the reform: the second component of this reform envisages the adoption and entry into force of the Cabinet of Ministers order on the approval of the National Waste Management Plan of Ukraine until 2033. The National Waste Management Plan of Ukraine until 2033 focuses on the following main areas:

- Solid waste management;
- Infrastructure needs;
- Economic and financial sustainability analyses of the action plan;
- Implementation of economic instruments to improve waste management;
- Monitoring and control of waste management;
- Strategic planning of waste management in Ukraine;
- Implementation of waste management at the regional level.

The main principles and objectives of the National Waste Management Plan of Ukraine until 2033 are in line with the national policy on waste prevention and management and include: adherence to the waste management hierarchy - prevention of waste generation; reuse, recycling, recovery and, as the least desirable option, disposal, which includes landfilling and incineration without energy recovery.

Potential impact of the reform: The National Waste Management Plan of Ukraine until 2033 aims to reduce the negative impact of waste on nature and human health by promoting recycling and the use of secondary resources. The National Waste Management Plan of Ukraine until 2033 plays a key role in effective and efficient waste management in Ukraine. An important part of the National Waste Management Plan of Ukraine until 2033 is to create the most favourable conditions for waste prevention.

The component will be implemented by the Ministry of Environmental Protection and Natural Resources and will be completed by Q1 2026.

Reform 6. Publication of a concept note defining the scope of deviations from the rules of environmental impact assessment (EIA) and strategic environmental assessment (SEA)

State of play and context: Ukraine adopted the Law of environmental impact assessment (EIA) in 2017 and the Law of Strategic environmental assessment (SEA) in 2018. Taken together, these two laws provide for significant approximation to the EU EIA Directive and the SEA Directive. However, Ukrainian EIA and SEA legislation is subject to derogations due to the legal regime of martial law in force in the country. The derogation regime for environmental impact assessment is defined by the Resolution of the Cabinet of Ministers № 1010 dated 13 December 2017 'On Approval of Criteria for Determining Planned Activities Not Subject to Environmental Impact Assessment and Criteria for Determining Expansions and Changes in Activities and Facilities Not Subject to Environmental Impact Assessment'. The regime of derogations for SEA is set out directly in the Law of Ukraine on SEA. In both cases, since the beginning of the full-scale Russian invasion, the derogation regimes have been amended, mainly to expand the conditions under which these derogations can be granted.

Description of the reform: the regime of derogations from the full application of the EIA and SEA regulations will be specified in a concept note following public consultations with stakeholders and published on the official website of the Ministry of Environmental Protection and Natural Resources, which includes information:

- The authority that determines the scope of derogations from EIA and SEA obligations.
- Description of the objects and explanation of why they are included in the scope of derogation in each specific case.
- Justification of the scope of derogations.
- Time limits for the derogations granted.

Potential impact of the reform: EIA and SEA rules are implemented in all projects, programmes and strategies, except for clearly defined temporary derogations. The EIA/SEA screenings support the 'no significant harm' approach, as envisaged in the Regulations establishing the Ukrainian Mechanism. The reform also supports Ukraine's efforts to ensure cross-sectoral implementation of environmental and climate measures.

This component of the reform will be implemented by the Ministry of Environmental Protection and Natural Resources and will be completed by Q3 2024.

3. Overall investment needs and opportunities in 2024-2027

Total investment needs of the sector in priority areas

Despite the fact that the war is still ongoing, environmental damage has continued to accumulate and worsen compared to what was identified in the Rapid Damage and Needs Assessment in Ukraine RDNA3. Virtually all environmental components, including air, water, soil, and biota, have been further impacted. Damage to infrastructure caused by the war, such as damage to hazardous industrial facilities and energy installations (e.g., power plants, oil storage facilities, and oil refineries), as well as the destruction of residential and commercial buildings that may contain asbestos, has increased environmental pollution. Agricultural land, forests, aquatic and other ecosystems have been directly or indirectly affected, including through the presence of minefields or unexploded ordnance, craters from intense shelling, forest fires, and lack of access and management capacity.

In particular, the damage to the forestry sector is estimated at over EUR 3 billion. The total area of forests damaged by fires in the combat zone exceeded 211 hectares, according to the RDNA3. The total losses to the forestry sector, including burned areas, air pollution and protected areas damaged by the Kakhovka dam breach, are estimated at EUR 24 billion.

The total reconstruction and rehabilitation needs are estimated at EUR 11.9 billion over the 10-year period from 2024-2033. These estimated needs take into account costs associated with inflation and recovery and are better aligned with Ukraine's recovery strategy, which prioritises decarbonisation as well as reforms and institutional capacity building to reforms and institutional capacity building to meet the EU accession criteria. Short-term short-term needs emphasise maintaining service delivery and strengthening local technical and operational capacity for further reconstruction.

Capacity building activities to strengthen environmental governance will require approximately EUR 690.6 million in the RDNA3 report, mainly for emergency response and pollution cleanup. Capacity building activities should focus on training of Ukrainian personnel as a basis for:

- Rebuilding environmental monitoring networks and laboratory infrastructure to analyse key environments (air, surface water, groundwater, soil, etc.);
- Priority environmental cleanup measures aimed at eliminating sources of pollution and eliminating ways for pollutants to reach sensitive receptors, as well as cleaning up mines;
- Priority environmental cleanup measures to eliminate sources of contamination and eliminate pathways of contamination of sensitive receptors, as well as demining that does not cause greater environmental damage;
- Construction and commissioning of environmental pollution control infrastructure (e.g., hazardous waste treatment plants);
- Construction and commissioning of engineering waste processing plants and, as an additional option, landfills and treatment facilities) adherence to the principle of ‘building better than it was’ and the use of green technologies;
- Establishment of a follow-up environmental monitoring programme to assess the follow-up environmental monitoring programme to assess the effectiveness of the rehabilitation; and environmental training linked to other cross-sectoral training linked to other cross-sectoral sectors;
- The process of post-war economic development will be used to fundamentally transform Ukraine's economy towards green, energy-efficient and low-carbon technologies. This will mean continuing to decarbonise the economy, reduce pollution levels, and focus on protecting the environment and mitigating climate change.

Recovery will be based on energy-efficient technologies and materials, the use of renewable energy sources, low-carbon production with pollution levels in line with EU standards, low-carbon and energy-efficient transport, increasing forest area, and restoring natural ecosystems. and biodiversity conservation.

The green transition will increase the efficiency and competitiveness of Ukraine's economy in the European and world markets for its further development.

It is these priorities that form the list of areas for investment, both public and private.

The Green Transition and Environmental Protection are cross-sectoral. The implementation of priorities and projects within the framework of the Ukraine Plan in the direction of Green Transition and Environmental Protection will ensure the implementation of environmental and climate policy in accordance with the European integration direction of Ukraine's development and the European Green Deal, taking into account the recommendations of the European Commission presented in the Progress Report on Ukraine's progress in the framework of the European Union's 2023 Enlargement Package, as well as the integration of the environmental component into all reforms and projects to restore the country in accordance with the European course and principles of sustainable development.

