Ex-post evaluation of Macro Financial Assistance Operations I & II to Ukraine

Annexes to Final Report

Written by ICF in association with
Cambridge Econometrics and Kiev
based Institute for Economic
Research and Policy Consulting

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EUROPEAN COMMISSION

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Annex 1 MFA I and II conditionality

A1.1 MFA I

Second and third loan instalments

Public Finance Management

1. Consistent with the Law of Ukraine "On carrying out public procurement" adopted in July 2010, consolidate progress in establishing a system of public procurement based on the principles of transparency, competition and non-discrimination among tenderers. With a view to increasing transparency, the Ministry of Economy will publish on a quarterly basis data on the number and the value of competitive procurement procedures and sole-source procurement procedures.

2. As stipulated by the Law of Ukraine "On carrying out public procurement", make the Anti-Monopoly Committee operational as the authority to handle appeals in the sphere of public procurement, including by establishing within the Committee an appropriately staffed unit capable of effectively dealing with complaints submitted by aggrieved bidders.

3. Adopt a national anti-corruption strategy that is in line with international best practice and a State Programme with time-bound deliverables to implement it.

4. With a view to strengthening public internal financial control and audit, adopt a strategy for staff training at the different levels of government (central and municipal level, including internal audit services) and for certification of internal auditors.

5. Submit to the Parliament a legislative proposal ensuring that the Accounting Chamber of Ukraine has the Authority to audit not only budget expenditures, but also revenues in line with the standards of the International Organisation of Supreme Audit Institutions (INTOSAI}, in particular Principle 3 of the Mexico Declaration on SAi (Supreme Audit Institution) Independence.

Trade and Taxation

6. Refrain from introducing trade-distorting measures and fully apply Ukraine's WTO commitments.

7. Introduce an up-to-date product coding system for foreign trade purposes based on the Harmonised System 2007.

8. Ensure that all VAT refund arrears are cleared and that all legitimate VAT refund claims are paid in cash, or netted out against VAT obligations of the taxpayer in question, in a timely manner.

9. Introduce in VAT legislation the provision that any VAT refund arrears carry an appropriate penalty interest of at least 120% of the NBU discount rate. All legitimate VAT refund claims that have not been settled within a period adding up to a maximum of 74 days after submission of the VAT refund claim to the tax authorities shall be considered in arrears.

10. With a view to preventing the future occurrence of VAT refund arrears, make significant progress towards strengthening the VAT administration system. In particular, ensure timely VAT refunds through the operation of an automatic VAT refund system and risk-based audits.

Energy Sector

11. Consistent with the Economic Reform Programme, increase substantially the overall collection rate of Naftogaz through better enforcement of payments discipline, notably among communal utilities. To this end: open a special purpose account for centralised collections from communal utilities, through which the corresponding balances for the gas component are directly forwarded to Naftogaz; and substantially expand the utilisation of individual gas meters.

12. In order to compensate vulnerable households for the increase in gas prices, while improving collection rates, strengthen in a targeted manner the social safety net.

13. Reach "Candidate" status in the Extractive Industries Transparency Initiative to underpin transparency in the energy sector.

Financial Sector

14. Amend legislation, notably the accounting law, so as to ensure the application of the International Financial Reporting Standards to all financial market participants by 2014 at the latest.

Fourth loan instalment

Public Finance Management

15. Adopt an appropriate set of Public Internal Financial Control standards (based on the principles of managerial accountability and functionally independent internal audit).

16 Continue to make progress towards establishing a system of public procurement based on the principles of transparency, competition and non-discrimination among tenderers.

17. Implement comprehensive anti-corruption legislation in line with the recommendations made by the Council of Europe's Group of States against Corruption (GRECO) and other international standards.

18. Increase the financial resources allocated to the external audit function to a level that will ensure an appropriate increase in the number and quality of audits.

Trade and Taxation

19. Refrain from introducing trade-distorting measures and fully apply Ukraine's WTO commitments.

20. Consistent with the Economic Reform Programme, ensure that customs valuation practices are fully in line with WTO standards (Agreement on Implementation of Article VII of the GAIT 1994). In particular, the customs value of goods will be determined mainly on the basis of declared transaction values (as defined in Article 1 of the Agreement on Implementation of Article VII of the GA TT 1994) and, in case the customs value cannot be determined in this way, working down on a consecutive basis from Method 2 to Method 6 (as per Articles 2 through 7), with Method 6 being used only in exceptional cases in which the customs administration has justified reasons to doubt the truthfulness or accuracy of the declared value and cannot determine the customs value on the basis of Methods 1 through 5. Compliance will be measured by a diminishing share of customs transactions cleared based on Method 6, on the basis of government sources and independent reports.

21. Continue to ensure that all legitimate VAT refund claims are paid in cash, or netted out against VAT obligations of the taxpayer in question, in a timely manner.

Energy Sector

22. Achieve substantial progress in the implementation of Ukraine's obligations under the Energy Community Treaty, which include ensuring compliance with EU Directive 2003/55/EC, which notably foresees the separation of the production. distribution and transport in the national gas sector. Progress will be monitored by the European Commission, taking into account relevant implementation reports by the Energy Community Secretariat.

23. Further increase the overall collection rate of Naftogaz through improved payments discipline.

24. Make substantial progress towards achieving "EITI Compliant" status in the Extractive Industries Transparency Initiative.

Financial Sector

25. In line with the Ukrainian commitment in the EU-Ukraine Association Agenda, prepare the implementation of EU legislation concerning financial services, as mentioned in the Annex of the relevant Co-operation Chapter of the Association Agreement, in particular through adoption of a strategic multi-year plan. This strategic plan would define the priority areas for legislative approximation, provide a list of specific steps and measures to be taken and outline the timeline for their implementation.

Source: MoU

A1.2 MFA II

Second instalment
Public Finance Management and Anti-corruption
1. Elaboration and publication of draft Annual Procurement Plans for the year 2015 by each of the Procurement Entities or Contracting Authorities financed by the State Budget by 15 September 2014.
2. The government submits to the Verkhovna Rada and publishes (after submission to the Parliament) the first draft of the national Budget for the year 2015 at the latest on 15 September 2014 in line with the Budget Code.
3. In order to improve budget transparency, publication of monthly data on budget execution in line with article 28 of the Budget Code.
4. Implementation of the Law on Principles of Preventing and Counteracting Corruption (2011), article 12, which foresees annual declaration of assets (property, income, expenses and financial obligations) by persons defined in the legislation as declaration subjects. The government will prepare a draft law setting up an independent body with sufficient financial and human resources to ensure proper implementation and enforcement of the legislation.
5. Submission to the Verkhovna Rada a draft law updating the existing legislation on the ACU and extending its remit to include state-owned enterprises.
Trade and Taxation
6. Ukraine will consult with EU and other WTO members on its request for renegotiation of its WTO commitments under article XXVIII of the GATT, so as to address systemic concerns raised by WTO members. These consultations will include the consideration of other WTO compatible instruments, such as the BOP exception. The consultations should result in a further substantial reduction of the number of tariff lines affected by the renegotiation request
7. Ensure that all legitimate VAT refund claims are paid in cash, or netted out against VAT obligations of the taxpayer in question, in a timely manner.
Energy
8. In order to increase transparency on the operations of Naftogaz, prepare an Annual Financial Report of Naftogaz and its subsidiaries segmented into i) production, ii) import/supply, and iii) network management and storage in line with International Financial Reporting Standards.
Financial sector
9. The NBU will prepare norms and regulations on systemic banks for adoption later in the year.
10. Improvement of implementation of the legislation on the disclosure of ultimate ownership of banks. Publication of data on ultimate ownership for all banks by 1 September on the NBU website.
11. The government submits to the Verkhovna Rada the draft law amending the "law on financial services and state regulation of financial services markets concerning disclosure of information".

Source: MoU

Annex 2 Evaluation framework

A2.1 Relevance

Table 1 Framework for answering Evaluation Question 1: To what extent was the MFA operation design (including adequateness of financing envelope, focus of conditionality) appropriate in relation to the outputs to be produced and objectives to be achieved

Judgement criteria	Quantitative analysis	Qualitative analysis	Sources of information
The size of the financial assistance was adequate in relation to Ukraine's financing needs and given the constraints of the Genval criteria Form of support was appropriate given Ukraine's debt position and income status MFA conditionalities were consistent with and relevant to Ukrainian needs and EU's and other donors' programmes and realistic given the short term nature of the instrument The MFA package was generally regarded as relevant to Ukraine's needs by stakeholders, local economists, media etc.	Analysis of financing needs in 2014- 2015 (as done by IMF) and the role of MFA in meeting these needs Comparison between projected and actual financing needs – reasons for deviations and relevance and appropriateness of MFA in light of any changes Analysis of Ukraine's debt position and GDP data to examine if loan form was appropriate	Degree of consensus among key stakeholders/ key informants regarding the relevance and importance of the MFA (in absolute and relative terms) Stakeholders and local economists' assessment of the use of a loan and focus of the conditionality; Examination of whether the focus of MFA conditionality was relevant and appropriate in Ukrainian context bearing also in mind the characteristics of the MFA instrument. Analysis of synergies with the IMF SBA programme / other EU programmes	Documentary analysis: • Ex-ante evaluation of MFA to Ukraine; • The two Memorandums of Understanding (MoU) and Loan Agreements • Reports and supporting documentation submitted by the Ukrainian authorities to the European Commission on the fulfilment of the structural reform criteria; • Commission's assessment of compliance with conditionality requirements (i.e. after mission reviews); • IMF research including Country Reports; • Other reports i.e. on the progress of PFM reforms accompanied with performance indicators/metrics. Semi-structured interviews: • EC officials: DG ECFIN, DG NEAR • EEAS • IMF/ WB officials;

Judgement criteria	Quantitative analysis	Qualitative analysis	Sources of information
			• Other bilateral/ multilateral donors supporting given reforms in Ukraine (i.e. USAID, GIZ); • Ukrainian authorities including also Ministry of Finance and Central Bank of Ukraine; • EU Delegation in Ukraine. Workshop with non-government stakeholders Social media and press content analysis

A2.2 Effectiveness

Table 2 Framework for the evaluation of answering Evaluation Question 2: To what extent have the objectives of the MFA operation been achieved

Judgement criteria	Quantitative analysis	Qualitative analysis	Sources of information
There has been an improvement in Ukraine's macroeconomic situation The role and contribution of MFA can be identified The weight of the evidence (underpinned by economic theory and principles) suggests that Ukraine would have been worst off in absence of the MFA	Analysis of trends in key indicators (National accounts, Balance of payments statistics, Government finance statistics, Monetary statistics, External sustainability before, during and after MFA The main differences between the country's actual outcomes and those foreseen at the inception of the programme (IMF & MFA) Analysis of data on lending conditions available for Ukraine (focusing on financing available	Stakeholders and local economists' views on the specific contribution of MFA to short-term macroeconomic stabilisation of Ukraine; Stakeholders and local economists' views on reasons for any significant deviation from projections Stakeholders and local economists' assessment of the contribution of MFA including structural reforms;	Document and data review: • Macroeconomic data sourced from IMF, WB and national sources; • MFA documentation i.e. Lending Agreement; • IMF reviews and Country Reports; • Credit Rating Agencies communication; • Academic and grey literature i.e. on the impact of the conflict in the East on the Ukrainian economy;

Judgement criteria	Quantitative analysis	Qualitative analysis	Sources of information
There is evidence of reform e.g. improved fiscal discipline and public finance management: changes in composition of public spending; achievement of conditionality related to reform of the financial sector Majority of the stakeholders believe that the MFA operation reinforced commitment to reform There is evidence to suggest that MFA accelerated or promoted reform in certain areas e.g. the financial sector There is general consensus among stakeholders that the MFA contributed positively to macroeconomic stabilisation and Ukraine's reform effort	from national markets / bilateral donors - knowing that Ukraine lost access to international markets in 2013)	Assessment of alternatives available to fill the financing gap if MFA (and IMF) resources had not been provided Stakeholders' perceptions on other impacts	• Data on public borrowing (scale/ maturity/ costs) and prevailing market conditions at the time of MFA/IMF programmes; • Documentation related to both MFA operations provided by DG ECFIN; Semi-structured interviews: • EC officials: DG ECFIN; • IMF/ WB officials; • Key bilateral/ multilateral donors; • Ukrainian authorities, in particular Ministry of Finance; • Independent public finance experts/ financial community; • EU Delegation in Ukraine. Inputs from local experts from IER Workshop with non-government stakeholders Delphi survey Social media and press content analysis

A2.3 Efficiency

Table 3 Framework for answering Evaluation Questions 3 and 4: Q3 Was the disbursement of MFA appropriate in the context of prevailing economic and financial conditions, and Q4: In what way has the design of the MFA assistance conditioned the performance of the operation in respect to its cost and its objectives

Judgement criteria	Quantitative analysis	Qualitative analysis	Sources of information
MFA disbursements were timely given Ukraine's financing needs	Timing of disbursements in relation to key macroeconomic developments and Ukraine's financing needs	Analysis of the timing of disbursements of both MFA and IMF and factors affecting disbursements Time taken between Ukrainian authorities request for MFA assistance and approval/ disbursement of MFA	Document and data review: • MFA documentation • IMF/ WB documentation • Documentation related to both operations provided by DG ECFIN Semi-structured interviews • EC officials: DG ECFIN, DG NEAR • EEAS • IMF/ WB officials • Ukrainian authorities • EU Delegation in Ukraine
There were favourable entry conditions for the MFA operation e.g. political commitment; public buy-in, capacity to implement reform The design of the MFA operation was flexible and it adjusted to changes in	Not applicable	The extent of liaison between the European Commission and Ukrainian authorities; and between the European Commission and IMF/ other donors The communication channels used to make the MFA / EU aid	Document and data review: • Macroeconomic data sourced from IMF and national sources • MFA documentation • Credit Rating Agencies reports • Financial markets data

Judgement criteria	Quantitative analysis	Qualitative analysis	Sources of information
context and/or feedback mechanisms There was effective dialogue between the European Commission and Ukrainian authorities There was effective monitoring of the MFA operation Donors were well coordinated EU intervention had a leverage effect on the Ukrainian government (so that they maintained focus on reform)		visible and the media treatment received Whether there was effective monitoring of the MFA operation Stakeholders' feedback on what could have been done differently with the benefit of hindsight Analysis of the choice of conditionality – see also relevance Analysis of synergies with the IMF SBA programme / other EU programmes – see also relevance Identification of good practice / lesson learned from the design and implementation of MFA operation in Ukraine	• Documentation related to both operations provided by DG ECFIN Semi-structured interviews: • EC officials: DG ECFIN, DG NEAR • EEAS • IMF/ WB officials • Ukrainian authorities • EU Delegation in Ukraine Social media and press content analysis – public perceptions of IMF/ MFA supported reforms Workshop with non-government stakeholders

A2.4 EU Added Value

Table 4 Framework for answering Evaluation Question 5: What was the rationale for an intervention at EU level and to what extent did the MFA operation add value compared to other interventions by other international donors

Judgement criteria	Quantitative analysis	Qualitative analysis	Sources of information
The presence of the EU added value and leverage in pulling together and accelerating a multi-donor package	Trends in confidence indicators and proxy indicators of confidence such as interest rates (yields) on short and long term government bonds, credit default	Qualitative assessment of links between wider fluctuations in confidence indicators and EU assistance	Document and data review: • Macroeconomic data sourced from IMF and national sources; • MFA documentation;

Judgement criteria	Quantitative analysis	Qualitative analysis	Sources of information
Evidence that MFA reinforced the Government's commitment to socio-economic reform There is demonstrable evidence of signalling and confidence building effect of MFA operation – building investor and private sector confidence EU had a discernible influence on the design and application of conditionalities There is clear financial added value of EU support – national authorities would have struggled to meet their financing needs in absence of the EU MFA	swaps, the movement of the domestic currency against the Euro and the US Dollar, the movement of the domestic stock market index	Mapping of conditionalities (see also relevance) Stakeholders' views on the role and influence of EU in the design and application of support package	• IMF reviews and country reports; • Academic and grey literature; • Documentation related to both MFA operations provided by DG ECFIN Semi-structured interviews: • EC officials: DG ECFIN, DG NEAR; • IMF/ WB officials; • Other key bilateral/ multilateral donors; • Ukrainian authorities; • EU Delegation in Ukraine; • Inputs from study experts; Workshop with non-government stakeholders Social media and press content analysis Delphi survey Insights from study experts

A2.5 Coherence

Table 5 Framework for answering Evaluation Question 6: Were the measures of the MFA operation in line with key principles, objectives and measures taken in other EU external actions towards Ukraine?

