

## The European Union's ENPI Programme for Ukraine

Support for the implementation of the EU-Ukraine Association Agreement / A4U Project

Project Identification No.:  
EuropeAid/137074/DH/SER/UA  
Contract N: 2015/370-128

### **A4U Reviews-Comments-Briefs № 11** **EUI Policy & Reform Digest**

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June-July 2018



This project is funded by  
the European Union



A project implemented by Consortium led by  
GFA Consulting Group GmbH



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the European Union

Implemented by a  
Consortium led by GFA  
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## EUI Policy & Reform Digest

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#### European Integration

**New EU Food Legislation:** UCIP experts wrote an English [blog post](#) about the implementation of the new EU food regulation requiring to produce information about the products by the producers as well as in restaurants.

**Ukraine`s Further EU Integration:** UCIP teamed up with Ernst& Young to [outline](#) what next for the integration and how to achieve so-called “product visa free”, i.e. to further integrate Ukraine to the EU in the area of customs. This idea [originally emerged](#) by the Rasmussen International (working for the Poroshenko administration as international lobbyist), embraced by Pres. Poroshenko. A few months, after Commission representatives made clear that this would not be beneficial for Ukraine at this stage, Rasmussen himself comment that such integration is [impossible](#). CEPS`s researchers [dismissed](#) this idea as hypothetical as it could only realistically come in after successful implementation of the DCFTA at the end of its transition periods of 7 to 10 years for eliminating tariffs, and even 15 years in the important sector of automobiles. For maximum benefits trade with the customs union should be predominant, there should be a common land border, and the external trade policy of the customs union should not be less liberal than that of the acceding economy – this is not the case of Ukraine.

**Milky Way:** at the Washington based Kennan Institute, an American consultant living in Ukraine controlled Donbas explains how Ukraine`s small dairy farmers are [getting ready to adopt](#) European milk quality standards over the course of 2018–2019. A model what is described in the article is a centralization: In Dnipropetrovsk, Zaporizhzhya, and Kherson oblasts, more than 100 modern “family farms” of more than five cows have been established with technical and material assistance from [Canada](#). These farms focus on optimizing the collection process, retrofitting barns, and installing small-scale refrigeration equipment. Together with 800 smaller producers they formed the Hospodar cooperative, which controls 65 percent of milk production in the eight raions (counties) where it operates. Assistance/investment is crucial: retrofitting a smallholder operation into a successful family farm costs at least \$3,000 a cow, underscoring the need for hundreds of millions in investment.

#### Public Opinion on the EU

The [EU`s own annual, detailed poll](#) showing nearly half of Ukrainian citizens (49%) have a positive image of the European Union (EU), 36% feel neutral about it and 14% hold a negative view. Compared to 2017, positive perceptions have increased by 6 percentage points and the share of Ukrainians who have no opinion or have never heard of the EU is negligible (1%) and at its lowest level since 2016. The EU is the most trusted foreign institution, with 66% of the population tending to trust it – an increase of 8 percentage points since 2017.

Compare to that the share of Ukrainians who tend to trust national (government 16%, Rada 12 and parties 11%), regional and local institutions is extremely low and around the same level across the last three years. The only institution trusted by the majority of the population is religious authority (58% of the population), and nearly 40% of the population trust the regional and local public authorities.

The [New Europe Center`s poll](#) suggests that Ukrainians are realistic about EU membership. Only 30% prefer full membership, 21% free trade w/o limitation, 20% satisfied with the current level (AA/DCFTA), 15% thinks UA should not integrate further, 14% are for rejection of the EU integration as a whole. At the same time their understanding about the EU is simple: the two main indicators for EU integrations are better social services (schools, hospitals, etc - 40%) as well improvements in public infrastructure, transport. These followed by new jobs via investments. However, environment constitutes much less concern for Ukrainian citizens. Major obstacles of EU integration is corruption (bribery) at 39%.

## **Reforms Review**

**State of Reforms:** the Reanimation Package of Reforms published a [summary of key reform achievements](#) covering anti-corruption institutions, e-declarations, e-procurement (Pro-Zorro), single portal of public funds use, medicine procurement, cleaning of the banking system, launch of the public broadcasting (aka media reform), free legal aid, decentralization (731 new amalgamated hromada now covers 18% of Ukraine` population), visa free regime with the EU, no (direct) import of Russian gas, newly set up Energy Efficiency Fund, business deregulation, electronic VAT and automatic refund, e-democracy tools (e-petitions, electronic budget, etc), renewed Constitutional Court, modernization of army, national memory policy, environmental impact assessment system and state support for cinema production.