The Investment needs in Ukraine to rebuild and restoration in 2024-2027, in particular on the principle of ‘build back better’ include the following:

- Decarbonisation of the energy sector in terms of increasing the use of renewable energy sources, developing and increasing the use of heat pumps and renewable gases, smart demand management;
- Energy- and resource-efficient construction and reconstruction through restoration and stimulation of regional development through energy- and resource-efficient construction, and reconstruction of buildings; restoration and modernisation of municipal infrastructure (heat, water supply and sewerage systems); support for projects for the production of green building materials in accordance with EU standards and utilising materials with lower embodied carbon; creating green spaces in urban areas, including parks and green roofs, can improve air quality, provide recreational areas, and support biodiversity. Sustainable and smart mobility, both in terms of increasing the use of electric transport and increasing the use of water and rail transport on electric traction, namely the resumption and development of transportation by sea and inland waterways: lifting the blockade of Ukrainian seaports; introduction of smart transport systems; development of electric transport infrastructure; promoting the wider use of private electric transport, the development of cycling and micro mobility; ensuring the development of urban electric transport to improve the quality of service for citizens in cities; creating conditions for the development of hydrogen transport infrastructure;
- Sustainable food systems and ensuring the adoption of climate-smart agricultural technologies through the development of investments in the promotion of organic farming and soil restoration; reducing the use of pesticides and agrochemicals in line with European practice; promotion of production of food with lower environmental and climate footprint, incl. alternative proteins and other plant-based alternatives to animal products; development of land reclamation systems; increasing biogas plants and cogeneration in rural areas to support the decentralisation of the country's energy system;
- Transition of the economy from the traditional linear approach (take-make-throw away) to a circular approach (reduce, reuse, recycle) by building the infrastructure of waste management facilities with a cluster type of plant location; investments in the development of a network of industrial and eco-industrial parks;

- Replacement of technologies in industrial production, as exemplified by the new production of green steel and green ammonia;
- Investments in innovation (R&D), stimulating the development of technologies aimed at reducing emissions of greenhouse gases and decreasing pollution from industry, transport, construction, energy sector etc;
- Conservation and restoration of biodiversity and ecosystems through demining of mined protected areas covering 250 thousand hectares and clearance of explosive ordnance from protected areas covering 1.2 million hectares; expansion of the territories of the nature reserve fund; creation of an effective forest management system through projects to restore logging and woodworking supply chains to ensure the supply of vital raw materials to export-oriented companies that contribute to the support of employment in rural areas and create added value; implementation of projects for the reclamation of degraded wetlands in peat extraction sites and a programme for the revival of small rivers in Ukraine; introduction of modern approaches to fire management; development of infrastructure for sustainable tourism and recreation in the national natural parks of Ukraine in order to support sustainable green tourism practices; projects for the establishment of regional centres for the rehabilitation and rescue of wild animals that have been injured, abandoned or confiscated from illegal trafficking. The centres should meet the needs of education, technology and green tourism;
- Investments in projects for the recycling or disposal of ozone-depleting substances and fluorinated greenhouse gases, which reduces emissions of these substances into the environment and provides an opportunity for their reuse. Recycling will reduce the need to import ozone-depleting substances, and neutralisation with the help of approved safe technologies will prevent negative impacts on the ozone layer and climate change;
- Leveraging digital tools for better planning and management, including Geographic Information Systems (GIS) for urban planning and drone technology for monitoring and maintaining infrastructure;
- Investing in education and training programmes to develop skills in sustainable practices and technologies is crucial for long-term success.

The private sector will be vital for a green and resilient recovery in Ukraine. According to IFC's October 2023 report ‘Private Sector Opportunities for a Green and Resilient Reconstruction in Ukraine,’ the potential for gradual private investment is estimated at EUR 184 billion to EUR 441 billion over the period 2023-2033. The implementation of reforms will create significant additional opportunities for private sector investment.

4. Coherence with the objectives of the Ukraine Facility

The section proposes reforms and investments that are a coherent, comprehensive and adequately balanced response to the general and specific objectives of the Programme for Ukraine, including structural reforms and measures to promote rapprochement with the EU and increase the growth of the Ukrainian economy.

This chapter contributes to all three of the Facility's overall objectives by (i) addressing the environmental consequences of the war, thereby contributing to the country's recovery, reconstruction and modernisation; (b) enhancing environmental and climate resilience; and (c) gradually aligning with EU rules, standards, policies and practices (*acquis*) with a view to future EU membership, thereby contributing to mutual stability, security, peace, prosperity and sustainable development.

This section is in line with the specific objectives of the Facility, in particular: to promote the transition to a sustainable and inclusive economy, as well as to develop and strengthen a sustainable green transition in all sectors of the economy, including the transition to decarbonisation.

The measures are consistent with the need to mainstream climate change mitigation and adaptation, environmental protection, and disaster risk reduction. Investments are guided by the principles of ‘do no significant harm’ for proposed investments and ‘leaving no one behind’ for target groups, as well as the approach to mainstreaming sustainable development that underpins the European Green Deal. Local and regional authorities, social partners and civil society organisations were consulted on the reforms and investments proposed in this section and their suggestions were incorporated into the final version.

The reforms and investments outlined above continue to move towards further implementation of EU legislation and have a cross-sectoral and integrated approach in the post-war reconstruction process. The issues of decarbonisation and reduction of industrial pollution affect almost all sectors of the Ukrainian economy. It is important that all sectoral strategies and policies are consistent with each other, updated and synchronised with national priorities and goals. In addition, the development of financial instruments to support such transformations is essential to achieve the goals.

Unfortunately, as a result of the hostilities, a large number of industrial facilities in our country have been damaged or destroyed and will require reconstruction/modernisation or complete restoration in the post-war period. Their reconstruction should be carried out exclusively with the introduction of the best available technologies and using climate neutrality approaches.

The proposed reforms are in line with the UN SDG 13 ‘Take urgent action to combat climate change and its impacts by regulating emissions and promoting developments in renewable energy’. They are also in line with SDG 6 ‘Ensure availability and sustainable management of water and sanitation for all’, SDG 12 ‘Ensure sustainable consumption and production patterns’, SDG 14 ‘Conserve and sustainably use the oceans, seas and marine resources for sustainable development’ and SDG 15 ‘Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss’.

5. Table of reforms and investments covered under Pillar I

Reforms and investments	Objectives and growth potential	Corresponding chapters of the EU Enlargement report	Name of the step (quantitative and qualitative steps to implement reforms/investments)	Agency responsible for implementation	Outcome	Timeframe
Reform 1. Prevention, reduction and control of industrial pollution	Establishing the legal and organisational framework for the prevention, reduction, control and elimination of pollution arising from industrial activities to ensure a high level of environmental protection through the introduction of an integrated permit, defining the types of activities that require an integrated permit, requirements for the use of the best available technologies and management methods, monitoring of emissions and control of business entities that have received an integrated permit	Chapter 27 Environment and climate change	Entry into force of the legislation on prevention, reduction, and control of industrial pollution	Ministry of Environmental Protection and Natural Resources	The Law of Ukraine on Ensuring the Constitutional Rights of citizens to a safe environment for life and health is adopted and enters into force partly, with bylaws adopted within 12 months and some provisions on applying of the findings of the best available technologies and management methods - within 4 years after termination of the martial law, except for the installations that are put into operation for the first time. The law is aimed at preventing, reducing and controlling industrial pollution and introduces integrated approaches to permitting and control of industrial pollution based on the application of the best available technologies and management methods in accordance with Directive 2010/75/EU on industrial emissions	Q3 2024
Reform 2. Climate policy	Setting long-term national climate goals and objectives for the country's low-carbon development, introducing a framework for tracking policies and activities, climate change forecasting, and creating a climate governance architecture in Ukraine. Civil society and the business community should be closely involved in the development and implementation of the law	Chapter 27 Environment and climate change	Entry into force of the legislation on the State Climate Policy	Ministry of Environmental Protection and Natural Resources	The Law of Ukraine 'On the Basic Principles of State Climate Policy' enters into force. The law focuses on the following main areas: -Goals and basic principles of the state climate policy; -Governing bodies in the field of climate change; -Strategic planning in the field of climate change; -Mechanisms and tools for achieving climate goals; -National framework for tracking the implementation of policies and measures and forecasting in the field of climate change; -Scientific and expert council on climate change and preservation of the ozone layer; -National system of inventory of anthropogenic emissions by sources and absorption by sinks of greenhouse gases; -International cooperation in the field of climate change	Q1 2025