Judgement criteria	Quantitative analysis	Qualitative analysis	Sources of information
The MFA was fully in line with EU objectives and reinforced EU action deployed via other instruments	Not applicable	Stakeholders assessment of the coherence of the MFA with other EU external actions Qualitative assessment of the adequacy of the conditionality, potential synergies/ overlapping with other EU instruments	Document and data review: • MFA documentation including ex-ante evaluation of MFA to Ukraine; • Identification of relevant programmes/ actions and review of their documentation; • Documentation related to both operations provided by DG ECFIN Semi-structured interviews: • EC officials: DG ECFIN, DG ENLARGEMENT; • EU Delegation in Ukraine; • Ukrainian authorities. Workshop with non-government stakeholders

Annex 3 Completed work, caveats & limitations

Table 6 Scope, limitations and caveats of data collection and analysis

Method	Scope	Caveats and limitations
Desk research	European Commission files relating to the MFA I & II operations, notably: • Council Decisions 02/639/EC, 388/2010/EU, 2014/215/EC; • Ex-ante assessment; • Memoranda of Understanding for MFA I and II operations; • Operational Assessment; • Preparatory documents submitted to the Economic and Financial Committee. Documentation published by the UA authorities such as economic strategies, reform programmes, action plans. IMF documents namely, the Letters of Intent submitted by Ukrainian authorities to the IMF, IMF Country Reports and some IMF specific research publications and evaluations i.e. ex-post evaluation of SBA 2014 programme; World Bank documents such as Country Partnership Strategies, program documents relating to the Bank's Development Policy Loan 1 & 2 and Financial DPL 1 & 2, documents relating to projects supporting relevant reforms; Local research publications provided by Ukrainian think-tanks and non-governmental organizations i.e. IER. Academic and grey literature on political and economic developments in Ukraine and its progress with the implementation of structural reforms; Reports produced by major Credit Rating Agencies;	*Relatively reliable data with some occasional exceptions:* In general, quality of Ukrainian statistics including national accounts is relatively good. Key statistical indicators (i.e. GDP, CPI, industrial production, structural business statistics) are now calculated based on EU or global methodology. However, the statistical methodology was updated quite frequently in recent times and some structural breaks exist i.e. due to the illegal annexation of Crimea/Sevastopol and conflict in Donbas. Ukrstat retrospectively calculated most of key statistical indicators excluding Crimea/Sevastopol since 2010 and this was relatively straightforward as these indicators are usually available on regional as well as national level. Donbas case is more complex. Some companies in the part of Donbas outside of government control continued statistical reporting (i.e. on output, wages, employment, investment etc.) while others did not. Household surveys were stopped altogether. Thus reduction in economic activity in controlled part of Ukraine in 2014 and 2015 was likely slightly smaller than national figures. Data provided by Ministry of Finance is reliable.

Method	Scope	Caveats and limitations
	Macroeconomic data and statistics compiled from various sources covering number of variables including: • Gross Domestic Product (GDP) and its components; • Balance of Payments (BoP) statistics; • Public finance statistics; • Monetary statistics. NB: *Review of macroeconomic data and statistics involved also the detailed analysis of the IMF projections.*	
Interviews with key informants	Semi-structured interviews with: • Relevant Ukrainian authorities; • European Commission officials; • IMF/ World Bank/EBRD officials; • Other relevant stakeholders like Naftogaz or GIZ Ukraine. See Annex 4 for the list of completed interviewees.	Interviews covered typically informants who were closely involved in the negotiation and/or implementation of the IMF/MFA assistance. Nonetheless, there were also cases i.e. among initially shortlisted stakeholders in Ukrainian authorities, where relevant staff was not employed anymore in a given institution (i.e. partly driven by typically high turnover in UA public sector). In certain cases, stakeholders were also unable to recall in detail certain aspects related to the MFA operations or/and relevant context due to the time that elapsed since those operations.
Delphi Panel	Due to methodological issues with using standard techniques such as macroeconomic modelling (e.g. shortcomings with statistical data described above), the Delphi technique was used to develop counterfactual scenarios. The Delphi survey is a technique used to gather views and generate consensus among a group of expert (the Delphi panel). It is organised as a structured process for soliciting and synthesising knowledge from the panel in an iterative process. The iteration consists typically of a series of questionnaires distributed to experts	Although substantial effort was made to ensure the highest relevance and validity of responses (i.e. by vary thorough selection of sample), Delphi survey in general may exhibit certain weaknesses. In the context of the MFA, the major risks related to insufficient familiarity of participants with the aspects of the MFA operation and the tendency to stick to strong own views based on own interpretation of historical developments. There has been also more than 3 years since the first disbursement under MFA I

Method	Scope	Caveats and limitations
	accompanied by controlled opinion feedback from the previous round. In this case, a panel of 65 experts (based on their knowledge of country context and macroeconomic situation) was set-up for this evaluation to gather their views on the most probable hypothetical scenario(s) had MFA I and II (and MFA I and II <u>and</u> IMF) not been available. The structure of the questionnaire was largely driven by the insights gathered during key informant interviews. Pilot test of the questionnaire was also conducted before launching the survey. During the initial round, 34 respondents provided their feedback which resulted in 53 per cent response rate. Survey respondents comprised private institutions, including representatives from academia, national think-tanks, private banks as well as limited number of individuals from other type of organisations such as local chamber of commerce, specialized economic media and credit ratings agencies. The first round of survey results yielded a high level of consensus among the participants in terms of most likely alternative for the MFA. Given the high level of consensus in the first round, a second round had only exploratory character and sought to get additional insights in relation to four specific questions where some divergence of opinions still emerged. Among 65 experts who received the second questionnaire 21 responded which resulted in 32 per cent response rate. Annex 5 provides a summary of the results of the Delphi survey.	was made and hence some memory loss was unavoidable. Therefore, although nearly all respondents stated that they had been familiar with MFA prior to the survey (to different degree) and there was generally high consensus on most of the aspects, the findings from this exercise should be still considered with certain degree of caution.
Focus Group	The focus group discussion was organised in Kiev to collect the views and opinions of a wider group of non-government stakeholders who although may not have been directly	The scope of the focus group discussions was limited by definition. The focus group focussed on issues such as visibility of EU support, its role in promoting

Method	Scope	Caveats and limitations
	involved in the operations, they could still provide very important perspective and context. The group dynamic was particularly useful in triggering an objective discussion on the reforms undertaken in Ukraine since the 'EuroMaidan' protests, their outcomes as well as the discussion about the visibility of the MFA and the communication of the EU Delegation in Ukraine. Focus group discussions provided an indication on the relative visibility of the MFA among wider stakeholder groups and their perceptions of the role of MFA in promoting reforms. Focus group discussions were also useful in determining if the MFA had any confidence boosting effects. Annex 4 provides the full list of participants.	reforms and it covered also the overall assessment of the reforms' pace in Ukraine since the 'EuroMaidan' protests in 2014. All stakeholders had prior knowledge of the MFA and in some cases demonstrated very good understanding of specific aspects related to MFA I and II (i.e. one interviewee led on the comparative research project covering assistance programmes provided to Ukraine over last years, including MFA I & II. However, the evaluation team had to also clarify in a few instances that some conditions (i.e. related to wood ban), were out of the scope of the evaluation.
Stakeholder Workshop	The stakeholder workshop's objective was to test and validate the emerging findings (at the stage of the Draft Final Report) with Ukrainian authorities and main stakeholders closely involved in the negotiation and/or implementation of the IMF/MFA assistance. It was organised via video-conference. Participants included DG ECFIN, EU Delegation in Kiev, IMF, National Bank of Ukraine and Ukraine Ministry of Finance. (See Annex 4 for the list of participants). ICF first presented the main findings against the evaluation criteria. The presentation was followed by some discussion on the main conclusions and lessons learnt for the future (for future MFA operations or future evaluations).	The presentation generated only limited discussion. Answers to prompts suggested this is attributable to the findings being largely consensual. For the future operations, there may be a rationale to test the validity of the findings with slightly wider audience going beyond those closely involved in the negotiation and/or implementation of the IMF/MFA assistance (e.g. few selected NGOs). Participants were provided with the report three days prior to the workshop. One participant from the Ministry of Finance felt this gave too limited time for thorough reading of the report. Representatives from the World Bank who contributed to the study during the interview process, were not able to attend the meeting.

Method	Scope	Caveats and limitations
Debt Sustainability Analysis	The assessment of the debt sustainability involved the analysis of the debt sustainability (i) before MFA I & II and (ii) during and after MFA I & II, and then subsequent assessment given hypothetical scenarios had MFA I and II (and MFA I and II <u>and</u> IMF). Two key debt indicators used were the *public debt-to-GDP* ratio and the *gross public financing needs-to-GDP* ratio. The approach followed closely the methodology applied by the IMF and considered number of relevant factors that had or could have had material impact on the debt sustainability i.e. fiscal policies pursued by Ukrainian policies, available sources of funding, impact of exogenous factors (i.e. conflict in the East) and most importantly hypothetical impact had the MFA I & II (and more broadly the EU support package) been absent. Key sources of data: • Insights from Delphi survey; • Insights from selected semi-structured interviews, predominantly with the IMF, WB and Ministry of Finance; • Insights from local experts; • Insights from the focus group; • Review of macroeconomic data; • Review of the IMF documentation and guidelines on debt sustainability analysis.	It is difficult to isolate and quantify the impact of MFA I and II because they were combined with other finance (i.e. IMF and WB assistance) and no record is available on the amounts that specifically went to debt operations. More generally, the nature of the MFA mechanism implies that it was not possible to trace down how MFA funding was used specifically i.e. maintain public expenditure, meet the foreign debt repayment obligations etc. The DSA relied substantially on the insights from Delphi survey experts and relevant stakeholders which were asked to speculate about the hypothetical scenarios that did not take place. All limitations and caveats related to Delphi survey and insights from semi-structured interviews apply here as well.
Social Impact Analysis	The potential social impacts of the Macro-Financial Assistance (MFA) focused to considerable extent on the impact of one specific condition that had a clear social dimension: '…*to compensate vulnerable households for the increase in gas prices by strengthening the social safety net in a targeted manner*'.	Ministry of Social Policy in Ukraine engaged only to limited extent in the hypothetical exercise were questions related to potential social impact related to enhanced social safety net had MFA condition not been implemented were asked.

Method	Scope	Caveats and limitations
	The analysis drew on available secondary data (i.e. data provided by the local experts, ILO, EU and IMF publication) and insights gathered from local stakeholders i.e. Ministry of Social Policy and Naftogaz. The analysis used a number of social indicators i.e. households spending, income distribution, unemployment or poverty rate.	In addition, the internal analysis related to enhanced social safety net and which underpinned the design and implementation of the scheme, was eventually shared by the World Bank office in Ukraine which impacted the quality of the analysis.
Social media and press content analysis	Social media analysis focused on the Twitter exclusively. Four specific *key words*[1] were chosen to derive the final sample of relevant tweets that then became a subject of qualitative and quantitative analysis. The analysis was done separately for tweets in English and Russian/ Ukrainian. After initial screening for relevance, it ultimately covered 841 tweets in English and 1,801 tweets in Russian and Ukrainian. The period of analysis was January 2014 – December 2015. The press content analysis focused on three selected media outlets given comparatively high quality of their economic columns namely, Delo, Dzerkalo, Tyzhnya, Novoe Vremya. Through application of 4 specific *key words* (identical as for Social media analysis) and subsequent screening of the pre-selected content to ensure the relevance of the sample that would be used for the final analysis, 128 relevant articles published between 1st of January 2014 and 30th of June 2015 were ultimately selected for in-depth quantitative and qualitative analysis.	<u>For Twitter analysis:</u> • This analysis was based only on publicly available data and content from Twitter; • A combination of manual review of sample data and automatic filtering terms was used to exclude off-topic and irrelevant posts to the greatest extent possible but since Crimson Hexagon only offers a sample of raw posts, there might still be stray irrelevant posts that didn't get caught in the filtering process. These should only be up to a maximum of 5%; • Audience breakdown of users who posted in English is based on sample size n = 265, 95% confidence interval and 5% margin of error; • For Twitter analysis, material number of tweets were generated from bot accounts. Most prolific bot accounts were excluded from the analysis, though the data set may still include some bot/spam account that posted once or twice as screening of the whole sample would be very labour intensive.

[1] 'EU financial assistance to Ukraine', 'EU loan to Ukraine', 'EU support to Ukraine' and 'Macro-Financial Assistance to Ukraine'

Method	Scope	Caveats and limitations
		For press analysis • While great effort has been made to ensure that researchers conducting the analysis are sufficiently familiar with the MFA instrument and relevant background, not all aspects may have been grasped fully with some implications for the interpretation of the analysed content; • The qualitative content analysis involves considerable degree of judgment i.e. while coding a given tweet/ press article as positive/ neutral or negative. Hence, some coding and interpretation may not have been entirely consistent throughout the whole process of analysis.

Annex 4 List of completed interviews & participants of the focus group in Kiev and stakeholder workshop in Brussels

Organization	Name	Role	Date
Former EC official	Taneli LAHTI	Former Head of Cabinet for Valdis Dombrovskis	February 23rd, 2017
DG ECFIN, European Commission	Nicolas Lilienthal	Legal officer, DG ECFIN (Neighbouring Countries – MFA)	February 25th, 2017
DG ECFIN, European Commission	Thilo Sarre	Financial/ Borrowing and Lending Officer, DG ECFIN	Written response
DG ECFIN, European Commission	Joern Griesse	Deputy Head of Unit, DG ECFIN (Neighbouring Countries – MFA)	February 16th, 2017
DG ECFIN, European Commission	Radostin Neykov	Desk Economist for Ukraine, DG ECFIN (Neighbouring Countries – MFA)	February 16th, 2017
DG NEAR, European Commission	Hillen Francke	Team Leader - Centre of Thematic Expertise on Economic Governance (former desk economist for Ukraine, DG ECFIN)	February 15th, 2017
DG NEAR, European Commission	Andreas Papadopoulus	Adviser in Economic Governance, DG NEAR (former Deputy Head of Unit, DG ECFIN)	February 15th, 2017
EU Delegation in Bogota	Christoph Saurenbach	Former desk economist for Ukraine, DG ECFIN (Neighbouring Countries – MFA)	February 25th, 2017
Support Group for Ukraine	Aleksandra Janovskaia	Support Group for Ukraine NB in the past involved in the design of MFA I (as a former desk economist for Ukraine) and its assessment (as part of the Support Group)	March 14th, 2017
German Representation to the EU	Alexander Wallau	Desk Officer	February 17th, 2017
Polish Representation to the EU	Tomasz Orlowski	Head of Section of EU External Relation	April 26th, 2017

Organization	Name	Role	Date
Polish Representation to the EU	Maria Janczak	Financial Counsellor	April 26th, 2017
UK Representation to the EU	Katherine Wilde	Second Secretary	May 4th, 2017
Latvian Representation to the EU	Ieva Lapina	Counsellor	May 2nd, 2017
EU Delegation in Kiev	Nicholas Burge	Head of Trade and Economic Section	April 20th, 2017
EU Delegation in Kiev	Jocelyn Guitton	Secretary at the EU Delegation	April 20th, 2017
EU Delegation in Kiev	Fabio Della Piazza	Head of Political Section	June 21st, 2017
EBRD	Konstantine Kintsurashvili	Principal Economist	April 19th, 2017
EBRD	Kresic Anna	Economist	April 19th, 2017
GIZ	Gregor Josef Broemling	Director	April 21st, 2017
GIZ	Ricardo Kuelheim	Project Manager - Energy Sector	April 21st, 2017
IMF	Nikolay Georgiev	Mission Chief to Ukraine	April 6^{th,} 2017
IMF	Anita Tuladhar	Deputy Mission Chief	April 6^{th,} 2017
IMF	Cesar Serra	Economist – Fiscal Expert	April 6^{th,} 2017
IMF	Thanos Arvanatis	Current Chief - EEF	April 6^{th,} 2017
IMF	Jerome Vacher	IMF Resident Representative	April 3rd, 2017
Accounting Chamber of Ukraine	Oleksnadr Teslenko	Expert in ACU department of budget policy	June 16th, 2017
Accounting Chamber of Ukraine	Lesya Grytsiuta	Expert in ACU department on the methodology of audits and ACU standards	June 16th, 2017
Ministry of Economy	Oleksandr Manuilov	Deputy head of the Macroeconomic forecasting department	April 19th, 2017

Organization	Name	Role	Date
Ministry of Economy	Oleksandr Yavorskiy	Head of the Section of economic development of the Macroeconomic forecasting department	April 19th, 2017
Ministry of Finance	Olga Fedorenko	Head of the European integration department	April 19th, 2017 and June 15th 2017
Ministry of Finance	Oleksiy Kosharny	Deputy head of the European Integration Department	April 19th, 2017
Ministry of Finance	Serhiy Baranov	Head of section on capital markets of the State debt Department	April 19th, 2017
Ministry of Finance	Andriy Kuzma	Head of the section of State budget execution analysis of the Department of State Budget	April 19th, 2017
Ministry of Social Policy	Tetyana Golubenko	Deputy head of the Department on state social assistance	April 19th, 2017
Ministry of Social Policy	Alla Shapoval	Head of the Section on informational campaign on pension reform of the Pension Department	April 19th, 2017
Naftogaz	Victoria Vorochek	Deputy Head of Strategic Planning Department	April 21st, 2017
National Anti-Corruption Bureau	Artym Sytnyk	Director	April 19th, 2017
National Bank of Ukraine	Liudmyla Labur	Head of Unit EU and Bilateral International Relations European Integration/International Programs Office	April 20th, 2017
National Bank of Ukraine	Oleh Mikheiev	Senior Economist	April 20th, 2017
National Bank of Ukraine	Volodymyr Kuchyn	Head of Office of European Integration and International Programmes	April 20th, 2017
National Bank of Ukraine	Mykhailo Vidiakin	Head of Strategy and Reforming Department	April 20th, 2017
National Bank of Ukraine	Nataliia Ivanenko	Head of Methodology Department	April 20th, 2017
National Bank of Ukraine	Olha Kozlova	Head of Office for Legal Support of Legislative Proposals Preparation/Legal Department	April 20th, 2017