**Bruegel**, one of the most authoritative economic think tanks in the EU, [published a longer paper about Ukraine reforms](#). Accordingly, the modernization of the Ukrainian economy and state continues to develop at *an unsatisfactory pace due to a lack of pro-reform political consensus*. The two upcoming election campaigns in 2019 (presidential and parliamentary) make the reform process even slower and additionally put its effectiveness and sustainability under risk. Ukraine`s fiscal situation remains fragile as government gross debt oscillates between 70 and 80% of GDP despite the partial debt reduction negotiated with private creditors in 2015-2016. This is a very high level for emerging market economy standards and there are no real prospects of Ukraine`s return to private debt market without the continuation of an IMF program. Despite, Bruegel warns that the international community has a limited toolkit to overcome this stalemate.

**Cost of Reforms:** the World Bank also issued a [fresh note on fiscal pressure and reforms](#), according to which Ukraine has made progress in reducing its large public spending since 2014. Preparing for elections the government increased public expenditures significantly in 2017, by 11.7 percent in real terms, reaching 41.5% of GDP, due to the doubling of the minimum wage and over 40% increase in wages of teachers and doctors as part of the recently adopted reforms in education, health, and public administration seeking to improve compensation and attract quality personnel.

The social assistance package—costing 5 percent of GDP in 2017 - is poorly targeted—with only 30 percent of assistance going to the bottom 20 percent of the population. The recently adopted pension reform helped improve adequacy of benefits and stabilize fiscal costs. Additional initiatives going forward should avoid undermining these core objectives of the pension system. The timeline to create a funded pillar system by January 2019 needs to be reconsidered since this will undermine contributions to the pay-as-you-go system, create contingent fiscal liabilities, and face inadequate availability financial instruments.

**Risk Management:** **Tim Ash**, one of the longest Ukraine watchers from international finance perspective, [writes about the growing risks](#) building up around the country most recently. He mentions 6 risks – looming elections, the woes of the IMF deal (instead of the 12th review according to the original plan the IMF is still at the 4th) and Kyiv`s calculations to survive over the elections w/o IMF funds as well as geopolitics related such as the Donbas war and the Russian football championship, the Trump-Putin meeting, the Gazprom-Naftogaz conflict and the separation of Russian and Ukraine Orthodox churches. According to Ash, in a scenario where the U.S. cedes Crimea to Russia, there is a high probability of nationalists hitting the streets of Kyiv, and any such demonstrations might not be as peaceful (sic!) as the EuroMaidan Revolution protests which brought down President Viktor Yanukovich in 2014, but instead likely exploited by the various armed groups/factions in Ukraine and by President Poroshenko`s political rivals.

**Conclusion:** as the Rada on 12 July [passed the amendments](#) to the Anti-Corruption Court required by the IMF, it will be hardly able to move on the remaining two conditions: increasing gas price and keeping fiscal responsibility. As the National Bank unexpectedly raised its discount rate by 50bp to 17.5% p.a. on 13 July a conclusion may be that ***Kyiv will try to survive the pre-election period w/o the IMF funding.***

### **Democracy and Human Rights**

Last but not least, **Human Rights Watch** wrote a critical article ahead of the 20<sup>th</sup> EU-Ukraine Summit to raise attention of EU and Ukraine leaders about the ***worsening situation with freedom of speech and assembly***. According to HRW`s Tanya Cooper „next week`s meeting will be a test of the EU`s will and capacity to promote a truly democratic Ukraine. But it will require EU leaders to go beyond business as usual and get honest with Kyiv. So far, the EU rhetoric has been supportive: Kyiv must continue reforms, which would bring it closer to the EU politically and economically. But when it comes to respect for the rule of law and human rights, the EU finds it a lot easier to address violations in the conflict-affected eastern Ukraine and Russia-occupied Crimea than to call out Ukrainian authorities on human rights abuses in the rest of the country. To be clear, Ukraine has been devastated by Russia`s military incursions in Donbas and occupation of Crimea. **Despite that, the country has made profound strides in transforming some of its political institutions and practices.** However, in the past two years, Ukraine has taken several steps backward on media freedom and free association, and it has done little in the face of rising hate violence, without drawing much alarm or protest from the EU. The government`s backtracking might worsen if it chooses nationalist expediency in next year`s elections. The EU should take these disturbing actions seriously. “

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