		Chapter 27 Environment and climate change	Adoption of the Regulation on the Scientific and Expert Council on Climate Change and Preservation of the Ozone Layer	Ministry of Environmental Protection and Natural Resources	The Resolution of the Cabinet of Ministers 'On Approval of the Regulation on the Scientific and Expert Council on Climate Change and Preservation of the Ozone Layer' is adopted. The Regulation focuses on the following main areas: - Consideration of scientific conclusions of the Intergovernmental Panel on Climate Change (IPCC) reports and scientific climate data and information, in particular, concerning Ukraine; - Providing scientific and expert support and proposals, including preparation of reports, on climate goals, policies and measures, monitoring their implementation and forecasting in the field of climate change, as well as compliance of goals, policies and measures with Ukraine's international obligations; - Promoting the exchange of scientific achievements in the field of modelling, monitoring, advanced research and innovation aimed at reducing greenhouse gas emissions and increasing absorption by sinks; - Scientific substantiation of ways and means to achieve climate goals; - Informing, raising awareness and educating on climate change and its consequences, as well as developing dialogue and cooperation between scientific institutions on climate change issues; - Guarantees of independence for said Council in all its proceedings; - Diverse, scientifically relevant composition of said Council	Q4 2025
	The next (2nd) Nationally Determined Contribution of Ukraine will be more ambitious than the current updated Nationally Determined Contribution and will represent the highest possible ambition, taking into account differentiated responsibilities, and relevant capacities, and considering national circumstances and current challenges	Chapter 27 Environment and climate change	Adoption of the 2- nd Nationally Determined Contribution of Ukraine to the Paris Agreement	Ministry of Environmental Protection and Natural Resources	The Order of the Cabinet of Ministers 'On Approval of the 2nd Nationally Determined Contribution of Ukraine to the Paris Agreement' is adopted. The NDC focuses on the following main areas: - Higher emission reduction target than in the current NDC of Ukraine; - Establishing a base year for calculating emissions from sources and sinks of greenhouse gases; - Duration of implementation and/or time periods of the proposed measures;	Q3 2025

					- Scope and coverage of economic sectors and greenhouse gases; - Process planning, assumptions and methodological approaches used, including for estimation and accounting of anthropogenic emissions by sources and removals by sinks of greenhouse gases; - Justification of the equity and ambition of the NDC in the light of national circumstances; - Contribution to the achievement of the objective of the UN Framework Convention on Climate Change and to limit greenhouse gas emissions/enhance sinks, in accordance with the objective set out in Article 2 of the UN Framework Convention on Climate Change. The Second Nationally Determined Contribution of Ukraine to the Paris Agreement will be more ambitious than the current Updated Nationally Determined Contribution of Ukraine to the Paris Agreement.	
Reform 3. Market mechanisms of carbon pricing	The MRV emissions reporting monitoring system is an important transparency requirement and a cornerstone for the establishment of an emissions trading system (ETS). Since the outbreak of war, the MRV system has been implemented on a voluntary basis due to the introduction of martial law	Chapter 27 Environment and climate change	Adoption of the Action Plan for the Establishment of a National Greenhouse Gas Emissions Trading System	Ministry of Environmental Protection and Natural Resources	Adoption of the Order of the Cabinet of Ministers ‘On Approval of the Action Plan for the Establishment of a National Greenhouse Gas Emissions Trading System. Adoption of the Action Plan will ensure the definition of: - Stages of the ETS implementation; - Timeframes of the stages; - The necessary infrastructure; - Organisational measures	Q1 2025
		Chapter 27 Environment and climate change	Resumption of the compulsory MRV system	Ministry of Environmental Protection and Natural Resources	The resumption of a mandatory MRV system for facilities covered by the scope of the existing legislation, except for those that are not controlled, destroyed or located in the temporarily occupied territory, or have officially announced the suspension of operations in terms of production	Q2 2025
Reform 4. Restoration and conservation of natural resources	Enhancing the capacity for tracing origin of wood and introducing the system for voluntary certification of finished wood treatment products in order to prevent use of illegally produced wood by improving and expanding the existing timber tracking system to cover all transactions	Chapter 27 Environment and climate change	Entry into force of the legislation on reducing deforestation and forest degradation	Ministry of Environmental Protection and Natural Resources State Forest Resources Agency	Law of Ukraine that will regulate the issue of confirming the sustainability of the origin of wood and other goods that may lead to deforestation and forest degradation, namely enters into force. The Law will focus on the following:	Q2 2026

	related to the trade in timber and wood products, which will make it impossible to sell illegally harvested timber and reduce illegal logging, and implement Council Regulation (EC) № 2173/2005 of 20 December 2005 establishing a FLEGT licensing scheme for the importation of timber into the European Community and Regulation (EU) 2023/1115 of the European Parliament and of the Council of 31 May 2023 on the making available on the Union market and for export from the Union of certain goods and products relating to deforestation and forest degradation and repealing Regulation (EU) № 995/2010				- Expanding the use of electronic timber accounting, which will ensure the tracking of timber movement and confirmation of the legitimacy of the origin of timber and timber products; - Ensuring that the certification system for wood products was introduced and the existing certification system for manufactured wood was extended to cover all wood trading operations; - Establishing requirements for confirming the origin of wood, including wood products in trade	
Reform 5. Increased circular economy	To contribute to the modernization of the Ukrainian economy, increasing its resource efficiency and competitiveness with economic growth decoupled from the use of natural resources, and citizens' health and well-protected from risks related to environmental impacts	Chapter 27 Environment and climate change	Adoption of the strategy for implementing the principles of the circular economy and the Action Plan	Ministry of Economy	The Order of the Cabinet of Ministers on approval of the strategy for implementing the principles of the circular economy and an action plan for its implementation is adopted. The strategy will identify potential opportunities and impacts of the transition to a circular economy in Ukraine for 5-10 pre-selected priority sectors and value chains, such as waste, textiles, plastics, batteries, electronics, agriculture, construction and repair, and metals and minerals	Q1 2026
	Waste management is one of the components of a circular and sustainable economy and the European Green Deal. Therefore, the adoption of the National Waste Management Plan of Ukraine until 2033 and its harmonisation with EU waste legislation is critical		Adoption of the National Waste Management Plan until 2033	Ministry of Environmental Protection and Natural Resources	The Order of the Cabinet of Ministers ‘On Approval of the National Waste Management Plan until 2033’ is adopted. The National Waste Management Plan focuses on these main areas: - Household waste management; - Hazardous waste management; - Infrastructure needs; - Economic and financial sustainability analyses of the action plan; - Implementation of economic instruments to improve waste management; - Monitoring and control of waste management; - Strategic planning of waste management in Ukraine; - Implementation of waste management at the regional level	Q1 2026

Reform 6. Environmental Assessment (EIA) and Strategic Environmental Assessment (SEA)	Ensure cross-sectoral implementation of environmental and climate measures by implementing EIA and SEA rules in all projects and programmes and strategies, except for clearly defined temporary derogations	Chapter 27 Environment and climate change	Development of a concept note defining the scope of deviations from the EIA and SEA rules	Ministry of Environmental Protection and Natural Resources	A concept note following public consultations with stakeholders defining the scope of derogations from the EIA and SEA rules has been prepared and published on the official website of the Ministry of Environmental Protection and Natural Resources. The concept note will include the following information: - On the body that determines the scope of derogations from EIA and SEA obligations; - Description of the objects and explanation of why they are included in the scope of derogation in each specific case; - Justification of the scope of derogations; - Time limits for the derogations granted	Q3 2024

SECTION 3.

CHAPTER 1. MONITORING AND CONTROL IN THE UKRAINE PLAN

1. Management of the Ukraine Plan Implementation

The authority responsible for the effective implementation of the Ukraine Plan is the National Coordinator (Coordinator). The Coordinator acts as a single point of contact for the European Commission in monitoring the implementation of the Ukraine Facility. It also acts as a single point of contact between the Ukrainian Government and the Commission in the general coordination of the Ukraine Facility implementation.

The Coordinator ensures the overall coordination and monitoring of the assistance to Ukraine as well as the communication between the European Anti-Fraud Office (OLAF), the Accounting Chamber, the Court of Auditors and the European Public Prosecutor’s Office (EPPO) with the central executive authority acting as the National Contact Point for Liaison with the OLAF and the European Court of Auditors (ECA).

At the national level, the Coordinator is responsible for coordinating, monitoring and reporting on the progress of actions and the achievement of results set out in the Plan, as well as for submitting the payment requests in accordance with the Plan.

The Coordinator cooperates with international donors and international financial institutions to facilitate the implementation of tasks and measures set out in the Plan.

It ensures the collection of, access to and transmission in the electronic format of data on natural and legal persons receiving funding to implement the measures under the Ukraine Facility for further verification of the use of funds in the implementation of reforms and making investments under the Ukraine Facility.

The Ministry of Economy is designated as the Coordinator. The Ministry of Economy is a central executive authority responsible, in particular, for the formation and implementation of the state policy in the field of economic and social development and trade, the state pricing policy, the state policy in the field of technical regulation, standardisation, metrology and metrological activities, state-owned property management and marketing; formation and implementation of the state investment policy, the state innovation policy in the real economy, the state foreign economic policy, the state policy in the field of entrepreneurship development and public-private partnership.