Organization	Name	Role	Date
World Bank/ Kiev Office	Anastasia Golovach	Local Economist in Kiev	April 19th, 2017
World Bank/ Washington D.C.	Rinu Chandra	Financial Expert	April 6th, 2017
World Bank/ Washington D.C.	Lalita Moorty	Lead of DPL - 1	April 5th, 2017
Participants of the focus group in Kiev			
Centre of Policy and Legal Reform	Maria Rapko	Expert	June 22nd, 2017
VoxUkraine	Tetyana Tyschuk	Manager	
Transparency International	Yaroslav Yurchyshyn	Director	
IBI-Rating Agency	Viktor Shulik	Head of Research Department	
IER Kiev	Oleksandra Betliy	Senior Economist	
IER Kiev	Vitaliy Kravchuk	Senior Economist	
Confederation of Employers of Ukraine	Rodion Kolyshko	Director	
National University of Kiev, Faculty of Economics	Alexij Chugaev	Professor	
National University of Kiev, Faculty of Economics	Anton Nanavov	Professor	
Economic Pravda	Galyna Kalachova	Journalist	
BRDO	Dmytro Goriunov	Chier Economist	
Delo newspaper	Iryna Hudz	Journalist	
Dragon Capital	Olena Bilan*	Chief Economist	
Participants of the Stakeholder Workshop			
DG ECFIN, European Commission	Andrew Winter	Evaluation Officer – Policy, strategy and evaluation	

Organization	Name	Role	Date
DG ECFIN, European Commission	Dirk Lenaerts	Head of Sector – MFA operations	September 28th, 2017
DG ECFIN, European Commission	Radostin Neykov	Desk Officer for Ukraine	
DG ECFIN, European Commission	Joern Griesse	Deputy Head of Unit, Neighborhood countries – Macrofinancial assistance	
DG ECFIN, European Commission	Nicolas Lilienthal	Legal Officer	
DG ECFIN, European Commission	Roxanne Rua	Desk Officer for Ukraine	
EU Delegation in Kiev	Oksana Popruga	Economist at the EU Delegation in Ukraine	
IMF	Nikolay Georgiev	the head of the IMF missions in 2014 who also took part in the design and negotiations of SBA 2014	
IMF	Thanos Arvanitis	the Deputy Director of the European Department	
IMF	Jerome Vacher	former representative of IMF in Kyiv	
National Bank of Ukraine	Oleh Mikheiev	Senior Economist in NBU	
Ukraine Ministry of Finance	Olga Fedorenko	Head of the European Integration Division	
Ukraine Ministry of Finance	Oleksii Kosharnyi	Deputy Head of the European Integration Division	
Ukraine Ministry of Finance	Sergii Markhai	Consultant at the European Integration Division	

**provided written feedback following the focus group*

Annex 5 Summary of Delphi Panel survey

This appendix provides the results from the first and the follow up round of the Delphi Panel on-line survey that were conducted in April and June 2017 and addressed to a number of selected economists, public finance experts and social & economic commentators in Ukraine and abroad.

A5.1 Objective and structure

The Delphi survey sought to establish views on the role and contribution of the MFA in achieving macroeconomic stability, easing external financing constraints and alleviating Ukraine's balance of payments and budgetary needs; and promoting structural reforms.

The recruitment to the panel was carried out with the support of the local research team at IER and with advice from DG ECFIN and the EU Delegation in Kyiv. We included 65 representatives of the following groups / institutions in the Delphi panel:

- Business representatives and financial / macroeconomic analysts from the private sector (e.g. research departments of commercial banks); and
- Researchers from think tanks, experienced commentators of Ukrainian economic policies (i.e. specialized press), independent fiscal policy experts, and academic experts.

Thirty-four respondents provided completed answers and 7 respondents provided partial answers which resulted in a 53 per cent response rate in the first round of the Delphi survey. Respondents included representatives from think tanks, academia, banks, credit rating agencies, investment funds, media and consulting. For the second round of the Delphi survey, 21 respondents completed the questionnaire (32 per cent response rate). Four of them had not taken part in the first round of the survey but had been on the initial list of invitees.

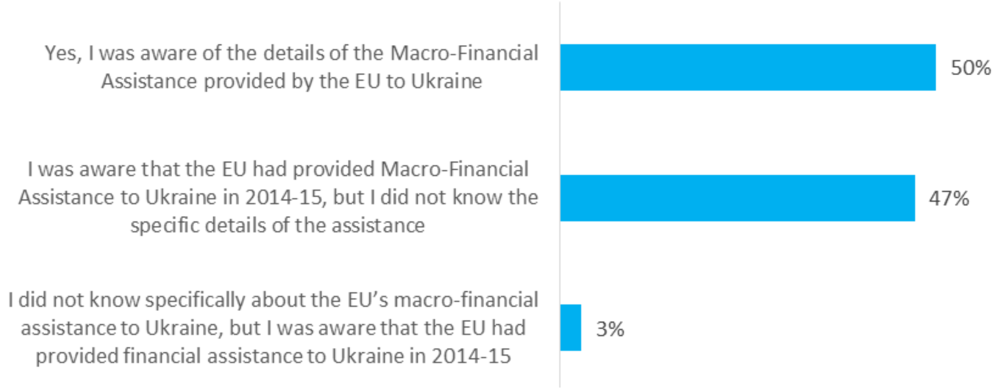
Table 7 provides the details of the background of respondents by type of organisation.

Table 7 Details of the Delphi Panel that were invited and responded

Type of organisation	Number of invitees	Number of respondents 1st round	Number of respondents 2nd round
Think Tank	17	11	5
Academia	7	8	5
Bank	10	6	1
Credit Rating Agency	5	3	2
Investment Fund	3	3	0
Media	5	3	1
Consulting	11	1	2
Other	7	6	5
Grand Total	**65**	**41**	**21**

Before filling in the first round of the questionnaire, half of the respondents indicated a high level of familiarity with details of the MFA programme while the other half knew about the MFA support but not about the specific details ex-ante Table in Annex A1.1.

Figure 1 Before receiving an invitation to this Delphi questionnaire, were you aware of the fact that the EU had provided Macro-Financial Assistance to Ukraine in 2014-15?



Source: ICF survey, N = 36

A5.2 Limitations of the Survey

The use and interpretation of the results of a Delphi survey in this study are dependent on accepting that the participants to the Delphi survey have sufficient familiarity with the context and implementation of the MFA operation. As noted above half the participants were aware of the details of the MFA assistance, whereas the other half had a more general level of awareness but did not consider that they had knowledge of specific details. The survey has sought a more general view on the impacts of the MFA operation, and no detailed knowledge of the MFA should not be considered to be a constraint on the ability to offer valid responses.

A strength of the Delphi approach is that responses of the Panel, when fed back to respondents, can be reflected upon and adjusted in the light of the views of other Panelists. For questions where there is a lack of consensus, these can be raised a second time together with the responses collected. Participants when provided with feedback are asked to consider whether they are prepared to adjust their original response in the light of this additional information. In the present case, the second round of the survey has also been a way to clarify some answers.

A5.3 Key findings

The respondents were asked 15 questions in the first round. These sought to establish views on what might have happened to the economy and the associated policy responses in the event that the MFA operations had not taken place. Questions included consideration of the possible sources of alternative funding that might have been used had the MFA not been available; and plausible policy responses such as cuts in governments' expenditures. Panelists were asked to assess the impact of the MFA on the macro-economy and on the impacts on structural reforms.

Overall, the survey results demonstrated a high level of consensus among the panelists in terms of the most likely alternative outcomes were the MFA operation not to have happened. The main view was that there would have been further depreciation of the Hryvnia and partial filling of the financing gap from other sources (domestic and/or international). Cuts in public spending were also a likely outcome – but the extent to which energy subsidies would have been affected is not clear.

The MFA is believed to have played a role in supporting GDP levels especially in the years that funding was given in 2014 and 2015. Round 2 clarifies that it is mainly the assistance package taken as a whole (of some 15 billion euro) which was instrumental in avoiding default, contributing to the success of the debt restructuring talks and, to the extent possible, restoring confidence. The MFA was one part of this package and therefore played a role, including on the political front.

Views on the social macroeconomic impact of the MFA and the contribution of the MFA conditionalities on reform are generally considered to be positive. However, there is a view that EU could have leveraged deeper structural reforms – especially in new challenging areas, notably judiciary reforms and social reforms (pensions, healthcare).

In summary, these results are generally consistent with the views expressed through interviews that took place during the missions in Ukraine and in Washington.

Detailed responses to each question are provided below:

A5.3.1 Macroeconomic situation in Ukraine in 2014-16

A5.3.1.1 Alternative policy options available to Ukrainian authorities in the event the MFA was not forthcoming

In the absence of MFA, almost all respondents (82%) share the view that the most likely scenario is that the NBU would have allowed the Hryvnia to depreciate even further.

Respondents also considered it likely that the authorities would have raised some - but not all - of the equivalent financing from other domestic and/or international sources (n=72%). When asked about the potential specific international sources to raise equivalent or a part of the €1.61 billion provided by the MFA I/II, given examples include bilateral loans (from the USA, Canada, Japan, China and from EU countries) and multilateral loans (from the IMF, the World Bank, EIB and EBRD).

Conversely, the raising of equivalent funds from domestic financial markets and the raising of taxes did not seem likely (84% and 69% respectively).

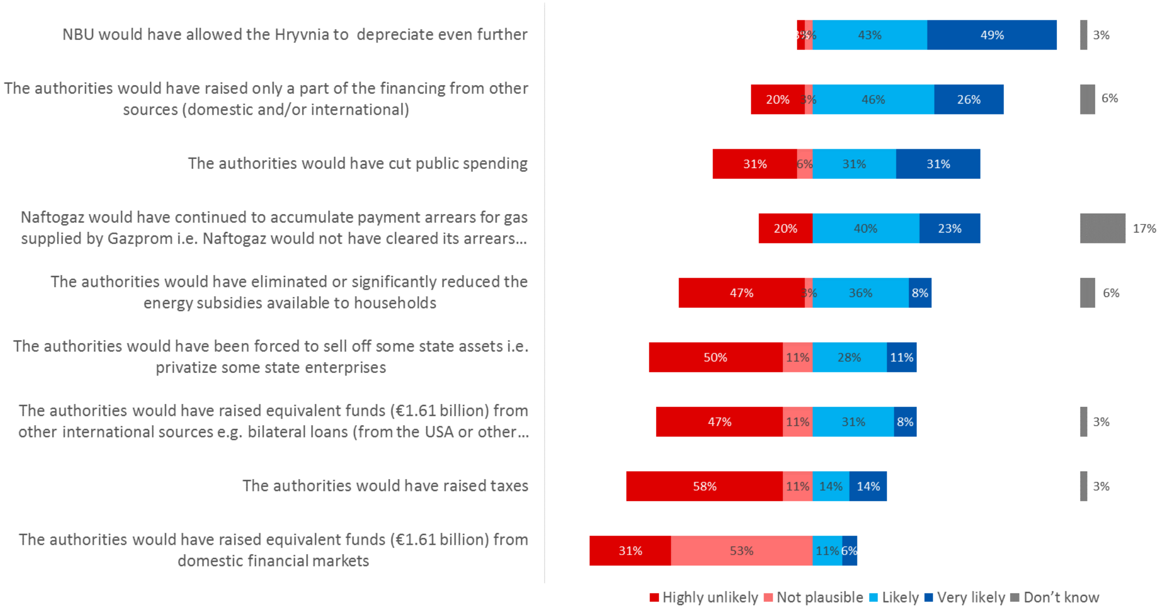
When it comes to the likelihood of other options, respondents had mixed views. Two questions, important for the social angle, were therefore asked again in round 2: whether the authorities would have public spending overall and whether they would eliminated or significantly reduced the energy subsidies available to households in the absence of MFA.

- Regarding overall cut in public spending, the group of experts consented in the second round that a cut in public spending was a likely (29%) or very likely (48%) option.
- On the question of energy subsidies, the group of expert remained divided in the second round, 48% found it likely and 48% very unlikely.

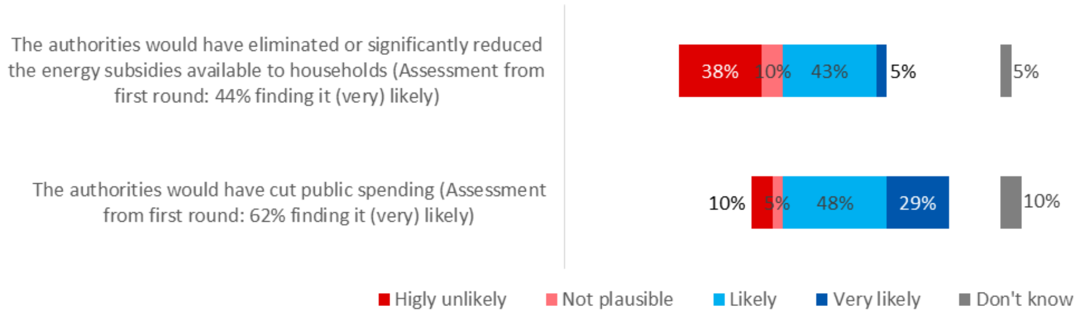
Part of the experts were thus of the opinion that the government would have had no other choice but to cut any type of funding.

Others thought the government would have focused the cuts on inefficient spending (e.g. inefficient subsidies to enterprises) and/or long-term investments. Energy subsidies would however have been preserved – in light of their social stabilization role, it was seen as risky politically for the government to cut them rapidly, especially in a context where prices were no longer subsidized. Furthermore, the IMF programme also required authorities to have social safety nets in place to compensate for the tariff increases.

Figure 2 In the absence of the MFA loans amounting to €1.61 billion, the Ukrainian authorities would have had to pursue alternatives. What action(s) would have been taken by the Ukrainian authorities had the MFA loans not been available?



Source: ICF Delphi survey, Round 1, N= 36



Source: ICF Delphi survey, Round 2, N= 21

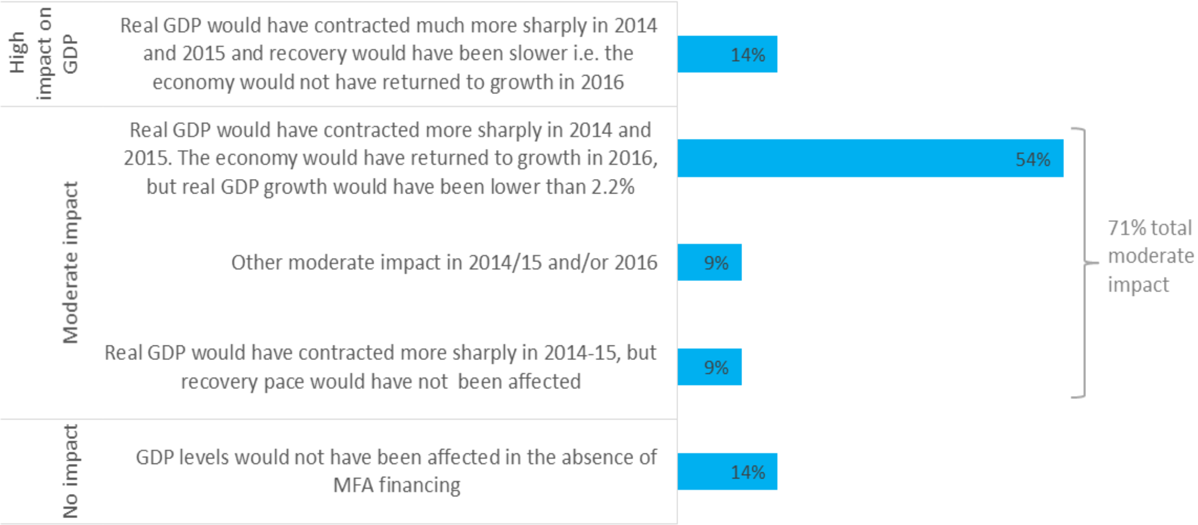
A5.3.1.2 Impacts on GDP growth

The majority view of the panel is that the MFA had an impact on GDP levels, albeit a moderate one (71%). This is true especially for the years 2014 and 2015, with somewhat less respondents supporting the idea that MFA played a role in the recovery path in 2016 (63%).

This positive impact reflects the view that the MFA prevented further devaluation and further balance-of-payment shocks, which would have deepened the economic crisis. Those respondents who think authorities would have cut public spending also mentioned the potential detrimental impact of that option. GDP levels area also considered to have been helped by the MFA by reinforcing the efficiency / competitiveness of the real economy via the structural reforms it promoted.

Opposing views that MFA had only moderate or no impacts on GDP levels were held by eight respondents (23%), (Figure 3).

Figure 3 1st round of Delphi survey: Hypothetically speaking, had the MFA loans not been available to Ukraine in May 2014 – April 2015, how would it have affected economic activity over the period 2014-16? Please indicate what you think would have been the most plausible outcome in the absence of the MFA loans?

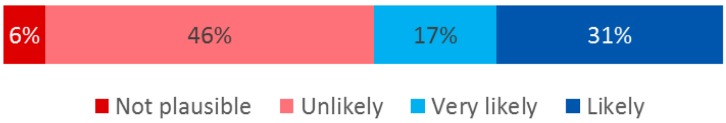


Source: ICF survey, Round 1, N = 35

A5.3.1.3 External sustainability

On the question of whether the lack of MFA might have led to a sovereign debt default the responses suggest a division of opinion, with approximately half agreeing and half disagreeing. However, review of the comments provided suggest the opinions are not as divided as they first appear (48% vs 52%). Some respondents that suggested the default was likely, included the other financial assistance rather than just considering the MFA assistance, and essentially did not answer the question with the specific focus on the MFA. Default was considered unlikely in the absence of MFA *as long as the other support had remained in place*.

Figure 4 1st round of Delphi survey: What in your view would have been the likelihood of a sovereign debt default occurring in 2014 had the MFA financing not been available to Ukraine?



Source: ICF Delphi survey, Round 1, N= 35

To clarify this further, at the second round of the Delphi survey, a distinction was made between a complete absence of international financial assistance and the absence of the MFA alone. According to the experts (86%), without any international financial assistance, Ukraine would have defaulted on its sovereign debt in 2014. However, the opinions remain divided about the role of the MFA only on the likelihood of sovereign default in 2014 where 48% think Ukraine would likely have defaulted and 43% think it was not plausible or highly unlikely. The MFA is a small part of the financial rescue package, hence, for some its absence would not have per se led to a default, even if it would have made things more difficult. However, others still think that each and every smaller part of the package was instrumental. One respondent notably mentioned that the increased likelihood of default would not come from the absence of MFA funds per se (in light of the limited size of the funds) but from the EU's decision not to release the MFA, which would have impeded trust from other international creditors.

Figure 5 2nd round of Delphi survey: Could you clarify what in your view would have been the likelihood of a sovereign default occurring in 2014:

Source: ICF Delphi survey, Round 2, N= 21

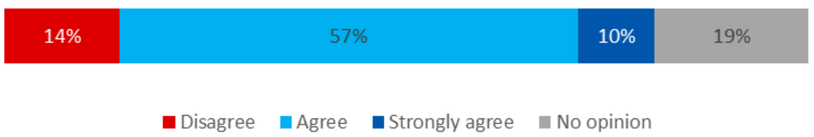
In round 1, some respondents also made the link to the 2015 debt restructuring operation, highlighting that the deal was crucial to avoid default and that the MFA loans were, amongst others, one factor contributing to the successfulness of the negotiations (political signal). Without the MFAs and the remainder of the international support, the restructuring talks might have started earlier, some respondents added.

Furthermore, two interviewees highlighted Ukraine's technically defaulted on its debt in September/ October 2015, in line with the position of the global trade association ISDA (which concluded both a Repudiation/Moratorium Credit Event and a Failure to Pay Credit Event occurred on or around October 3rd, 2015, thereby allowing contracts insuring against losses on the country's debt to be paid[2]).

During the second round of the survey, this issue around the role of MFA in debt restructuring talks was explored further. It was confirmed the experts, at 67%, (strongly) agreed that the MFA was one of the factors contributing to the success of the negotiations in relation to the 2015 debt restructuring operation (Figure 6). A respondent mentioned that again here, the IMF and World Bank's support were the main factors (the minimum prerequisite to start the talks), but EU MFA has definitely contributed to the final decision.

One respondent recognised the role of MFA but deplored the issues of the negotiations: for him/her, the restructuring talks were not successful in the sense investors should have borne higher losses – which would have been more likely to happen without MFA.

Figure 6 2nd round of Delphi survey: Would you agree that the MFA was one of the factors contributing to the success of the negotiations in relation to the 2015 debt restructuring operation?



Source: ICF Delphi survey, Round 2, N = 21

[2] See: http://dc.isda.org/documents/2015/10/emea-dc-decision-02102015-2.pdf

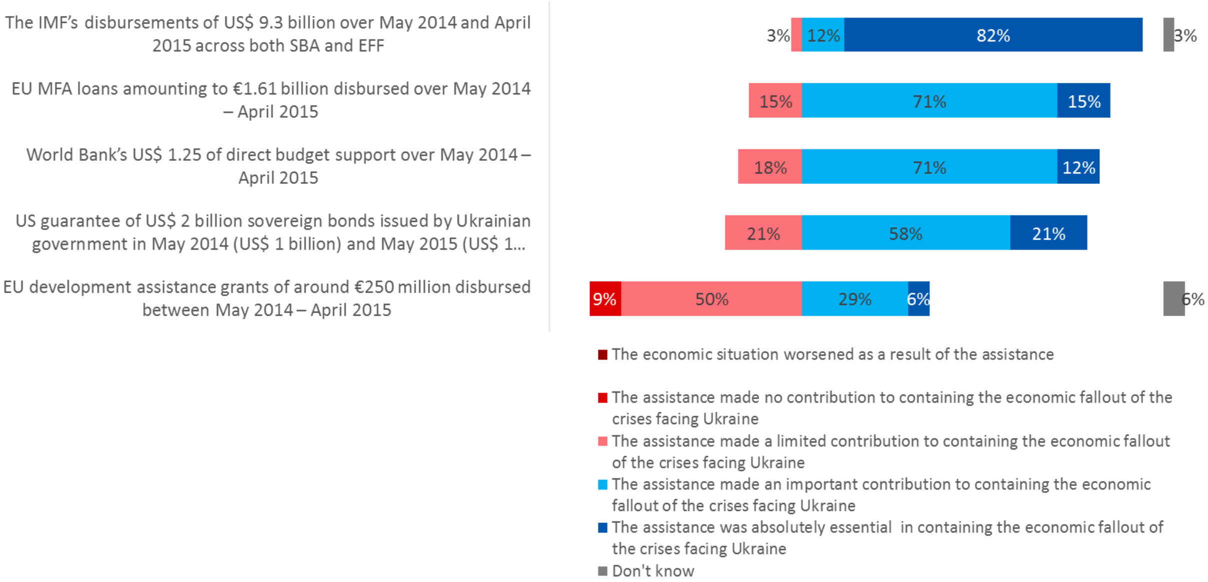
A5.3.2 Economic impact of the MFA loans and conditionalities

A5.3.2.1 Relative importance of MFA operation with other support provided

When prompted to rank the relative importance of the assistance provided by the several donor institutions in containing the economic damage induced by the various crises facing Ukraine during 2014-15, the picture which emerges is as follows:

- IMF disbursements have the highest importance (82% rating it as absolutely essential) – with the open comment that the IMF has more funds (and expertise) available compared to the EU
- MFA loans, WB disbursements, and US guarantees have approximately the same level of importance (79% to 85% of respondents rating it as important or absolutely essential)
- The importance of EU development grant assistance is seen is assessed as of lower importance, at least for that particular purpose (no or limited contribution in 59% of cases).

Figure 7 1st round of Delphi survey: What was the relative importance of the assistance provided by the following institutions in containing the economic damage induced by the various crises facing Ukraine during 2014-15 (balance of payments crisis, fiscal crisis, domestic political uncertainty, conflict in the East)?



Source: ICF Delphi survey, Round 1, N = 34

Impacts of the MFA loans on signalling, debt and economic confidence

94% of respondents agreed with the proposition that MFA financing had sent a strong signal of EU support to Ukrainians (as one respondent put it, it is a "symbolic instrument of EU goodwill towards Ukraine"). Respondents also consider the loan helped to make the necessary economic adjustment in Ukraine less harsh and abrupt (88% agree or strongly agree). See 0.

Respondents also largely confirmed that MFA loans were provided by the EU on highly concessional terms, thus cushioning the impact on Ukraine's debt position (74%) – although 15% preferred not to express an opinion (possibly because they were unaware of the exact terms of the loans). Respondents also largely rejected the proposition that MFA loans significantly added to the external debt burden of the country (74%). Some comment was made that the use of loans rather than grants endangers Ukraine's debt sustainability over the medium- to long-term.

Reflecting previous answers, there was less agreement as to the extent to which MFA financing helped prevent a sovereign default in 2014 (see Figure 8). There is also a division of opinion on the effects on economic confidence: just above 50% of respondents indicated that the MFA financing helped restore confidence in the economy, while others disagree or express no opinion. Respondents have not been prompted to detail their answers but several reasons could explain this: restoring confidence in the economy is a very long term process which has probably not yet been achieved and/or MFA could have played a role only in combination with other international financial assistance. Both hypotheses were confirmed in Round 2 (see Figure 9).

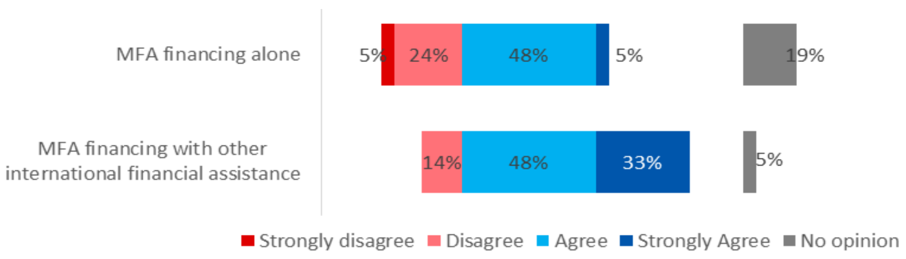
Figure 8 1st round of Delphi survey: Please indicate the extent to which you agree or disagree with the following statements:

Source: ICF Delphi survey, Round 1, N = 34

In the second round of the Delphi survey, the role of the MFA to restoring confidence in the economy was further investigated by asking the respondents to what extent the MFA alone would restore the confidence in the Ukrainian economy, and to what extent the combination of international financial assistance would restore the confidence in the Ukrainian economy. Experts agree (at 81%) that the combination of financial assistance helped to restore the confidence. Even despite of the positive of the assistance taken as a whole, it was reminded that confidence levels were still low and Ukraine remained effectively cut off from international financial markets (as seen e.g. by the prohibitively high interest rates, low credit ratings, high CDS spreads) even despite the international financial assistance.

The role of MFA alone in restoring the confidence is less clear; 53% (strongly) agree while 29% (strongly) disagree, and the rest having no opinion. Experts express that if indeed MFA was of importance for the confidence in the Ukrainian economy, the MFA was conditioned upon the IMF and most investors are focused on monitoring the implementation of the IMF program, not of the MFA. Rather than economic, the main added value was seen as the political move it represented.

Figure 9 2nd round of Delphi survey: Do you consider that MFA financing helped to restore a confidence in the economy?

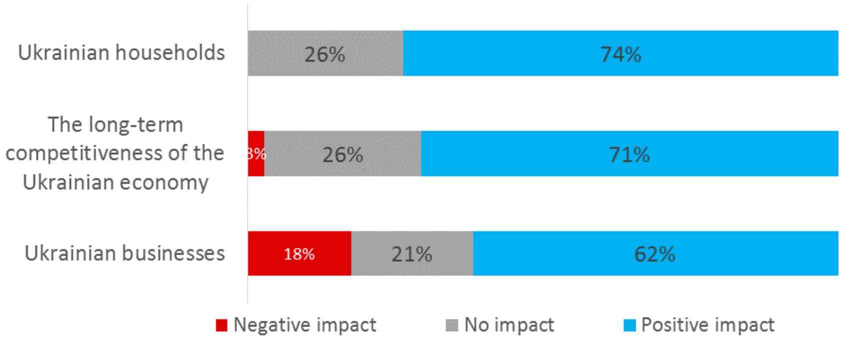


Source: ICF Delphi survey, Round 2, N = 21

Trade impacts of the MFA Conditionalities

The application of MFA-promoted trade related measures were generally assessed as positive for Ukrainian households and the long term competitiveness of the Ukrainian economy and businesses (Figure 10). A negative impact on Ukrainian businesses was considered to have occurred by a minority if respondents (18%).

Figure 10 1st round of Delphi survey: The MFA loans included a conditionality requiring Ukrainian authorities to refrain from introducing trade-distorting measures and from renegotiating its WTO commitments. This notably entailed that plans of increasing tariffs for 371 products were abandoned; and that quotas for imports of coal and coke as well as recycling fee discriminating against imported vehicles were removed. In your view, what was the impact of this trade conditionality on



Source: ICF Delphi survey, Round 1, N = 34

A5.3.2.2 Impacts of the MFA Conditionalities on Reforms

Views on the impacts on reforms promoted by the EU-MFA conditionalities were collected. Respondents gave a largely positive assessment: especially in terms of the focus on key areas, the reinforcement of domestic political commitment to reforms; the acceleration of the pace of essential reforms, the reinforcement of the efforts of IMF and World Bank in promoting reforms, and agenda settling (Figure 11)

The propositions that in the absence of the EU-MFA, these reforms would not have been undertaken were largely support. In comments respondents highlighted particular reforms which would not have been implemented without the MFA. These include:

- For six respondents: Trade related measures (trade-distorting measures would have remained in place or have been extended)
- For four respondents: Energy sector reforms – mentioned 4 times
- For 3 respondents: Reforms related PFM and anticorruption more specifically Antimonopoly Committee of Ukraine, introduction of e-declaration, creation of anti-corruption bodies

A5.3.2.3 Scope for greater reform

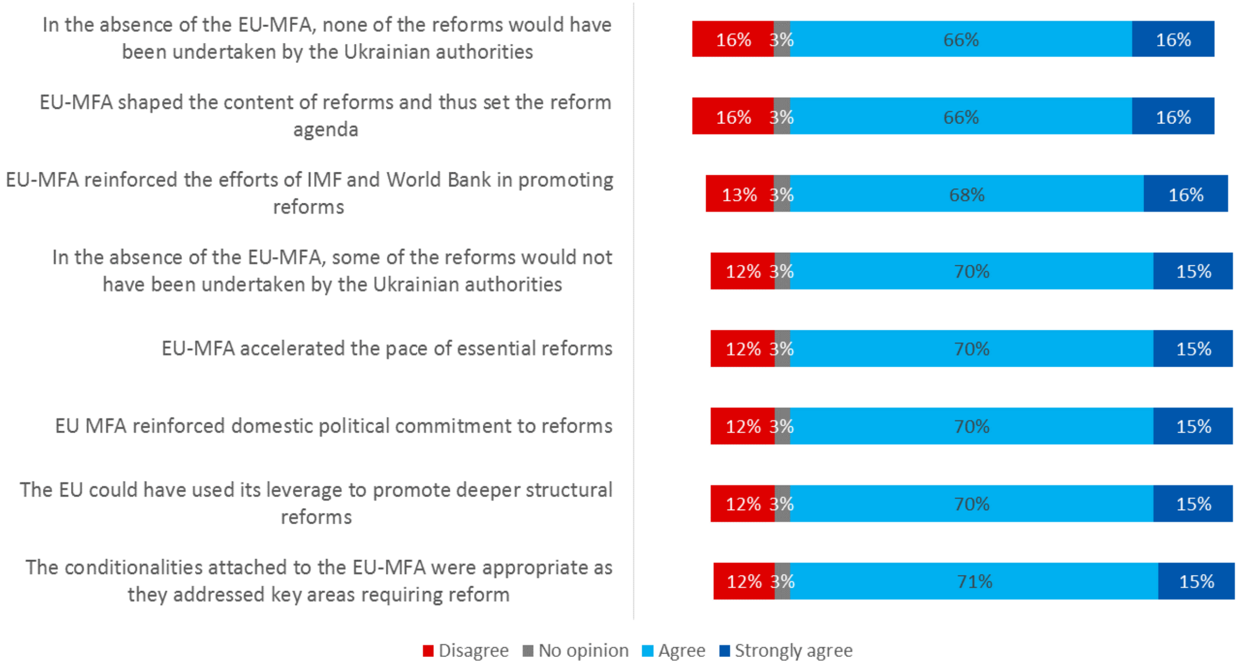
The influence of the MFA conditionalities was considered to be very high. As a result the majority of respondents also considered that the EU could have used its leverage even more to promote deeper structural reforms (85%).

General comments included that the EU should focus on the implementation of laws (going beyond the passing of laws); be ambitious and specific enough so as to provide pro-reformers with clear evidence of what is required to comply with EU requirements (eliminating room for minimum interpretation) and include options for early MFA loan repayment in case of backtracking with reforms.

One example where the EU could have better used its leverage, were reforms in the energy sector, where current reform efforts are seen as incomplete and that new laws e.g. on NERC are not challenging enough. One respondent also highlighted there would have been a case for reforming first the energy sector (breaking up the energy monopolies, ensuring tariff transparency) before promoting increases in tariffs (thereby lowering assistance needs).