The Ministry of Economy has high institutional capacity, which is an important factor for the successful implementation of tasks assigned to it as the Coordinator. This capacity is attributable to the leading role of the Ministry of Economy in long-term and medium-term planning, in particular, the Ministry of Economy:

– coordinated the development of important national strategic documents. They include *inter alia*, the National Economic Strategy until 2030, approved by Resolution of the Cabinet of Ministers No. 179 of 03 March 2021;

– coordinated the development and ensured the monitoring, evaluating the effectiveness of and reporting on the progress of national programmes and strategies, including the Government Programme for Stimulating the Economy to Overcome the Negative Consequences Caused by the Restrictive Measures Aimed at Preventing the Outbreak and the Spread of the Coronavirus Disease COVID-19 Caused by the Severe Acute Respiratory Syndrome Coronavirus 2 (SARS-CoV-2) for 2020–2022, approved by Resolution of the Cabinet of Ministers No. 534 of 27 May 2020, and the Economic Security Strategy of Ukraine until 2025, approved by Decree of the President No. 347/2021 of 11 August 2021. Due to the complex nature of the aforementioned strategic documents, their drafting and implementation are affected by the involvement of ministries, other central and local executive authorities, as well as the National Bank and other public authorities and research institutions. Such broad institutional engagement ensures sustainable cooperation between the Ministry of Economy and the said authorities both in terms of strategy development and planning, and in terms of monitoring the implementation of measures set out in the aforementioned strategic documents.

The Ministry of Economy is also responsible for monitoring the implementation of the state targeted programmes in accordance with the Law of Ukraine ‘On State Targeted Programmes’. The monitoring results are presented in the annual reports, which demonstrate the exceptional expertise of the agency’s experts, a well-designed system for monitoring the implementation of strategic documents and the high professionalism of civil servants specialising in strategic approaches and having an understanding of the specifics of various sectors.

Summing up, it should be noted that this agency has a sustainable and strong institutional capacity and is able to successfully perform its tasks as the Coordinator.

A separate independent structural subdivision will be established within the Ministry of Economy and the number of employees will be increased. This subdivision will be staffed by civil servants having the required specialised knowledge and experience in the key areas that are crucial for the successful performance of the Coordinator’s duties and for the implementation of sectoral reforms. Given the many years of experience described above, the Coordinator’s structural subdivision will effectively coordinate the work and ensure interaction within the framework of the defined functions.

The main responsibilities of civil servants working at the Coordinator’s structural subdivision will include monitoring, verifying the reported information, drafting the reports, and communicating with the representatives of the control bodies of Ukraine and those of the European Union.

To fulfil its responsibilities, the Coordinator will set up a system for collecting information from the authorities responsible for implementing the reforms and achieving the indicators set out in the Plan (Responsible Authorities).

The communication between the Coordinator and the Responsible Authorities will be ensured through the system for electronic interaction of the executive authorities, — a software package that ensures efficient management of the corporate information resources, allows for quick and transparent organisation and automation of management business processes, ensures the creation of a single information space and a common structured corporate document repository, automates the document processing and control of the executive discipline, reduces the documents processing time and improves the staff performance

Other provisions and details regarding the implementation of the Ukraine Plan, implementation of monitoring and control will be included in the Framework Agreement in agreement with the European Commission.

2. Implementation of the Plan

To ensure the implementation of the relevant measures under the Plan, the Responsible Authorities will designate a contact person or a structural subdivision responsible for interaction with the Coordinator.

In addition, throughout the entire period of implementation of the Plan the Responsible Authorities will hold consultations in accordance with the requirements of the Resolution ‘On Ensuring Public Participation in the Formation and Implementation of the State Policy’. The consultations with the public can be held in the form of public discussions, electronic consultations or public opinion surveys. The proposals and comments from all interested parties will be considered by the Responsible Authorities in accordance with the requirements of the laws ‘On Public Appeals’, ‘On Access to Public Information’ and ‘On Information’.

The Responsible Authorities will generate consolidated reports — in the format determined by the Coordinator — on the results of the implementation of measures and the achievement of indicators set out in the Plan and will provide supporting documents and data on the natural and legal persons receiving funding to achieve the investment indicators. The Responsible Authorities will submit to the Coordinator quarterly reports, supporting documents on the progress made in the implementation of measures and in the achievement of indicators within the framework of the implementation of relevant reforms, as well as the aforementioned data using the system for electronic interaction of the executive authorities.

Upon a thorough review of the information provided in the reports, the Coordinator will prepare a summary quarterly report to be sent to the European Commission together with a payment request. The request will be accompanied by an official management declaration confirming the achievement of the reform indicators.

Following the consideration of the request and based on the adopted decision, the European Commission makes a payment to Ukraine, which will be credited to the correspondent account of the National Bank with a foreign bank, and, on the next working day following the receipt of funds, the NBU will credit these funds to the account of the State Treasury Service (Treasury) opened with the NBU.

The Treasury reflects such funds on the accounts of the general fund of the State Budget in Ukrainian hryvnias. Where necessary and for the purpose of priority expenditures, the Treasury forwards a request to the Ministry of Finance to sell the relevant amount of foreign currency funds. Following the transaction, the funds are credited to the Treasury Single Account[27] (TSA).

Further use of the above-mentioned funds from the TSA is ensured by the Treasury in compliance with the State Budget’s breakdown in respect of the main spending units, having due regard to the priority areas.

During martial law, the Treasury secures a special regime of budget servicing. It implies, in particular, that the expenditures are incurred in a strict sequence (priority), as determined by the Procedure for the Exercise of Powers by the State Treasury Service in a Special Regime under Martial Law, approved by Resolution of the Cabinet of Ministers No. 590 of 09 June 2021.

3. Monitoring and Reporting

The Coordinator will monitor the implementation of the Plan on a monthly basis to track the progress made.

The Government will approve a procedure for monitoring the implementation of the Plan (Procedure), which will be mandatory for all authorities involved in the implementation of the Plan. The said Procedure will be developed by the Coordinator. The Procedure will, in particular, designate the authorities responsible for implementing the reforms and achieving the indicators set out in the Plan, and determine their reporting obligations to the Coordinator, as well as the reporting requirements.

[27] The Treasury Single Account (TSA) is an account opened for the State Treasury Service of Ukraine with the National Bank of Ukraine for accounting and making payments in the System of Electronic Payments of the National Bank of Ukraine, which consolidates the funds of the state and local budgets, compulsory state social insurance and pension funds, and funds of other clients that are subject to treasury servicing in accordance with the law (including funds credited to the TSA).

The progress will be monitored using the system for electronic communication of the executive authorities that provides the technological possibility of communication between the Responsible Authorities and the Coordinator through the exchange of documents. The Responsible Authorities will use this system to report on the progress made and results obtained in the implementation of reforms and achieving the indicators envisaged by the Plan in accordance with the requirements set out in the Procedure.

In the process of monitoring, the Coordinator will analyse the information provided by the Responsible Authorities on funding from other donor organisations in order to avoid double funding of measures and to ensure that the principle of sound financial management is duly respected.

For the purpose of information transparency and availability, the Coordinator will publish information on the progress made in the implementation of the Plan on its web-site and/or a specially created web-site.

To ensure democratic control in the form of consultations between the Government and the Verkhovna Rada, the annual parliamentary hearings will be held throughout the entire period of implementation of the Plan. Such parliamentary hearings will be held in the first quarter of 2025, 2026 and 2027 in accordance with the provisions of Articles 235 and 236 of the Law of Ukraine 'On the Rules of Procedure of the Verkhovna Rada of Ukraine'.

The Parliamentary hearings will focus on the results of the Plan implementation in the previous year, as presented in the report prepared by the Coordinator, as well as on the role of the Verkhovna Rada in implementing the reforms and achieving the indicators set for the current year. The list of persons invited to the parliamentary hearings, the procedure of the parliamentary hearings and the order of speakers will be determined by the committee of the Verkhovna Rada responsible for the organisation of the parliamentary hearings (supposedly, it is the Verkhovna Rada Committee on Economic Development that will be designated responsible). Given the public interest and importance of the issue, the parliamentary hearings will be broadcast live on radio and television (should the security circumstances permit).