Another example is the financial sector where restructuring was not stretching enough, and in particular not covering issues related to the management of state-owned banks and to the ultimate beneficiary shareholders disclosure.

Figure 11 1st round of Delphi survey: Please indicate the extent to which you agree or disagree with the following statements. When answering this question, please bear in mind that we are only referring to reforms promoted by the EU-MFA. We also ask you to take into account the short-term horizon of the MFA programmes. Please click here for a summary overview of the reform conditionalities attached to the EU MFA



Source: ICF Delphi survey, Round 1, N = 33 or 34

Respondents also saw a case for greater emphasis on fighting corruption, ensuring anti-corruption bodies are effectively undertaking their duties and focusing efforts more on preventing corruption (as opposed to the prosecution aspects only). In parallel, more could be done to address vulnerabilities in the activities already in place in the PFM field, e.g. the vulnerabilities of the prozoro system in the area of public procurement.

A comment also suggested that better targeting of social assistance on those in need, has not been accomplished – with implications for levels of public spending.

One key area which would benefit from EU leverage according to respondents is the judicial system. Other reform areas which were quoted include, from sectors already supported by the EU energy efficiency, performance-based budgeting and tax administration and, from new sectors, decentralization, pension reforms and reforms of the healthcare system.

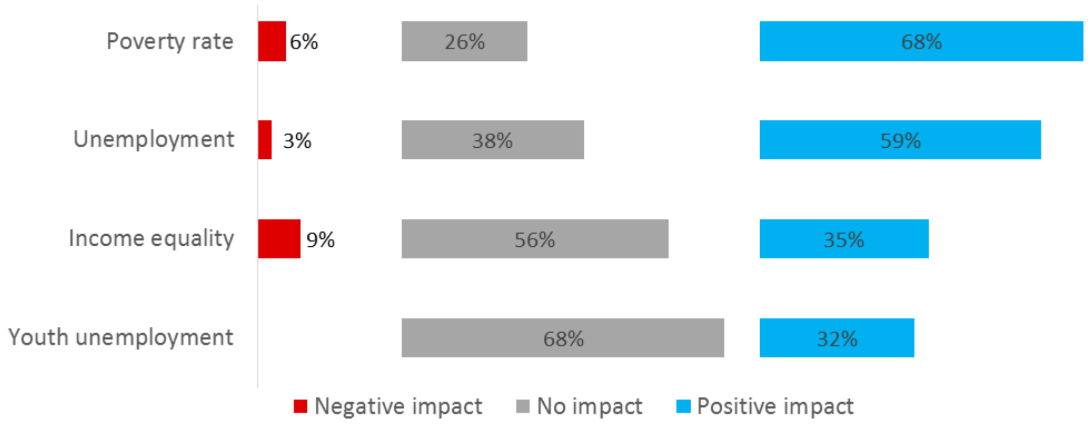
Last but not least, for the advancement of reforms, the case was also made that there is a need to make the government publically accountable and reinforce control and monitoring of the fulfillment of reforms – in line with the conclusion of the European Court of Auditors report. In addition, one respondent highlighted that support to

Ukrainian civil society organisations would be more effective than MFA conditionality for the purpose of advancing reforms.

A5.3.3 Social impacts of the MFA operation

MFA loans were considered to have had the most impact on the poverty rate and on the level of unemployment. However, there was considered to be less impact on income equality and youth employment) (Figure 12).

Figure 12 1st round of Delphi survey: In your view, what was the impact of the MFA on:



Source: ICF Delphi survey, Round 1, N = 34

The social impact of the MFA conditionalities was also considered (Table A1.9), and specifically whether the conditions had protected vulnerable households from higher energy tariffs. Only one respondent considered it was unsuccessful in at least partially protecting vulnerable households from gas price rises. The remainder largely thinks it was at least partly successful. Comments include:

- The increases in tariffs were so high that they could not be compensated in full – which might have had a negative impact on household energy demand.
- The targeting of the scheme is not without caveats: on the one hand, there are some doubts that it reaches all vulnerable households, and on the other hand, compensation is provided in relation to official income while allegedly a large part of incomes is not reported.
- The scheme is not sustainable over the longer term. The compensation scheme is made available to millions of households and it reduces the amount which is available for investment / other purposes. Additional fees will need to be introduced for households
- The compensation scheme does not incentivize households to increase their energy efficiency.

Figure 13 1st round of Delphi survey: Was the MFA conditionality successful in protecting vulnerable households from gas price rises?

Source: ICF Delphi survey, Round 1, N = 34

Annex 6 Summary note from the Focus Group

A6.1 Perception/ awareness of MFA

- MFA perceived as a useful tool that allowed to push Ukrainian authorities to advance reforms;
- Experts have been generally aware of the MFA I & II but to rather limited extent i.e. some knowledge of financial envelope but lack of specific knowledge about conditionality;
- IMF support programmes were more visible than MFA but unlike MFA, they have been also sometimes negatively perceived due to the fact that they typically pursue more socially sensitive reforms and some local officials tend to 'hide behind the IMF back' by referring to IMF as main promoter of those socially costly/sensitive reforms
  - 'IMF has had 30 years of bad PR in this country'
- People often do not understand the concept of reforms, rationale and their impacts. Wider public largely unaware of EU role in reform – although some understanding of the EU finance offered, seen as 'finance for a crisis';
- Some experts pointed also to the fact that even those most obvious and uncontroversial reforms (i.e. those with clear and immediate benefits for society) are not sufficiently explained to key stakeholders including general audience;
- There has been some views that there was little transparency and nearly no information about the scope and progress of the discussions between the EC and Ukrainian authorities while the MFA I & II were being implemented;
- There is definitely a need to explain the conditionality – high consensus among participants;
  - For instance, when Ukraine receives the disbursement from the IMF, many people already ask what needs to be done to get the next one. This is not the case for MFA;
  - Participants indicated that there has been substantial difference in the awareness and media coverage of MFA III conditionality versus MFA I & II. The awareness and media coverage of the former one has been greater i.e. because of certain conditions like the one related to the wood ban or e-declaration;
- There are a few policy makers/ politicians in Ukraine who are reform leaders and IMF and EU should support those people. This can be done by thorough explanation of rationale and potential impact of reforms that are taken further by those leaders;
- Media representative from European Pravda stated that she is in regular contact with the EU Delegation;
- Representative from academia stated that anti-corruption measures are often perceived as originating/ being strongly promoted by the EU and IMF;
- MFA I & II operations were perceived as a sign of EU solidarity but at the same time workshop participants stated that the EU support was also very much expected in Ukraine given the context (pro-European Maidan protests, ongoing AA negotiations) and not providing assistance to Ukraine would have had a major negative impact on the EU credibility in the country. AA process in particular had raised expectations for the EU – support was expected, and demonstrated solidarity when it arrived;
  - Representative of academia cited the public opinion pool according to which Ukrainians are one of the most pro-EU nations. He argued that this should

be therefore matched by the level of support provided to the country. MFA I & II or visa liberalization can be also considered from this perspective;

- Participants were not aware of the fact that the enhancement of the social safety net was part of the MFA conditions. Even among experts, distinguishing the role / responsibility of donors for particular conditions is difficult. The results of EU programmes/conditions not reported (kc MFA) Hard to differentiate the MFA from IMF or wider EU activity;
- Lack of awareness undermines perceived value of EU – and prevents civil society engaging in support of the MFA objectives / barriers given lack of transparency – contrasts with IMF reporting prior to disbursements. Suggested the internal EU-Del review summarised in the 'release and borrowing decision' could be used;
- Greater transparency would help UA by highlighting obstacles and promoting support for change.

A6.2 Political significance (summary)

- Solidarity form confirming expectation;
- Scope for back-tracking, not all change is irreversible;
- Absence of MFA/IMF would have led to damaging fiscal changes – reductions in pay for public sector, smaller reductions in subsides/safety net, lower real incomes / consumption.

A6.3 Economic impact

- There were some views that assistance was too small and there were some comparisons made in media referring to the size of support package provided to Greece. The expectations of support among Ukrainian stakeholders were fairly high;
- There was also a view that the financial impact should not be underestimated given the limited financial reserves at the time – would have restricted access to foreign currency;
- Hard to say what would have happened in absence of rescue package. In case of absence of MFA <u>and</u> IMF, the reserves would have been lower;
  - Back in the time gas imports were still substantial and costs had to be settled in US$ given that gas imports from Gazprom were in US$;
  - The MFA arguably gave companies in the East more time to adjust/ regroup [by indirectly providing the access to foreign currency];
  - With lower reserves, the imports would have fallen probably even more;
- There would have been fiscal adjustment. Attendees agreed that public wages would have been most likely to be cut first;
- There was a consensus that spending on social safety net would not have been affected in the absence of the MFA given its link to tariff increase and high sensitivity;
- MFA was not seen as a factor that affected the confidence in a clear-cut way i.e. by one off changes in key indicators that can be clearly spotted i.e. changes in forex. Yet, it was argued that if it had been absent, it would have had an impact on confidence. The factor that had very material impact on business confidence was seizure of assets from companies operating in the East R].

A6.4 Social safety net

- It was agreed that the current level of spending on social safety net is too large;
- It was pointed by one participant that design of social safety net in 2014 was good and promptly implemented. Yet, the same participant indicated that what was missing was the alignment with other measures that jointly could have resulted in some additionalities i.e. measures related to energy efficiency;
  - The representative from academia indicated that information campaign about the enhanced social safety net could have been better though;
- There was a consensus that there have not been significant behavioural changes in the private energy consumption (i.e. greater energy efficiency) despite of tariff increase due to lack of sufficient incentives (i.e. lack of regulation to improve energy efficiency, limited progress in installation of meters, existence of central heating systems that are not conductive to careful energy management / consumption);
- There was a consensus that on aggregate, the introduction of tariff increase in parallel to social safety net resulted in substantial net fiscal savings;
  - As an example, Mario Rapko cited the reduction in Naftogaz operational deficit between 2013 and 2014 [5% of GDP in 2013 -> 1.5% of GDP in 2014] compared to the size of spending on social safety net [0.5% of GDP in 2014]. IER added though that there has been also some accumulation of arrears among corporate entities that were not able to meet higher tariffs in full.
- Energy subsidies will reach 2% of GDP in 2017 while they accounted for 0.5% of GDP in 2014 (NBU Financial Stability Report[3]). In 2016 5.5 million HH received the subsidies while it was already 8.5 million in 2017.

A6.5 Conditionality

- There was the consensus that in terms of the key areas, the MFA conditionality covered largely the right ones and did not miss any important area (although civil society does not know the conditions in detail);
  - Generally considered that there little scope for stricter reforms given the stage in the reform process. Difficult for early / short-term conditions to have anticipated later stage constraints;
  - Some participants stated that one specific area that could have been perhaps incorporated under the MFA conditionality was energy efficiency. Yet, it was also stated that MFA is a short terms anti-crisis support and reforms implying behavioural changes of larger cohorts of population may be out of its scope;
  - In terms of specific conditions, one participant stated that strengthening the capacity of the Anti-Monopoly Committee to cover SOEs could have been addressed by MFA II. Yet, one participant indicated it had been already somehow addressed under AA negotiations;
  - The critical conditions related to anti-corruption.
- It was indicated that while the MFA I & II conditionality was quite abstract/generic in its phrasing, the MFA III conditionality became much more specific;

[3] https://bank.gov.ua/doccatalog/document?id=40819104

- In terms of the MFA related ant-corruption measures, representative from Transparency International made several comments:
  - Overall, there has been a meaningful decrease in the corruption level in Ukraine since 2014. Unlike prior to the 'EuroMaidan' protests, it does not have institutionalized form anymore;
  - The underlying acceptance of corruption among broader population, a heritage from Soviet times, is still a fundamental issue;
  - Auditing and reporting are critical requirements to provide the necessary transparency. Greater transparency of MFA would help civil society understand priorities and build support;
  - NB: one well informed participant considered Accounting Chamber a clear 'MFA win'
  - The most prominent example of the successful anti-corruption reform that was supported by the MFA is e-procurement system ['ProZorro[4]']. Other useful, though still not fully completed reform, has been e-declaration system forcing public officials to disclose their assets;
  - The law enforcement system remains the main obstacle to further progress in fight against corruption in Ukraine. There is currently not enough political will to make meaningful changes on this front. At the central administration level, there is some will in the Ministry of Finance;
  - At the current stage, Ukraine does not need plans/ strategies anymore, those were useful at the initial stage. Implementation/ enforcement is crucial;
  - There is still some risk of backtracking in ant-corruption reforms;
  - NB: one participant pointed that VAT refunds was a main corruption scheme in Ukraine 2014-15.
- Several participants agreed that having fixed conditionality (without possibility to amend it in course of duration of a MFA operation) is in fact beneficial as it is more transparent, reduces moral hazard as well as potential risk of political pressure that could be exercised by ECFIN;
- Apart from changes in public procurement, several participants agreed that other examples of successful reforms are reduction in VAT refund arrears, reforms in energy sector, the extension of ACU remit by audit of government revenue and the reform of financial services;
  - Yet, the representative from Confederation of Employer of Ukraine indicated that although total amount of due refunds has declined substantially, the new system for automatic refunds was introduced only in April and it is still too early to assess its effectiveness;
    - VAT arrears was a very important issue for business back in 2014/15 and there was also much pressure from international partners including foreign embassies to tackle the problem.
  - Reforms in financial services were generally successful. Some participants emphasised that those were of a particular interest of the IMF.
- One participant has been finalizing the study which has assessed different conditionalities prescribed by international donors, including MFA I, II & III.

Since late 2014, Vox has been providing regularly updated index that has been capturing the potential impact of key legislative proposals. Some have captured MFA related reforms.

[4] https://prozorro.gov.ua/en

Annex 7 Debt Sustainability Analysis

A7.1 Introduction

Public debt is sustainable when the primary balance (government revenues less government expenditure excluding interest payments) required to at least stabilise debt under both baseline and realistic shock scenarios is economically and politically feasible, such that the level of debt is consistent with an acceptably low rollover risk[5] while still preserving potential growth at a satisfactory level (IMF, 2013). Assessing debt sustainability involves making judgements about the expected future path of public debt and access to finance on reasonable terms (IMF, 2013).

In this respect, the key debt indicators are the *public debt-to-GDP* ratio and the *gross public financing needs-to-GDP* ratio. For the purposes of this evaluation, public debt refers to central government debt – including debt held by the National Bank of Ukraine (NBU) – local government debt, domestic and external government guarantees on loans and bonds to State Owned Enterprises (SOEs), and NBU liabilities to the IMF. The current *gross public financing needs* are the sum of the current account balance and the amortisation of short-term external private and public debt at remaining maturity.

The following analysis gives a summary of these indicators and the respective IMF early warning risk benchmarks for emerging market countries (which include Ukraine) for 2013-2016. Also included is a selection of other debt profile and economic indicators.

To identify and assess the effects of MFA I and II on Ukraine's debt sustainability, we organise the debt sustainability assessment (DSA) into the following three time periods:

- debt sustainability before MFA I and II (i.e. before April 2014)
- debt sustainability during and after MFA I and II (from April 2014 and after); and
- debt sustainability without MFA I and II (the counterfactual scenario).

MFA I (EUR 610 million) was based on decisions in 2002 (EUR 110 million)[6] and 2010 (EUR 500 million)[7] and disbursed in three tranches over 2014-2015 (Figure 14).

MFA II (EUR 1 billion) was approved in April 2014 and disbursed in two equal tranches the same year.

A third MFA operation (MFA III) for EUR 1.8 billion was approved on 15 April 2015, however, assessment of its impact falls outside the scope of the evaluation as it is still being implemented.