The Coordinator will prepare background information and analytical materials for the parliamentary hearings. Following the parliamentary hearings, at its plenary session, the Verkhovna Rada will adopt a resolution approving the relevant recommendations for the Government.

4. Verification and Reporting Procedures

The European Commission will authorise disbursements based on the satisfactory progress in the implementation of the Plan. The disbursements will not be linked to the costs actually incurred and will enter the general fund of the State Budget of Ukraine.

Control will be carried out by a number of state bodies that are independent from the National Coordinator and from each other.

The State Audit Service is a part of the system of central executive bodies and is a separate legal entity under public law. The main tasks of the authority responsible for public financial control include: exercise of public financial control over the use and saving of public financial resources, fixed and other assets, correct identification of the need for budgetary funds and liabilities, efficient use of funds and property, status and reliability of accounting and financial statements of the controlled undertakings, as well as over compliance with the budget and procurement legislation, and over the activities of undertakings, regardless of their form of ownership, which are not classified by legislation as controlled undertakings, according to a court judgement delivered in criminal proceedings.

The public financial control is ensured by the State Audit Service by conducting public financial audits, inspections, procurement audits and procurement monitoring.

The public financial audit implies verification and analysis of the actual state of affairs as regards the legal and effective use of public or communal funds, property and other public assets, the correctness of accounting and the reliability of financial reporting, as well as the functioning of the internal control system. The results of the public financial audit and their assessment are presented in the report.

Inspections are carried out by the public financial control authority in the form of revision and consist of a documentary and factual check of a certain number of issues or individual issues pertaining to the financial and economic activities of the controlled undertaking, which should ensure the identification of the existing facts of violation of the legislation, identification of officials guilty of their commission and of financially liable persons. The revision results are presented in the report.

The compliance with procurement legislation is controlled through procurement monitoring and procurement audits, as well as through public financial audits and inspections.

At the same time, the Prozorro electronic procurement system provides free access to all information on public procurements that is subject to disclosure in accordance with the law, and also provides for the possibility to report the violations by informing the State Audit Service of the detected signs of violations.

The State Audit Service performs the functions of the National Contact Point for Liaison with the OLAF and the European Court of Auditors (ECA) on the implementation of Title VI 'Financial Cooperation, with Anti-Fraud Provisions'[28] of the Association Agreement between Ukraine, of the one part, and the European Union, the European Atomic Energy Community and their Member States, of the other part, and annexes thereto. As part of these functions, the State Audit Service:

– ensures communication with the OLAF, the European Commission and the European Court of Auditors on the implementation of Title VI[29] of the Association Agreement and annexes[30] thereto;

– receives and summarises the information on possible violations during the use of financial assistance received from the European Union and ensures its full transfer to the competent authorities of Ukraine and the EU;

– analyses the measures taken to fulfil Ukraine's obligations under Article 459[31] of the Association Agreement and, based on the results obtained, develops proposals to improve the mechanism for preventing and combating fraud and other violations affecting the financial interests of Ukraine and the EU, and, on a quarterly basis, informs thereof the Chairperson of the Interdepartmental Coordination Council and the Government Office for European and Euro-Atlantic Integration of the Secretariat of the Cabinet of Ministers.

The State Audit Service will also facilitate the on-the-spot checks (inspections) carried out by the European Anti-Fraud Office in order to protect the financial interests of the European Union against fraud and other irregularities in the territory of Ukraine in accordance with Council Regulation (Euratom, EC) No. 2185/96[32] of 11 November 1996 and the legislation of Ukraine.

[28] https://zakon.rada.gov.ua/laws/show/984_011#n2669
[29] https://zakon.rada.gov.ua/laws/show/984_011#n2669
[30] https://zakon.rada.gov.ua/laws/show/984_011#n2810
[31] https://zakon.rada.gov.ua/laws/show/984_011#n2682
[32] https://zakon.rada.gov.ua/laws/show/984_003-96#n4

To control the expenditures allocated to achieve the investment indicators and other indicators, the achievement of which requires public procurement, the State Audit Service will develop a methodology describing the risk assessment method, as well as the parameters for determining controls and setting priorities.

The Treasury exercises two types of control over the targeted allocation of budget funds received from all sources: preliminary control during registration of the budget commitments undertaken by the spending units and recipients of the budget funds (checking the availability of necessary allocations) and routine control when executing the payment instructions.

The spending units assume budgetary commitments and make payments only within the limits of budgetary allocations envisaged by the estimates and made from a special budget fund and only within the limits of the respective actual revenues to that special fund. The Treasury's IT system contains a separate module that provides for the registration of all budgetary commitments and their accounting only if they fall within the budget disbursements of the respective spending unit. When registering budget commitments, the budget allocations for the relevant budget period (i.e. one calendar year) are taken into account. Commitments undertaken by any participant in the budget process without appropriate budgetary allocations or in excess of its powers established by the Budget Code of Ukraine and the Law on the State Budget are not considered budgetary commitments (except for subsidies, allowances, benefits for housing, utility and communication services (subscription fees for the fixed phone), and compensation paid to citizens from the budget). Prior to making payment under the procurement contract, the Treasury uses the electronic procurement system to assure itself of the existence of the annual plan, the procurement contract and the report on the results of the procurement procedure, which confirms that the procurement procedure/simplified procurement procedure took place and resulted in conclusion of the procurement contract.

The budgetary commitments, accounting and payment procedure are closely linked. The Treasury makes payments on the basis of payment orders on the instructions of spending units within the balance of available allocations provided that the respective budgetary commitment and budgetary financial liability are duly recorded.

With the help of such controls, the spending units and recipients of budget funds are able to timely eliminate any violations or errors and prevent their occurrence in the future.

The Ministry of Finance and the Treasury maintain the necessary supporting infrastructure for accounting, making payments and reporting with many benefits, such as financial data integrity, as reported in the 2019 PEFA assessment by the World Bank.

Having due regard to the resources available in the general fund of the State Budget, the available and forecast balances on the TSA, registered budgetary commitments and the priority of expenditures and loans, the Treasury makes payments on behalf of the clients, keeps records of the receivables as well as loans granted and repaid, and prepares reports on the execution of the State Budget, local budgets and consolidated budget in the relevant year (including revenues, expenditures, lending and financing of the budget, guarantees issued, public debt and debt guaranteed by the state). According to the 2019 PEFA assessment, these reports and their transparency are considered to be the strong points. The Treasury submits its reports to the Verkhovna Rada, the Cabinet of Ministers, the President, the Accounting Chamber and the Ministry of Finance. The reports are prepared in accordance with the budget classification using detailed codes and indicators and are easily compared with the approved budget. The reports on revenues and expenditures, lending, financing of the budget and budgetary debt, as well as information on the state guarantees are prepared on a monthly, quarterly and annual basis. The expenditures in the form of transfers from the State Budget to the Pension Fund, local budgets, and state-owned enterprises are reflected in the Treasury's reports on budget execution. Under martial law, the Treasury strictly adheres to the requirements and deadlines set for submitting these reports.

The Treasury services all budgetary transactions at the national and local levels, allowing for regular monitoring and cross-checking of financial information, which results in accurate reporting. Cash balances on the TSA with the National Bank are consolidated on a daily basis.

The Treasury maintains its records in the automated accounting and reporting system (E-Kazna), which is also interrelated with the electronic payment system of the National Bank and the proper uninterrupted functioning of which in wartime is ensured, *inter alia*, through the support of critical IT infrastructure received by the Treasury as part of the material and technical assistance under the USAID Cybersecurity for Critical Infrastructure in Ukraine Activity.

Access to the system and authorisation to carry out transactions is restricted and requires using a qualified electronic signature on a secure storage medium. No records in the accounting system can be created or modified without affixing a qualified electronic signature and exercising control over the authority to perform such actions. The system has an information security block that ensures the accessibility, confidentiality and integrity of the information processed, accumulated and stored in the system. The automated accounting and reporting system and the Treasury's information and communication system meet all the requirements set by the National Bank for the bank automation systems in Ukraine.

The national public sector accounting standards in Ukraine largely comply with the International Public Sector Accounting Standards (IPSAS). According to the 2019 PEFA assessment, more than 80% of Ukraine's national standards are in line with IPSAS. The high level of responsibility is also confirmed by the public sector accounting assessment conducted in 2023 using the World Bank's PULSE methodology, which resulted in a B+ score. Ukraine is further improving and implementing reforms aimed at bringing its regulations in line with international standards even in wartime.