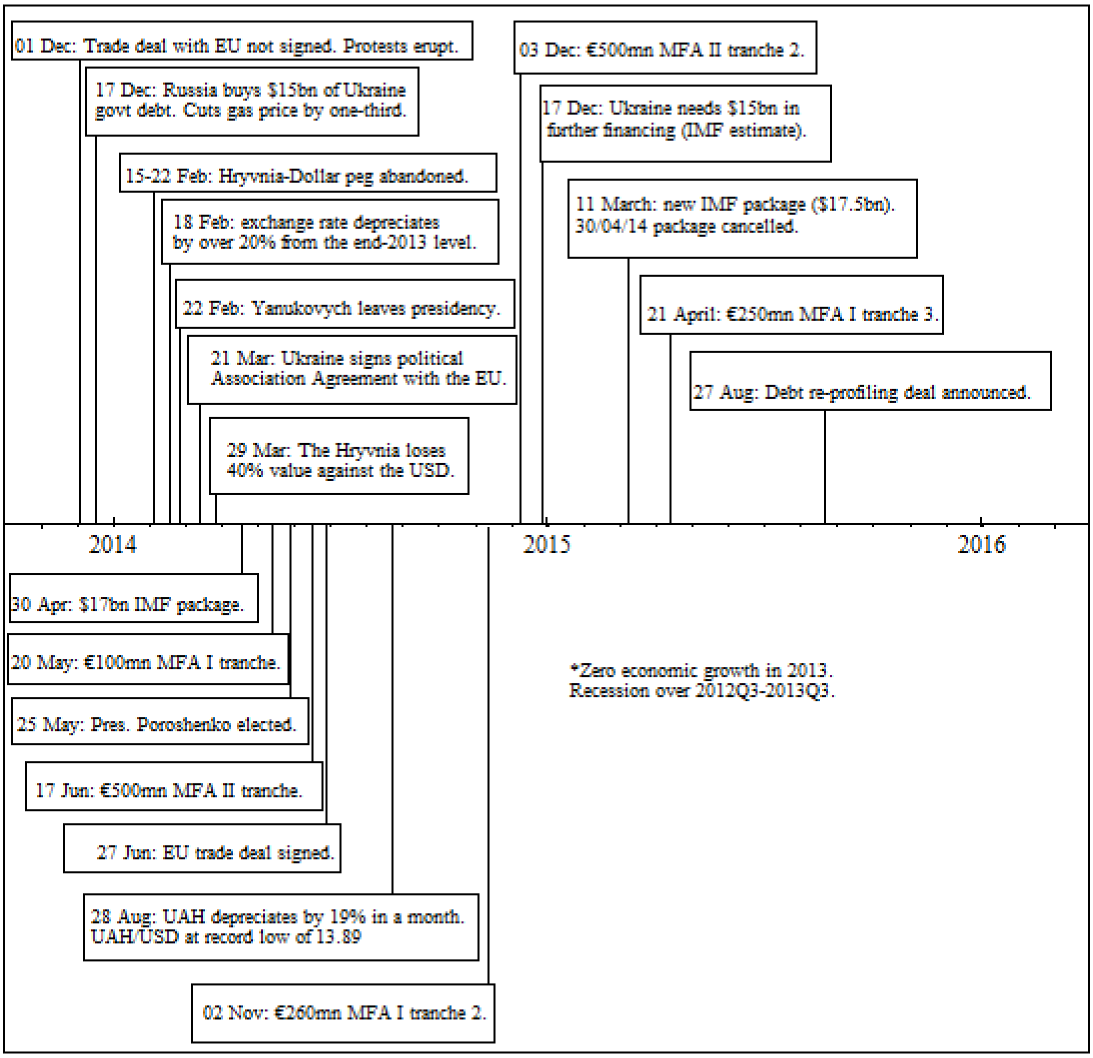
We start by analysing debt sustainability before April 2014.

[5] A risk of refinancing an initial debt by taking another loan, typically at a higher cost.

[6] Approved to support Ukraine's transition to a market economy.

[7] Approved to help Ukraine deal with the impact of the 2009 economic crisis.

Figure 14 A timeline of selected key events in Ukraine (2013-2015)



Notes: Between 2013-2015 Ukraine received financing from the EU (MFA I and II); international financial institutions (the International Monetary Fund (IMF), World Bank (WB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB)); and countries such as Japan and Norway.

A7.2 Debt sustainability before operation of MFA programmes (before April 2014)

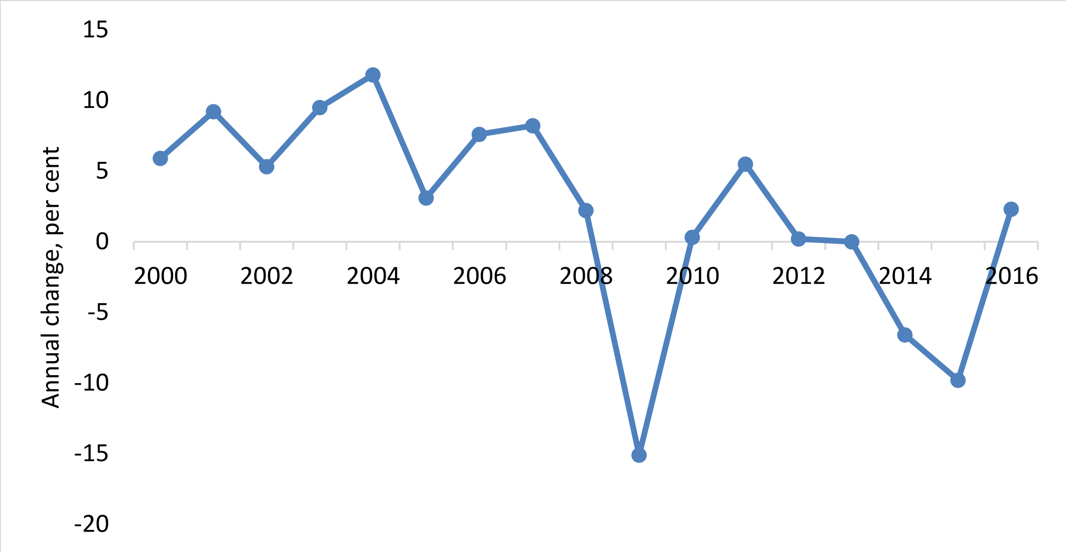
A7.2.1 After a sharp contraction in 2009, Ukraine's GDP growth bounced back over 2010 and 2011, only to weaken again in 2012 and 2013

As the effects of the 2007-2008 Global Financial Crisis spread through the region, Ukraine went into a recession in 2009 with real GDP contracting by 15.1 per cent[8] (Figure 15). The economy expanded over 2010-2012. However, the period leading up to MFA I and II in 2014 was characterised by a weak economy. The economy contracted in each quarter over 2012Q3-2013Q3 and registered zero GDP growth in 2013. Underlying this slowdown was a fall in exports (steel exports to Russia, for example), delayed reforms and a bad harvest in 2013. The economic slowdown was compounded by the political crisis triggered by President Yanukovych's refusal to sign a trade deal with the EU in December 2013 and the subsequent Maidan uprising. These crises combined to culminate in a full-blown economic and financial crisis in

[8] IMF, WEO October 2016.

2014 with GDP contracting and the cost of debt finance rising to levels that threatened the sustainability of Ukraine's debt.

Figure 15 Growth in Ukraine's real GDP, 2000-2016



Source: International Financial Statistics (IFS) database (IMF)

A7.2.2 In the wake of the global financial and economic crises, the public debt-to-GDP ratio increased substantially over 2007-2010, before stabilising at around 40 per cent over 2010-2013

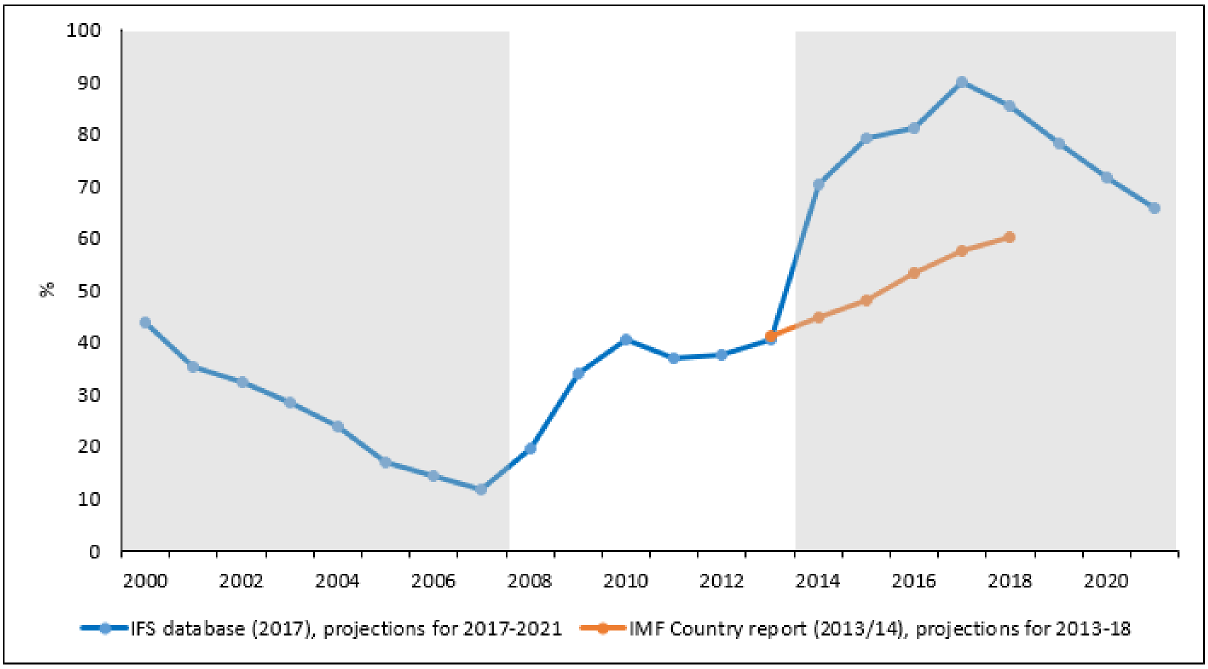
The evolution of Ukraine's public[9] debt-to-GDP ratio is tied to the performance of its economy with periods of low economic activity coinciding with higher debt-to-GDP ratios. Its debt-to-GDP ratio increased over 2007-2010, when Ukraine went through a series of crises and contractions. By the end of 2013 nominal gross public debt had risen to 40.5 per cent[10] of GDP (USD 73.1 billion) (see the blue line in the non-shaded section in Figure 16), a rate last seen in the early-2000s but which was still below the IMF 70 per cent debt burden benchmark above which debt sustainability is at high risk for an emerging market country like Ukraine. Furthermore, while the ratio of public debt-to-GDP in 2013 was more than three times the level in 2007 (just under 12 per cent)[11], it had been stable at around 40 per cent since 2010.

9 Public debt refers to central government debt – including debt held by the National Bank of Ukraine (NBU) – local government debt, domestic and external government guarantees on loans and bonds to SOEs, and NBU liabilities to the IMF.

10 IMF.

11 IMF.

Figure 16 General gross government debt-to-GDP



Source: International Financial Statistics (IFS) database (IMF) and IMF Country Report No.14/145

The USD 73.1 billion public debt at the end of 2013 was composed of central and local government debt as well as government guarantees (see Table 8). Government debt accounted for over USD 60 billion (82 per cent of gross public debt) while government guarantees were USD 13 billion. Ukraine had over USD 37.6 billion (51.4 per cent of public debt) in external government debt and guarantees compared to USD 35.5 billion in internal government debt and guarantees.

The amount of internal government debt (USD 32.1 billion) exceeded external government debt (USD 27.9 billion). In contrast, internal government guarantees at USD 3.4 billion were less than one-half the external government guaranteed borrowing of USD 9.6 billion, highlighting the extent to which government guarantees were important in helping Ukrainian enterprises to access international capital markets.

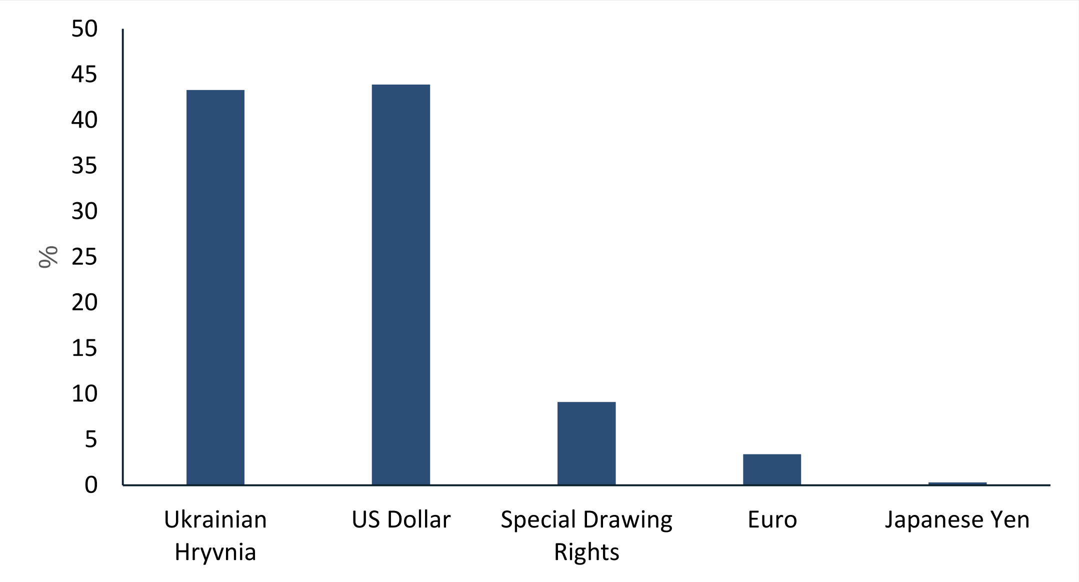
Table 8 The structure of Ukraine's public debt as of 31 December 2013, USD millions

Type of debt	Internal debt	External debt	Total debt	%
Government debt	32,148	27,932	60,080	82
Government guarantee	3,394	9,636	13,030	18
Total public debt	35,542	37,568	73,110	100
%	49	51	100	

Source: Ministry of Finance of Ukraine.

Of about USD 60 billion in state debt (public debt less public guarantees) at the end of 2013, around half of this was denominated in foreign currencies (see Figure 17). Dollar-denominated debt alone accounted for 43.9 per cent of state debt.

Figure 17 The structure of State debt by currency as of 31 December 2013



Notes: Percentages based on a total volume of state debt of UAH 480.2 billion.

Source: Ministry of Finance of Ukraine.

Gross public financing needs-to-GDP in 2013 were around 10 per cent[12] which compared favourably to the 15 per cent high-risk benchmark. In late-2013 the IMF projected that, all other things being equal, the debt-to-GDP ratio would rise to 60 per cent in 2018[13] (as represented by the orange line in Figure A7.3). In addition, there were risks arising from larger than expected funding needs from the banking sector and SOEs such as oil and gas company Naftogaz. Naftogaz's size and importance to Ukraine meant that its debts had systemic consequences for the national budget. We now know that the debt-to-GDP ratio rose to 70 per cent by the end of 2014 (as represented by the blue line in Figure A7.3).

Despite debt levels and financing needs being below high risk benchmarks, the IMF had been talking informally to the EU in autumn 2013 about how to best assist Ukraine under the SBA,. These discussions and coordination also involved the World Bank and reflected each institution's area of expertise, priorities, history of working with Ukraine and package size. IMF coordination, for example, reflected its capacity as the largest contributor (the SBA pledged more than USD 17 billion over two years) and its experience of organising previous rescue packages for Ukraine.

A7.2.3 Ukraine's fiscal stance over 2010-2013

Ukraine's consolidated budget[14] was in deficit in each year from 2010 to 2013. The budget deficit-to-GDP ratio dropped from 5.9 per cent in 2010 to 1.8 per cent in 2011 but then rose in both 2012 and 2013 to 3.6 per cent and 4.4 per cent, respectively. Revenues increased in each year over 2010-2012 (UAH 315 billion, UAH 399 billion and 445 billion) but fell slightly to UAH 442 billion in 2013, reflecting the zero growth in the Ukrainian economy in 2013. In contrast, expenditures increased in each successive year over 2010-2013 (UAH 378 billion, UAH 417 billion, UAH 492 billion and UAH 509 billion) and exceeded revenues. Much of the consolidated budget went to social expenditures whose share rose from just over 62 per cent in 2011 to more

[12] IMF.

[13] IMF, 2014. Country Report. Available at: http://www.imf.org/external/pubs/ft/scr/2014/cr14145.pdf

[14] The consolidated budget is composed of the state budget and local budget.

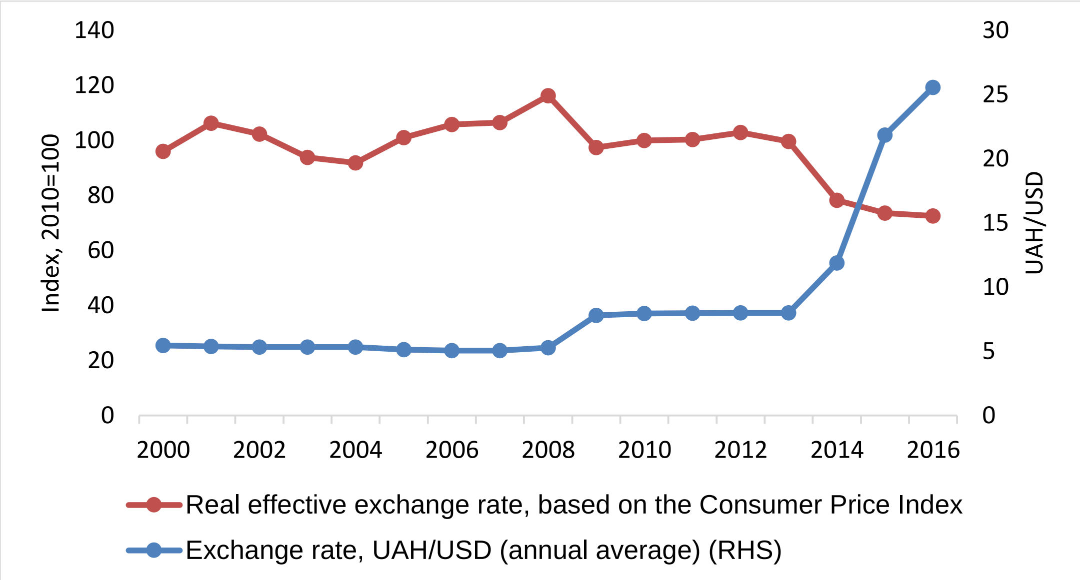
than 65.9 per cent in 2013. Ukraine also saw an increase in the share of its expenditure budget going to public debt management over 2010-2013. In 2010 public debt-related payments were 5.1 per cent of the expenditure budget. This rose to 6.9 per cent in 2011, then fell to 6.1 per cent in 2012 before rising to 7.9 per cent in 2013.[15]

In addition, the Naftogaz operational deficit was substantial (1.9 per cent of GDP in 2013) and contributed to Ukraine's overall debt balance. Naftogaz ran up this deficit mainly because of its poor collection rate, in addition to tariff subsidies amounting to about 7 per cent of GDP.

A7.2.4 Apart from a marked devaluation in 2009, the value of the Hryvnia was relatively stable up to 2013, helped by the Dollar peg

Thanks to a Dollar peg, the Hryvnia was stable up to early 2014 (Figure 18). It depreciated by around 17 per cent[16] in 2009 due to the global economic crisis, but it was largely unchanged in the years prior to and after 2009. However, by February 2014 the Hryvnia was over-valued. Subsequently, a sharp fall in Ukraine's foreign exchange reserves and changes in monetary policy contributed to the NBU abandoning the UAH/USD peg which led to a currency depreciation. The Hryvnia lost more than 30 per cent in value against the US Dollar between February and June 2014 and 50 per cent over February to December 2014.

Figure 18 The Hryvnia – US Dollar exchange rate and the real effective exchange rate, 2000-2016



Source: International Financial Statistics database, IMF.

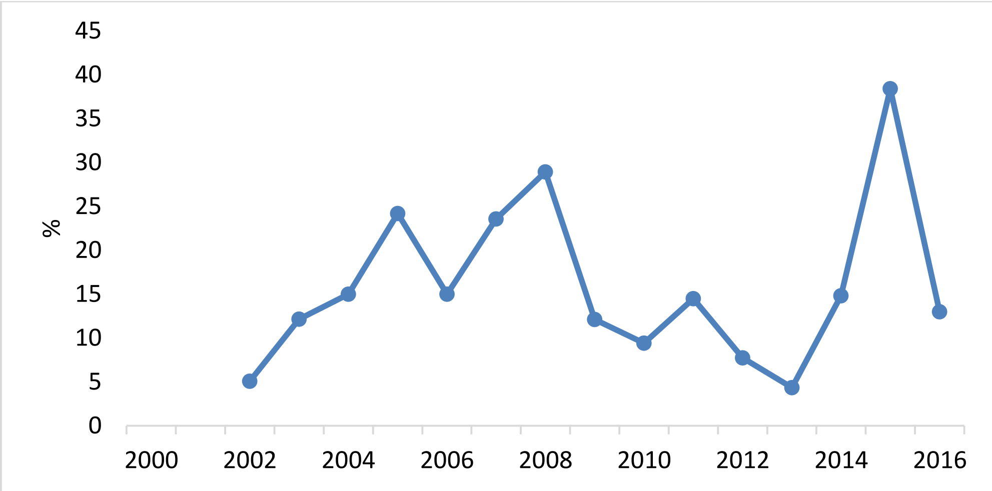
Total payments on public debt (public debt service and repayments) in 2013 were UAH 111.5 billion compared to UAH 155.2 billion in 2014. The depreciation in the Hryvnia in 2014, combined with higher energy prices, resulted in a sharp increase in inflation (Figure 19). Ukraine's economy relies heavily on household consumption, which accounts for around 75 per cent[17] of GDP. Consequently, the sharp fall in the Hryvnia and the increase in inflation are likely to have had a negative impact on real wages and households' purchasing power. This in turn will have impacted adversely on household consumption and, therefore, GDP growth.

[15] http://195.78.68.18/minfin/file/link/401237/file/Invest%20Presentation%20(State%20Debt).pdf

[16] IMF.

[17] IMF.

Figure 19 Inflation in Ukraine, 2000-2016



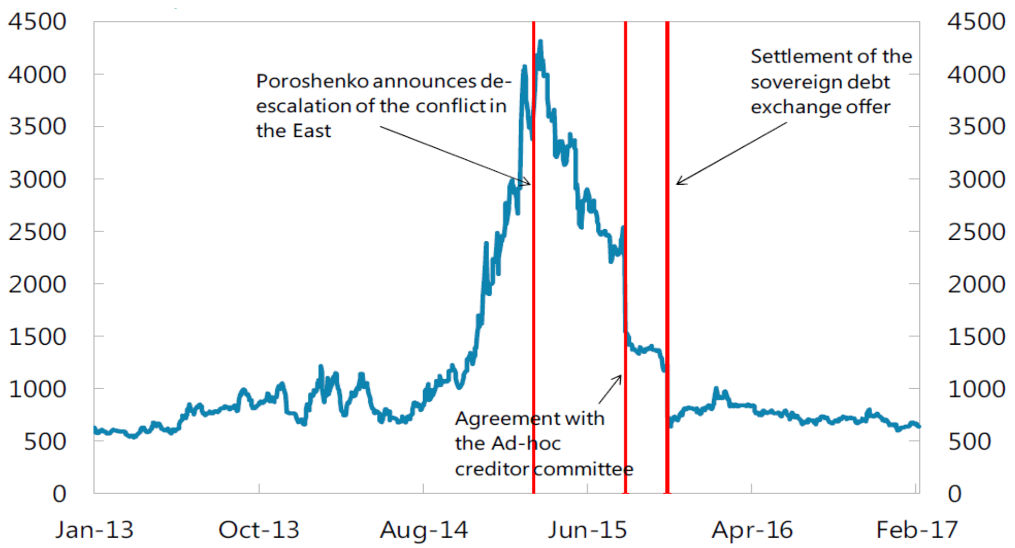
Notes: Inflation calculation based on the GDP deflator.

Source: International Financial Statistics (IFS) database (IMF).

A7.2.5 Rising pressure on debt sustainability in 2013

By the second half of 2013 signs of pressure on Ukraine's debt sustainability were beginning to show in rising bond spreads and debt downgrades from the leading credit rating agencies. Ukraine's EMBIG spread rose above the 800[18] basis points early warning benchmark for safe market access in late 2013 (Figure 20).

Figure 20 EMBI Global Spread, basis points



Source: Bloomberg via IMF Country Report No. 17/83, page 55.

In September 2013 Moody's downgraded Ukraine's debt from B3 to Caa1 and then to Caa2 on 31 January 2014. Fitch downgraded Ukraine's debt from B to B- in November 2013. S&P also downgraded Ukraine from B to B- in November 2013, followed by further downgrades to CCC+ on 28 January 2014 and to CCC on 21 February 2014. These downgrades reflected the increasing risk that Ukraine would be unable to refinance its debt.

[18] JP Morgan.

By the end of 2013 Ukraine had lost access to international financial markets as investor confidence waned, credit agencies downgraded Ukraine's debt and the cost of borrowing increased sharply (see EMBIG spreads in Figure 20). The loss of investor confidence was on the back of poor economic performance, worsening current and fiscal accounts, lack of reforms to promote economic growth, and a worsening political climate, including protests, stemming from the then Yanukovych government's refusal to sign the EU Association Agreement in November 2013. These deteriorating benchmarks combined to contribute to the increasing pressure on the sustainability of Ukraine's debt.

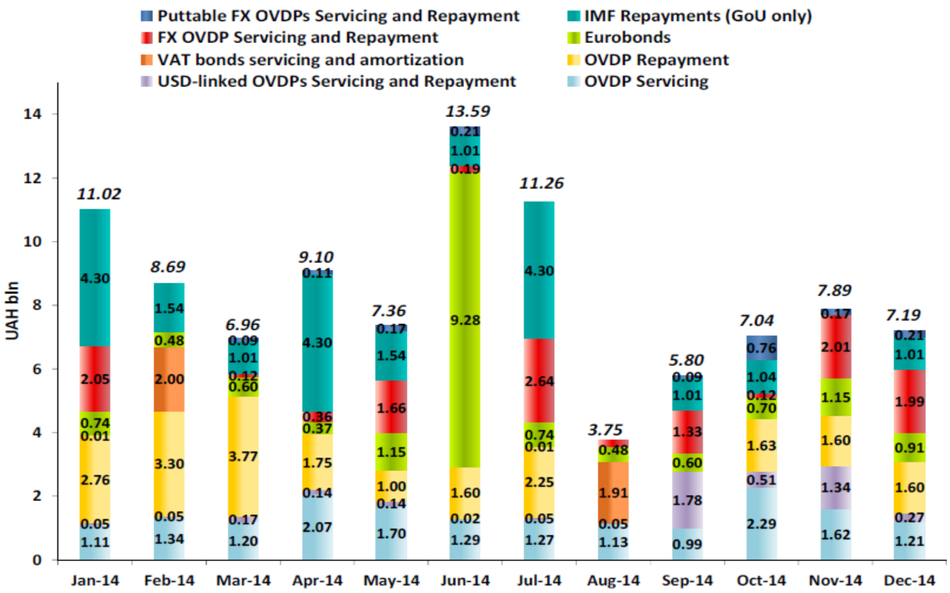
A7.2.6 Ukraine had a weak banking system

In late 2013 Ukraine's banking system was on the brink of collapse yet Ukraine lacked the capacity to prevent this. Bank runs were reported in parts of the country and several of the smaller banks collapsed. However, the Government's bank rescue package was insufficient and the Deposit Guarantee Scheme (DGS) was not adequately capitalised to cover the 50 – 60 banks under its remit. Later, the NBU classified eight of these as systemically important in December 2014 (the number that was reduced to three in February 2016).

A7.2.7 The emerging crisis – early 2014

The Hryvnia's depreciation increased the cost of Ukraine's foreign debt servicing and repayments in 2014, a considerable composition of which were Eurobonds and credits from the IMF (Figure 21). For instance, estimates by Ukraine's Ministry of Finance in March 2014 show that guaranteed external debt rose by UAH 21 billion (equivalent of USD 2.6 billion[19]) between January and March 2014, a period during which the Hryvnia depreciated sharply but no additional external borrowing took place.[20]

Figure 21 Domestic and external government bonds servicing, repayment and IMF repayments in 2014



Notes: OVDP refers to internal state debt bonds.

Source: USAID/FINREP-II Financial Sector Development program.

[19] Assuming UAH/USD official exchange rate of 7.99 from January 2014.

[20] Ministry of Finance in Ukraine, March 2014. Ukraine Investor Presentation. Available at: http://195.78.68.18/minfin/file/link/401237/file/Invest%20Presentation%20(State%20Debt).pdf

A series of exchange rate shocks in early 2014 (after the NBU abandoned the Hryvnia-US Dollar peg in February 2014) led to a rapid depreciation of the Hryvnia. This was one of the main factors behind the rise in the debt-to-GDP ratio (see timeline in Figure 14). The implication of this was a sharp increase in the value of debt denominated in foreign currencies. In March 2014, the volume of debt (UAH 804 billion) was 19 per cent higher than it would have been (UAH 675 billion) without the deprecation of the Hryvnia[21].

Moreover, the materialisation of contingent liabilities such as those linked to government financing and recapitalisation of banks and state-owned enterprises (SOE) also contributed to the increase of the debt-to-GDP ratio. Of the UAH 219.6 billion increase in state debt and state guaranteed debt between the end of 2013 and March 2014, UAH 33.3 billion was due to capitalising Naftogaz and UAH 5.2 billion due to capitalising banks. The UAH 38.5 billion used to capitalise Naftogaz and banks was over 2.5 per cent of GDP.[22]

Mounting debt repayments towards the end of 2013 and beginning of 2014 as well as the NBU's defence of the Hryvnia-Dollar peg contributed to the sharp fall in reserves to USD 15.5 billion[23] by the end of February 2014 and a worsening of Ukraine's balance-of-payments position. Part of the justification for MFA II was that Ukraine's external funding needs were higher than the funding that the IMF was expected to provide. At the end of 2013 the external debt-to-GDP ratio was 20.7 per cent, rising to 39 per cent by the end 2014.[24]

While the headline debt sustainability metrics were below the high-risk benchmarks in late-2013 and early-2014, the worsening political crisis in early 2014 also increased the risk of default and therefore contributed further to Ukraine's continuing inability to access financial markets. In addition, the crisis also disrupted financing from Russia to Ukraine worth USD 15 billion in Ukraine government debt (agreed in December 2013) as well as gas deliveries at reduced prices.

Consequently, the public debt-to-GDP ratio was projected to ramp up well above the 2013 level of 40.5 (Figure 22).

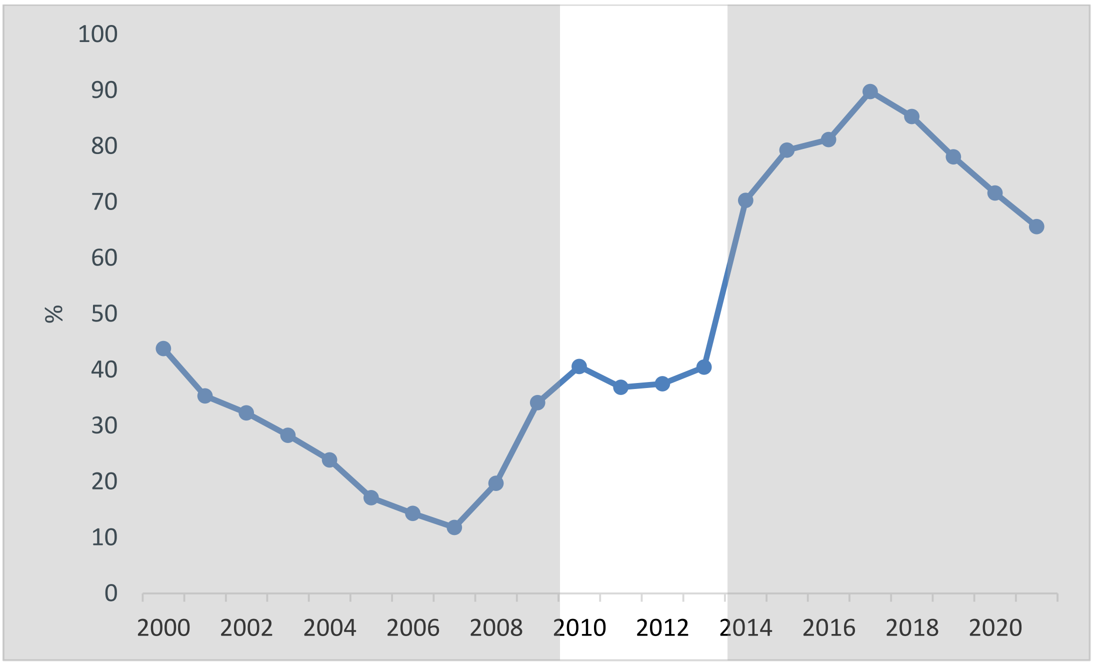
[21] Ministry of Finance, 2014. Ukraine Investor Presentation. Available at: http://195.78.68.18/minfin/file/link/401237/file/Invest%20Presentation%20(State%20Debt).pdf (Slide 3)

[22] Ministry of Finance, 2014. Ukraine Investor Presentation. Available at http://195.78.68.18/minfin/file/link/401237/file/Invest%20Presentation%20(State%20Debt).pdf

[23] IMF.

[24] http://cost.ua/en/budget/debt/

Figure 22 Public debt-to-GDP ratio between 2010 and 2014



Source: *International Financial Statistics (IFS) database (IMF).*

By early 2014 the situation had deteriorated to the extent that Ukraine requested rescue funding from the IMF under a Stand-By Arrangement (SBA), with gross external financing needs for 2014-2016 estimated at USD 27 billion[25]. The SBA, which was approved in April 2014, enabled Ukraine to access about USD 17 billion in IMF funding over 2014-2016. In addition, about USD 15 billion in financing was pledged by other official creditors. Among the main reasons necessitating the rescue package were large external and internal imbalances exemplified by foreign debt pressures, weak fiscal deficits and an unsustainable balance of payment position (Table 9).