Moreover, a central-level system of internal control and audit has been established in Ukraine with more than 400 internal audit units operating in the public authorities (including territorial departments thereof) and other public institutions. An organisational framework for internal control within spending units has been established in Ukraine. The framework provides, in particular, that the internal control should be based on the principle of responsibility and segregation of duties, which implies the division of duties between the senior management of the institution and its employees, establishing the limits of their responsibility in decision-making (in decision development or performance of other actions). According to this instrument, controls will be implemented at all operational levels and for all functions and tasks of the institution, and will include appropriate rules and procedures, the most typical of which provide for:

- authorisation and confirmation by obtaining permission from those responsible for the execution of transactions through signing, approval or confirmation procedures;
- segregation of duties and powers, as well as staff rotation to reduce the risk of errors or losses.

To effectively prevent and detect all forms of corruption and to ensure transparency and integrity in the Government and public sector, there is a system of anti-corruption authorities functioning in Ukraine, which is composed of:

- the National Anti-Corruption Bureau, an independent investigator of high-level corruption;
- the Specialised Anti-Corruption Prosecutor's Office, responsible for supervising the observance of

laws during the pre-trial investigation activities of the National Anti-Corruption Bureau;

- the National Agency on Corruption Prevention, responsible for development and implementation of the state anti-corruption policy;
- High Anti-Corruption Court, which considers cases of corruption and adjudicates fairly.

These authorities cooperate with each other and with other agencies to effectively combat corruption and ensure the rule of law in Ukraine.

There is also effective legislation in Ukraine that regulates the activities of whistleblowers and the protection of their rights. The whistleblower protection legislation provides for the mechanisms to report corruption, misconduct or harmful acts and guarantees the protection of whistleblowers from retaliation or reprisals. It also provides for the confidentiality of the whistleblower's identity, prohibition of discrimination and protection from any negative consequences that may arise in connection with their reporting. In addition, proper procedures are established for receiving and examining reports.

Before the finalisation of the Plan, Ukraine will ensure the transition from the existing role of the National Contact Point for Liaison with the European Anti-Fraud Office and the European Court of Auditors (ECA) to the independent Anti-Fraud Coordination Service (AFCOS), which will keep the Commission informed of the progress of any administrative proceedings in the cases of suspected fraud or corruption. The provision of information to the Commission is ensured by electronic means with a help of the Commission's Irregularity Management System (IMS). To that end, law enforcement agencies can use the IMS directly or transfer the required information to the relevant national authority in Ukraine having access to the IMS. The aforementioned notification is without prejudice to the national authorities' right to directly inform OLAF of the allegations of fraud in accordance with Article 4 of Annex XLIII to the EU-Ukraine Association Agreement.

Ukraine will evaluate what legislative changes are needed to provide OLAF with access to information on suspected fraud or corruption affecting the financial interests of the EU when necessary to carry out its investigative mission, as well as to introduce a mechanism to enable competent national authorities to effectively assist OLAF in its investigative activities in Ukraine, including on-site inspections and access to information relevant to the investigation contained in a national database.

5. Audit

The Ministry of Finance organises and manages the execution of the State Budget as a whole, budget financing and public debt management in accordance with the State Budget Law adopted for the year in question. The Ministry of Finance is a part of the system of central bodies of executive power and is a separate legal entity under public law, acting on the principle of unity of authority. The Ministry of Finance ensures the formation and implementation of the budgetary and debt policies, state policy in the field of inter-budgetary relations, local budgets, state hallmarking control, accounting and auditing; formation and implementation of the state policy in the field of compliance with the budget legislation, public financial control, public internal financial control, treasury servicing of budget and clients' funds in accordance with the law, prevention of and counteraction to legalisation (laundering) of the proceeds from crime, financing of terrorism and financing of proliferation of weapons of mass destruction.

The Ministry of Finance proactively cooperates with the international partners. As part of this cooperation, the Ministry of Finance is working on attracting financial support, sharing the best international expertise and adapting Ukrainian standards to the best international practices. The Ministry of Finance has a well-developed capacity and considerable experience in monitoring the implementation of reforms within the framework of the EU macro-financial assistance programmes, as well as in the achievement of structural benchmarks provided under the International Monetary Fund and the World Bank cooperation programmes.

Being the main authority in the system of central executive authorities and being responsible for the formation and implementation of the state financial and budgetary policies, the Ministry of Finance is responsible for keeping a record of programmes that provide financial assistance and for direct delivery of funds to the country's State Budget. Now the Ministry of Finance's efforts are devoted to the creation of a reliable and effective mechanism for the implementation of projects, in particular, to ensure a transparent process of project preparation, as well as project implementation within the framework of the budget process, which will also result in the creation of a reliable mechanism to avoid duplication of funding from different donors.

A separate structural subdivision will be established within the Ministry of Finance, which will be staffed by civil servants. Given the many years of experience described above, the structural subdivision of the Ministry of Finance will verify the report on the implementation of measures set out in the Plan by the Responsible Authorities.

The quarterly report on the achievement of indicators set for the reporting period and included in the Plan will be submitted by the Coordinator to the Ministry of Finance for verification of information contained therein. On the basis of verification results, the Ministry of Finance will send to the Coordinator a document confirming that the information provided in the report is complete, accurate and reliable and duly confirms the satisfactory implementation of measures, as well as a prepared request for the allocation of funds in accordance with the provisions of the Loan and Grant Agreements. In the event that the information on the achievement of indicators is insufficient, the Ministry of Finance will send a request to the Coordinator for the provision of additional information. To avoid conflicts of interest, the verification of measures, for which the Ministry of Finance is responsible as the responsible party, will be carried out by structural subdivisions not responsible for the implementation of the measures in question. After that, the Coordinator will submit the full package of documents to the European Commission.

The Commission will establish an Audit Board composed of independent members appointed by the Commission. The Audit Board will assist the Commission by reporting any systemic problems that indicate the potential deficiencies in:

– management and control of the EU funding under the Ukraine Facility;

– systems in place to avoid, remedy and report possible cases of fraud, corruption, conflicts of interests and irregularities in relation to any amount spent to achieve the objectives of the Ukraine Facility.

The Ukrainian authorities will closely cooperate with the Audit Board and provide it with access to information, documentation, databases and registers related to the implementation of the Ukraine Facility, to the extent needed to carry out its tasks.

All Ukrainian authorities involved in the management, implementation, monitoring, reporting on and audit of the funds under the Ukraine Facility will provide the Audit Board with access to any databases and registries containing information or documents related to the Ukraine Facility, to the extent needed to carry out its tasks.

The Ukrainian authorities will report to the Commission, through the State Audit Service (acting as the National Contact Point for Liaison with the European Anti-Fraud Office and the European Court of Auditors (ECA)), all cases of irregularities, fraud, corruption, and other illegal activities, which have been the subject of a primary administrative or judicial finding, regardless of whether OLAF or the EPPO are notified thereof. They will also keep the Commission informed of the progress of administrative and legal proceedings. The Audit Board will have access to such data.

The Audit Board is entitled to carry out on-the-spot checks as well as document reviews to verify the regularity of payments under the Ukraine Plan on a risk basis.

The Audit Board will be provided with a detailed description of the existing internal control system and access to all institutions and documents required to audit the management and internal control system.

The Audit Board, in close cooperation with the Coordinator and the control bodies in Ukraine, will agree on the procedures for access and exchange of information.

CHAPTER 2. CONSULTATION PROCESS

The Ukraine Plan presents reforms aimed at facilitating Ukraine's recovery, reconstruction, and modernisation. Although these reforms may be seen as a direct response to the devastating effects of the war of aggression, they are for the most part a continuation, intensification, widening, or further deepening of reforms that started before the war. This is illustrated by the ongoing education sector reforms that will also be expanded to cover early childhood education and vocational education and training or by the further deepening of the capacities for the treatment of physical and mental traumas under the ongoing health care reforms. Therefore, while the current situation, including the constraints of security, time and resources, limited the full extent of the public consultations on the specificities of the reforms presented in the Ukraine Plan, a large number of reforms have been identified, discussed, and prioritised through Ukraine's normal democratic processes, including consultations with the Verkhovna Rada and all other relevant stakeholders.

Still, extensive consultations were held during the preparation of the Plan. The consultation process for preparing the Ukraine Plan has been characterised by high transparency and inclusivity, starting early in the planning stages and involving a broad range of participants.

To ensure effective collaboration and the implementation of a nationwide approach to preparing the Ukraine Plan, on July 14, 2023, by the Cabinet of Ministers Resolution №737, an inter-agency working group was established to prepare the action plan. This was done to implement the European Commission's proposal regarding the Regulation of the European Parliament and the Council of the European Union on establishing the EU Ukraine Facility.

This Inter-agency working group was led by Yuliia Svyrydenko, First Deputy Prime Minister – Minister of Economy and included Olha Stefanishyna, Deputy Prime Minister for European and Euro-Atlantic integration; Oleksandr Kubrakov, Deputy Prime Minister for Restoration – Minister for Communities, Territories and Infrastructure Development; Sergiy Marchenko, Minister of Finance; Dmytro Kuleba, Minister of Foreign Affairs; Denys Maliuska, Minister of Justice; Oleh Nemchinov, Minister of the Cabinet of Ministers; Rostyslav Shurma, Deputy Head of the Office of the President; Kateryna Levchenko, Government Commissioner for Gender Policy; Oleksandr Ilkov, Director General at Government Office for Coordination on European and Euro-Atlantic Integration; Tetyana Kovtun, Executive Director - Reform Delivery Office; Oleksii Sobolev, Deputy Minister of Economy.

The Government held a highly participatory consultation process involving various stakeholders, including:

1) Central executive government bodies;
2) Business sector groups;
3) Regional state bodies;
4) Civil society;
5) Verkhovna Rada;
6) International community.

The consultation process unfolded in two main phases: the first phase included drafting the concept note, which set out the vision and outlined the key areas that could boost economic growth. At the same time, the second focused on preparing the Ukraine Plan.

The first phase of consultation took place between July 2023 and September 2023. During this time, written contributions were invited, and workshops were held with central executive bodies, industry, key social partners and other stakeholders to incorporate their views and recommendations on reforms and investments in the national draft concept note proposal. This scoping exercise identified 15 areas of the future Ukraine Plan that could help boost economic growth and attract investments.

During the **second phase** of consultations, from September to December 2023, stakeholders engaged in discussions on specific reforms needed to boost economic performance. These reforms became integral parts of the Ukraine Plan. This phase encompassed a thorough exploration of diverse initiatives and reforms slated for inclusion in the Plan, fostering a collaborative dialogue to shape the strategic elements of Ukraine's future development.

Central executive government bodies

On August 04, 2023, the Inter-agency working group requested all central executive bodies, 17 in total, to provide their input for the concept note of the Ukraine Plan. All central executive bodies sent their proposals. These proposals were carefully examined by the drafting working group of each pillar, set up for the purpose of drafting the Ukraine Plan and consisting of representatives of relevant central executive bodies, government agencies, state-owned enterprises and other state entities.

In addition, separate workshops were held during the drafting period between the representatives of the Ministry of Economy and key economic stakeholders to further elaborate on their submitted proposals:

- August 2, 2023 - The inaugural meeting, led by the First Deputy Prime Minister - Minister of Economy, Yuliia Svyrydenko, brought together government representatives and an international group of economists. Following this meeting, the Economic Policy Advisory Council was established to provide recommendations for continuously developing an effective policy for Ukraine's post-war recovery. The Advisory Council was headed by Yuriy Gorodnichenko, professor of the Department of Economics at the University of California, Berkeley. The Council released a few papers in preparation for the drafting of the Ukraine Plan, ‘Post-war macroeconomic framework for Ukraine’ and ‘Economic growth for post-war Ukraine’;
- September 15, 2023 - Within the framework of the Ukrainian Facility, a webinar with government representatives was held on priority issues for Ukrainian recovery.

Throughout the consultation process and the finalisation of the Plan (January - March 2024), there were ongoing discussions of the planned reforms, their indicators, and their deadlines with ministries, other central executive bodies, and other state bodies involved in the preparation of the Plan.

Final consultations were held at the highest political level under the leadership of First Vice Prime Minister - Minister of Economy Yuliia Svyrydenko. The consultations were attended by ministers, heads of other central executive bodies, who will ensure the implementation of the reforms included in the Plan.

These consultations were held from February 20 to 27, 2024, and were duly recorded in order to capture the consensual vision of the reforms and indicators and to focus the process of finalising the Plan.

Business sector groups

Considerable attention was paid to the involvement of business representatives in developing the Ukraine Plan. These discussions aimed to promote social dialogue and formulate mutually acceptable positions on issues of concern to society as a whole or specific business association to maximise the social benefit or minimise any possible negative effects of executive and legislative decisions. In total, 64 online and in-person meetings were organised for more than 2,000 participants (Appendix 1).

Business representatives were invited to submit their policy proposals. All the contributions submitted during the public consultation were thoroughly considered, and the Government prepared reports for each sector with business proposals. In total, 329 proposals for policy changes were submitted by business and business associations, 133 of which were accounted for or partially accounted for in the Plan. Moreover, business and business associations submitted more than 460 investment projects (Appendix 2).

The discussion focused on the following sectors:

- Energy;
- Green Steel;
- Agro-Industrial Complex
- Machine Building,
- Transport and logistics,
- Critical materials
- IT and communications

Regional state bodies

An important role in preparing the Ukraine Plan was given to consultations with regional state bodies, specifically with regional state administrations, city and district councils. Separate meetings with the representatives were held at different stages of the Plan's preparation, development and drafting. The majority of representatives of regions have shown a positive attitude towards the national recovery and resilience plan, acknowledging its significance for Ukraine's economy and society as a unique opportunity.

Proposals received from regions that met the eligibility criteria outlined in the EU's proposed Regulation on Ukraine Facility were either incorporated into the Plan or used as inputs to refine certain reforms and investments. The following actions were undertaken during the consultations:

1) MCTID formulated a questionnaire on Recovery and the Ukraine Plan in July 2023.
2) NGO 'DESPRO,' supported by the USAID HOVERLA Project, conducted a survey using the MCTID questionnaire in August 2023, inviting participation from all communities.
3) A report on the community perception of the Ukrainian Facility Instrument was submitted to MCTID by the end of September 2023. The survey engaged 206 leaders from Urban, Rural, and Rural Territorial Communities across 24 regions in Ukraine.

During the preparation of the second phase of the Ukraine Plan, the following activities were carried out in terms of Communication and Dissemination of the draft Ukraine Plan:

1) MCTID, in close cooperation with the Ministry of Energy, organised and conducted a national event (a workshop in a mixed format) on the Ukrainian Facility Instrument and the draft Ukraine Plan on October 20, 2023. The main goals were:

    - To present the Ukraine Facility, institutional and financial instruments available for the country, as well as instruments available for subnational and local levels, including credit options, to manage the expectations of those participating in formal consultations.
    - To provide guidance on the financial administration of the Ukraine Facility funding.

2) MCTID conducted a series of workshops and structured consultations among representatives from different types of territories, including liberated areas, heavily damaged regions, rear areas, and

others. These workshops, held on October 26-27, 2023, also involved representatives from the European Commission.

3) Subnational and local governments were invited to provide feedback on the draft Ukraine Plan through a Google questionnaire. The number of registered participants increased to 220 on October 20 in Kyiv, up to 250 on October 26 in Dnipro, and 358 on October 27 in Ivano-Frankivsk.

Civil society

Civil society was involved and played an active role in the preparation of the Ukraine Plan. The first round of consultations with NGOs was conducted on October 10, 2023, when the Deputy Minister of Economy, Oleksii Sobolev, presented the Government's vision for the Ukraine Plan. Before the meeting, the civil society was asked to formulate and submit comments, observations, and ideas, which were submitted to the relevant ministries. Over 100 comments and questions were received and processed, with priorities highlighted and discussed during the meeting (Appendix 3).

On November 20, 2023 another round of review and discussion of comments and propositions submitted by NGOs was conducted with representatives from ministries and civil society organisations. The meeting involved more than 150 comments from 41 non-governmental organisations.

Verkhovna Rada of Ukraine

From October to December 2023, consultations were held regarding the Ukraine Plan with the parliamentary committees of the Verkhovna Rada.

On October 19, 2023, a meeting of the Committee of the Verkhovna Rada on Economic Development took place. During the session, the Deputy Minister of Economy and Secretary of the Interdepartmental Working Group Oleksii Sobolev on the preparation of the action plan in the framework of the implementation of the European Commission's proposal regarding the Regulation of the European Parliament and the Council of the European Union on the establishment of the Ukraine Fund, provided detailed information about the preparation status of the project of the Ukraine Plan and presented its main provisions. Following the discussion, the Committee on Economic Development of the Verkhovna Rada formulated proposals, which were handed over to the Ministry of Economy for further consideration.

On October 26, 2023, under the leadership of the First Vice Prime Minister - Minister of Economy, Yuliia Svyrydenko, consultations were held with the leadership of the committees of the Verkhovna Rada. Representatives of the European Union, including Katarina Mathernova, the Ambassador of the European Union to Ukraine, and DG NEAR, also participated. The consultations involved the heads and/or representatives of 18 parliamentary committees. On the government side, representatives from over 20 institutions responsible for preparing proposals and implementing reforms within the framework of the Plan participated at the level of ministers or deputy heads of ministries and other central executive authorities. During the consultations:

- Conceptual principles, key ideas, reforms, and the main requirements for monitoring and reporting were presented. An indicative schedule for the preparation and adoption of the Plan was provided.
- Preliminary discussions were held on the draft laws necessary for the Plan's successful implementation. The list was structured according to the committees responsible for the Verkhovna Rada. Expected results and timelines for their adoption were also discussed.

In October-December 2023, additional consultations were held with the heads of parliamentary committees to agree on positions on the proposals submitted for inclusion in the Plan.

Within these discussions, the following meetings took place:

- On October 11, 2023 with the Head of the Committee on Energy, Housing and Utilities, Andriy Gerus, on the issue of regulating tariffs for utility services, independence of Regulator and electricity market reform, including Public Service Obligations review and separation of the Renewable Energy Surcharge from the Transmission Tariff and transposition of the Clean Energy Package.
- On November 29, 2023 with the Head of the Committee on the Organisation of State Power, Local Self-Government, Regional Development and Urban Planning Olena Shuliak on the consideration of environmental protection in construction and waste management, as well as digitalisation in urban planning.

As part of the initiated dialogue, following the consultations, the Ministry of Economy received and processed 115 proposals from 8 committees of the Verkhovna Rada, with the involvement of relevant government institutions. Of these proposals, 93 were considered wholly or partially (Appendix 4).

International community

The International community was consulted informally throughout the process of drafting the Ukraine Plan. Discussions were held with the G7 and international financial institutions through the Multi-Agency Donor Coordination Platform for Ukraine and associated expert groups to ensure coordination, alignment and complementarity of the reform and investment priorities identified by the international community with those in the Plan. Ukraine presented the preparations of the Plan in two sessions of the Steering Committee of the MDCP and two sessions of the G7 experts and IFIs held in September and November.

The Government chaired these sessions with the international community; in turn, the Ministry of Economy took the lead in the discussions and development of the proposals and recommendations received.

The following partners provided their written contributions and recommendations during the last two meetings: Germany, the United Kingdom, France, Italy, the United States, Canada, Japan, EIB, EBRD, and OECD.

There is a high degree of alignment and support of the international community for the measures identified in the Plan. In total, 117 proposals were received from all partners, of which 85 were taken into account or partially implemented in terms of reforms. The remaining 30 were not addressed, given they fall outside the scope of the Plan and, unfortunately, are not covered by its content.

Many valuable proposals and advice were received from all of the mentioned countries, international organisations and donors. For example, some key reforms that took into account the recommendations in the following chapters: Human Capital (Reform of improving the functioning of the labour market and Reform of ensuring access to housing for people in need), Judicial system (Reform of the Prosecution Service), Energy sector (Electricity market reform).

By engaging various stakeholders, including central and regional authorities, the Verkhovna Rada, the business sector, NGOs and international partners, the process of developing the Ukraine Plan was organised in a transparent and open dialogue.

Such wide-ranging consultations and a detailed examination of various initiatives and proposals were key steps in shaping the strategic direction of Ukraine's future development. These efforts resulted in reforms in 15 key areas to support economic growth, improve the business environment, develop regions, promote green transformation, and attract investment. This productive cooperation also proved the importance of common dialogue and collective action in achieving national strategic goals.

Appendix 1 Discussions with business and business associations

Date	Sectoral group	Number of participants from business and business associations
31 July 2023	Agro-Industrial Complex	87
04 August 2023	Energy Sector: Electricity, generation and distribution	375
07 August 2023	Energy Sector: Oil and gas	47
07 August 2023	IT and communications	90
09 August 2023	IT and communications	90
11 August 2023	Transport and logistics	97
17 August 2023	IT and communications	90
17 August 2023	Machine building	108
18 August 2023	IT and communications	90
23 August 2023	Critical materials	107
25 August 2023	IT and communications	174
06 September 2023	Critical materials	6
06 September 2023	Critical materials	6
06 September 2023	Critical materials	7
07 September 2023	Critical materials	8
07 September 2023	Critical materials	7
07 September 2023	Critical materials	12
11 September 2023	Energy Sector: Oil and gas	5
11 September 2023	Critical materials	8
12 September 2023	Agro-Industrial Complex	24
13 September 2023	Transport and logistics	>10
14 September 2023	Transport and logistics	>10
14 September 2023	Green metallurgy	78
22 September 2023	Energy Sector	5
25 September 2023	Agro-Industrial Complex	9
11 October 2023	Agro-Industrial Complex	30
17 October 2023	Insurance	7
19 October 2023	Transport and logistics	80
19 October 2023	Culture and creative industries	50
25 October 2023	Critical materials	50
26 October 2023	Pharmaceutical industry and healthcare	45
27 October 2023	Machine building	6

30 October 2023	Agro-Industrial Complex	40
31 October 2023	Energy Sector	100
07 November 2023	Machine building	40
12 November 2023	Green steel	80

Appendix 2 Proposals for policies and investment projects submitted by business and business associations

Sectoral group	Number of proposals submitted	Number of proposals accounted or partially accounted in the Plan	Number of investment projects submitted
Energy Sector	45	34[33]	201
Agro-Industrial Complex	16	7	82
Transport and logistics	85	24	73
Machine building	54	15	28
Critical materials	29	16	9
Green metallurgy	35	10	46
IT and communications	27	15	17
Pharmacy and medicine	9	1	6
Finance and insurance	2	0	0
Creative industries and culture[34]	27	11	0
Total	**329**	**133**	**462**

Appendix 3. Proposals from the NGOs

Section of the Plan	Number of proposals submitted	NGOs	Number of proposals accounted or partially accounted in the Plan
Fight against corruption and money laundering	16	4	8
Public administration reform	3	2	0

[33] In contrast to the Ukraine Plan for Ukraine Facility, energy sector policies were considered in the context of compliance with Ukraine's Implementation Plan of Energy Strategy as it addresses more industry-specific issues.
[34] Proposals regarding policies within the framework of the ‘Creative industries and culture’ working group were provided only by representatives of NGOs.

Judiciary	0	0	0
Financial markets	2	1	1
Management of public assets	3	2	2
Human Capital	38	20	10
Business Environment	18	10	11
Energy Sector	11	4	7
Decentralisation and regional policy	14	6	13
Management of critical raw materials	4	1	1
Agri-food sector	1	1	1
Transport	6	1	6
Green transition and environmental protection	23	8	13
Culture	20	2	11

Appendix 4. Proposals from the Verkhovna Rada parliamentary committees

Committee of the Verkhovna Rada	The total number of proposals submitted	Status of consideration
Committee on Economic Development; Committee on the Organization of State Power, Local Self-Government, Regional Development and Urban Planning; Committee on Social Policy and Veterans Rights Protection; Committee on Environmental Policy and Nature Management; Committee on Energy, Housing and Utilities; Committee on Humanitarian and Information Policy; Committee on Ukraine's Integration into the European Union; Committee on Budget.	115	Considered wholly or partially in implementing reforms covered by the Plan (93 out of 115)