Table 9 Fiscal balance and economic and market indicators (per cent of GDP unless otherwise stated)

Variable	2013	2014	2015	2016
General government balance, per cent	-4.8	-5.2	-4.2	-3.1
Structural government balance	-4.6	-3.6	-3.1	-2.6
Structural primary balance	-2.1	-0.2	1.2	2.1
Interest bill	2.5	3.4	4.3	4.7
General government and Naftogaz balance	-6.7	-8.5	-6.1	-4.4
Financing gap, USD billion, of which:	x	13.7	15.6	6.3
Underlying BoP gap, USD billion	n/a	n/a	9.6	4.0

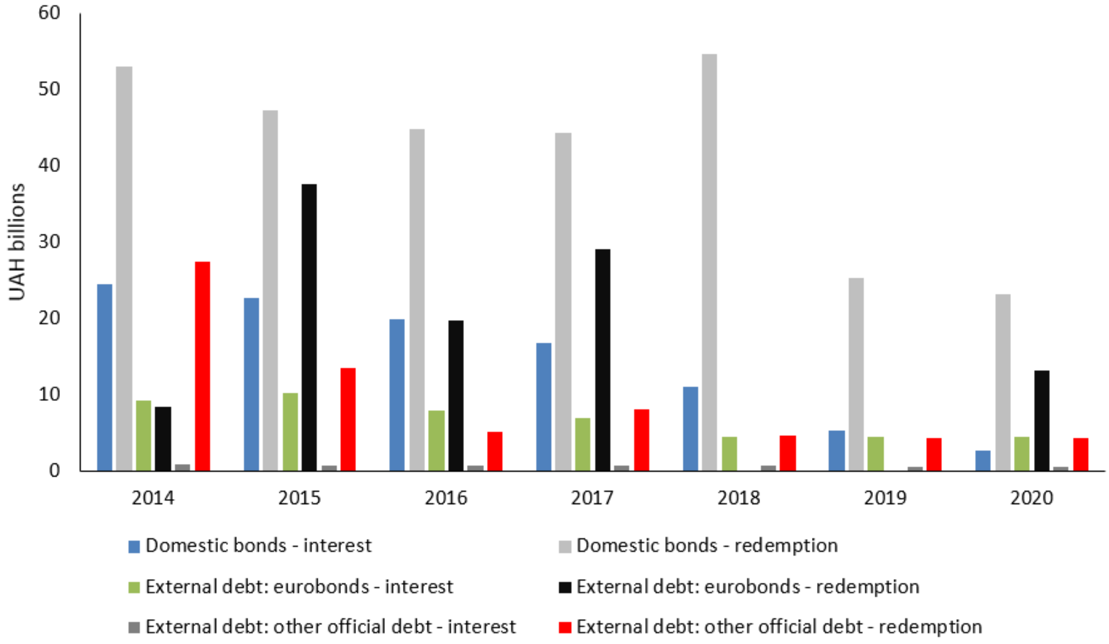
Source: *IMF Country Report No. 16/320, (pages 18 and 26) and 17/83, (page 25).*

Ukraine's mid-term debt repayment schedule from this period is shown in Figure 23 with the largest payments maturing over 2015-2018. These repayments were coming due at a time when Ukraine's economy was weak and its ratio of public debt-to-GDP

[25] IMF.

rising sharply from 40.5 per cent in 2013 to 70 per cent in 2014 and subsequently 81 per cent in 2016.

Figure 23 Forecasted debt payments on borrowings until their full maturity (2014-20)



Note: *As of Feb.2014.*

Source: *Ministry of Finance of Ukraine*

A7.3 Debt sustainability during and after MFA I and II (April 2014 – 2016)

The subsequent deterioration in the economic and political environment, including a military conflict in the East of Ukraine, resulted eventually in a sharp increase in public debt to over 70 per cent of GDP by the end of 2014. The deep recession in 2014 during which real GDP contracted by 6.6 per cent, the sharp depreciation of the Hryvnia and the materialisation of Ukraine's contingent liabilities (such as in SOEs and banks) were some of the main drivers of the increase in the debt-to-GDP ratio. In 2014 and 2015 Ukraine received coordinated support from the EU, the IMF and other international financial institutions.

It was the deterioration in debt sustainability by the end of 2014 that prompted the debt operation in 2015 which was underpinned by the following three overall objectives:

1. generate USD 15.3 billion in public sector financing over the lifetime of the programme;
2. get the public and publicly guaranteed debt-to-GDP ratio under 71 per cent by 2020; and
3. keep the gross financing needs-to-GDP ratio at a 10 per cent average (12 per cent maximum annually) over 2019-2025.

EU funding for MFA I and II (EUR 1.61 billion) was disbursed in five tranches between May 2014 and April 2015, a time when the Ukrainian economy was gripped by a deep recession and the Hryvnia depreciating significantly. MFA I and II therefore contributed to Ukraine's efforts to control a deepening crisis by helping to cover its external financing needs (estimated at USD 27 billion over 2014-2016 under the IMF SBA) and fiscal consolidation, among other objectives. Part of these financing needs were public liabilities that benefited from financing from EU, the IMF (SBA and EFF), the World Bank and other financing sources.

Table 10 provides the evolution of key indicators of interest.

Table 10 Debt burden and debt profile risk indicators

Variable	IMF benchmark	2013	2014	2015	2016
Debt burden indicators					
General government debt-to-GDP, per cent	70	40.5	70.3	79.7	81.2
Public gross financing needs-to-GDP, per cent	15	9.9	12.1	11.7	12.8
Debt profile risk indicators					
EMBIG26 spreads, bp	800	x	3,356	2,823	652
External financing needs-to-GDP, per cent	20	x	52	41	35
Public debt in foreign currency (share of total), per cent	80	x	62	70	70
Share of debt held by non-residents in total public debt, per cent	60	x	56	66	64
Other indicators					
Real GDP growth, per cent	x	0.0	-6.8	-9.8	2.3
Effective interest rate, per cent	x	8.7	10.7	8.6	7.3

Notes: The public sector refers to general government and includes public guarantees.

Source: (IMF, 2013), page 54 and (IMF, 2016).

In November 2015 Ukraine successfully restructured about USD 15 billion of its external debt and achieved a 20 per cent debt reduction.[27] This debt operation contributed towards the second objective of the IMF programme with gross government debt-to-GDP now projected to be 67 per cent[28] in 2021. Furthermore, the annual gross financing needs-to-GDP ratio is projected to remain below 12 per cent[29].

While the international community was not directly involved in the debt restructuring negotiations, it is important to note that the support and access to financing from the EU via MFA I and II (and other official lenders) helped to create a conducive environment and conditions which enabled negotiations with other creditors to take place (over April-December 2015).

A7.3.2 Fiscal stance over 2014-2016

[26] The EMBIG spread is the JP Morgan Emerging Markets Bond Index Global spread for Ukraine. It reflects the market's perception of how risky Ukrainian debt is compared to an index of emerging market bonds. A larger value (spread) indicates a higher risk of default by the bond issuer.

[27] http://www.minfin.gov.ua/en/news/view/ukraina-uspishno-zavershyla-restrukturyzatsiiu-derzhavnoho-ta-harantovanoho-derzhavoiu-borhu-na-sumu--mlrd-dol-ssha?category=borg

[28] IMF.

[29] IMF.

During the lifetime of the two MFAs, Ukraine's consolidated budget remained in deficit and while revenues rose, the expenditure share of GDP fell as Ukraine implemented fiscal consolidation in 2014 and 2015.

The budget deficit-to-GDP ratio increased slightly from 4.4 per cent in 2013 to 4.6 per cent in 2014 but then dropped to 1.6 per cent in 2015.[30] The deficit-to-GDP ratio then rose to 2.3 per cent in 2016. Revenues rose in each year over 2014-2016 (UAH 610 billion, UAH 822 billion and 894 billion, respectively). On the other hand, while the revenue share of GDP also rose from 38.9 per cent in 2014 to 41.5 per cent in 2015, this share fell to 37.5 per cent in 2016.

In contrast, the expenditure share of GDP fell in the period 2014-2016 from 45.7 per cent to 45 per cent and then 39.7 per cent in 2016. As in the years 2011-2013, social expenditure took up the lion's share of the consolidated budget during 2014-2016. However, this share fell from 65.9 per cent in 2013 to 62.4 per cent 2014 and then 57.9 per cent in 2015 before edging up slightly to 59.5 per cent, suggesting that the government cut social spending as the crisis deepened. To achieve full cost recovery and to subsequently eliminate the Naftogaz deficit, a step-by-step increase in energy tariffs over 2014-2017 was implemented. Gross public financing needs increased to 12 per cent[31] of GDP in 2014 and remained at 12-13 per cent[32] in 2015 and 2016.

As a percentage of GDP, public debt rose from 70.3 per cent[33] at the end of 2014 to 79.7 per cent [34] at end-2015 and 81.2 per cent at end-2016. This crossed the 70 per cent high-risk threshold. As a percentage of GDP, the gross public financing need reached 12.1 per cent, 11.7 per cent and 12.8 per cent in 2014, 2015 and 2016 respectively, levels that still compared favourably against the IMF benchmark of 15 per cent.

A7.3.3 Public external debt and external financing needs[35]

The increase in the price of Russian gas in April 2014 put extra pressure on Ukraine's already strained external financial liabilities. In addition, Naftogaz's quasi-fiscal debt to Russia's Gazprom was a major component of Ukraine's external debt liability.

Of the government debt-related payments due in 2015, the largest monthly payment was for a repayment of USD 3 billion Eurobond maturing in December. This bond was acquired by Russia at end-2013 as part of the support package for former President Yanukovych (Figure 24).[36] This was substantially larger than repayments on other debt obligations in 2014. Given the limited availability of foreign currency in Ukraine in 2014 and 2015, the debt restructuring operation for public and publicly-guaranteed debt that was completed in late 2015 helped to ease the pressure from maturing debt payments in the short-term. This debt operation included a 20 per cent haircut on about USD 18 billion debt stock, meaning Ukraine managed to reduce its external debt by around USD 3 billion. These debt operations together with the structural and macroeconomic reforms have also helped improve Ukraine's credit worthiness and to restore its debt to a sustainable path. Thus, Ukraine plans to re-access international capital markets in the second half of 2017, a necessary step since the IMF programme ends in 2019.[37] Indeed, the EMBI Global spread was at 643 basis points on 13

[30] http://cost.ua/en/budget/

[31] IMF.

[32] IMF.

[33] IMF.

[34] IMF.

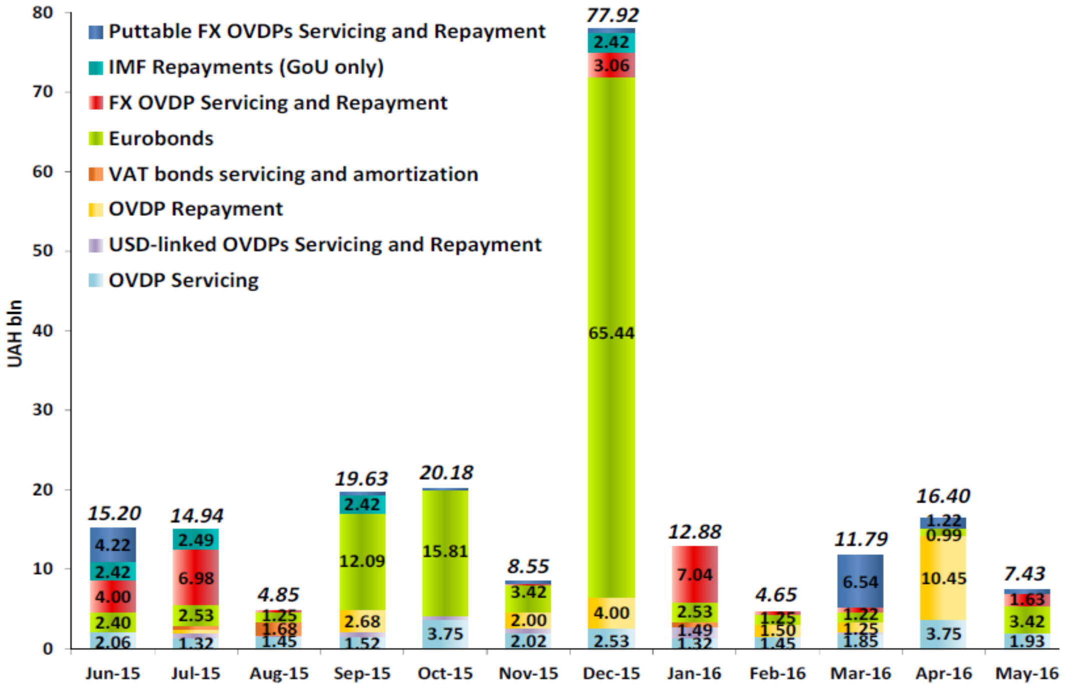
[35] External financing needs are the sum of the current account deficit, the amortization of medium and long-term total external debt and short-term total external debt at the end of the previous period.

[36] Ukraine eventually defaulted on this instrument. There is an on-going court case in which the two sides are disputing details related to this loan.

[37] http://en.interfax.com.ua/news/economic/414537.html

February 2017 (compared to 3,356 basis points in 2014). In addition, Standard & Poor's also upgraded its credit rating on Ukraine debt to B-.

Figure 24 Domestic and external government bonds servicing, repayment and IMF repayments over June 2015 - May 2016



Source: USAID/FINREP-II Financial Sector Development program

Ukraine's external debt-to-GDP ratio (both public and publicly-guaranteed external debt) increased sharply from 39 per cent in 2014 to over 52 per cent in 2015 but then fell slightly to 52 per cent in 2016.[38] It is projected to fall further to 48.8 per cent in 2017. Although MFA I and II contributed to the increase in Ukraine's external debt[39] (the MFAs were interest-bearing loans that were partly used for budget support), the overall effect was positive because MFA I and II were at concessionary interest rates and at long maturity. These concessionary rates allowed Ukraine to access funding at a lower cost than would have been possible from capital markets. In addition, Ukraine needed this funding to deal with the balance of payments and fiscal crises while it implemented reforms to stabilise the economy.

A7.4 The Counterfactual case

To better identify the effect of MFA I and II on the sustainability of Ukraine's debt, we consider the counterfactual scenario of how the debt situation in Ukraine would have evolved if there had been no MFA I and II. Two scenarios are considered:

- the effects on debt sustainability assuming no international donor loan support (from the IMF, the World Bank as well as MFA I and II); and
- the effects on debt sustainability assuming the international donor loan support was forthcoming but not the MFA I and II.

A7.4.1 Debt sustainability in the absence of all international donor loan support (including from the IMF, the World Bank and MFA)

At the end of 2013, and ignoring what we now know was to follow in 2014, Ukraine's debt position appeared to be sustainable – debt-to-GDP ratio was around 40%.

[38] http://cost.ua/en/budget/debt/

However, based on the IMF's projections at the end of 2013, the trajectory was for the debt-to-GDP ratio to rise to 60% in 2018. This is below the IMF's high-risk benchmark. However, given how weak the Ukrainian economy had been over 2012-13, a 50% increase in the debt-to-GDP ratio over five years suggests that, at the same time, the risks to sustainability were increasing. In actual fact, the situation subsequently deteriorated quickly and impaired Ukraine's ability to make scheduled debt repayments for 2014 which amounted to UAH 99.7 billion (or USD 6.3 billion[40]). Ukraine suffered an acute liquidity crisis which was partly alleviated by international financing. International loan support that was disbursed to Ukraine between April 2014 and April 2015 from the IMF, the World Bank, the EU (mainly through the MFA instrument) and other bilateral creditors such as the US totals about USD 12.5 billion. The absence of this loan support would have had devastating effects on the Ukraine economy and the sustainability of its debt.

The 2014 liquidity crisis, the exchange rate depreciation and the GDP contraction would all have been worse in addition to deeper loss in investor confidence and intensified capital flight.

The loss of investor confidence and lack of a credible reform process would have made it difficult to carry out the debt operation in 2015. Incidentally, many of the reforms that have been implemented contributed to restoring debt sustainability. To the extent that (some of) these reforms were conditionalities for the loans, there is a possibility that without the loans, some of the reforms would not have been carried out which would have had a negative effect on public debt.

The sharper depreciation in the Hryvnia would have made the external component of public debt more painful. In addition, the contraction in GDP and the resulting lower tax revenues would have made it more difficult to make debt payments in 2015 and likely led to a disorderly default and increased the risk of hyperinflation.

Another key DSA indicator is the gross public financing needs-to-GDP ratio, where the numerator (gross public financing needs) measures the level of indebtedness and the denominator (GDP) provides a measure of repayment capacity. When assessing what might have happened to the gross public financing needs-to-GDP ratio under the counterfactual, the impact on both elements needs to be considered separately.

Gross financing needs are composed primarily of fiscal deficits plus interest and amortization payments (on domestic and foreign currency-denominated debts), but may also include other items, such as: bank recapitalization, privatization receipts. In the absence of loan support from the IMF, World Bank and MFA it is likely that:

- The fiscal deficit would increase at first because a proportion of the loans received was used as budget support. Without this, the shortfall between spending and revenues would have increased. The impact in the medium term would depend on how successfully the government could 1) maintain or increase revenues and 2) hold or reduce planned expenditure. In the context of a weakening economy it seems likely that revenues would fall and that there would be little point in raising tax rates; while the need for social expenditure, which comprised the largest part of planned expenditure, changes little. Thus, it seems likely the deficit would increase in the medium term.
- The value of future interest and amortization payments would increase because the Hryvnia would be weaker and/or risk premiums would be higher.
- The recapitalisation of the banks and Naftogaz would have been harder and more costly. Because Ukraine would not have access to capital markets, it is

[40] About USD 6.32 billion at an exchange rate of UAH 15.77 per USD at the end of 2014. This is only an approximation given the large fluctuations in Ukraine's exchange rate in 2014.

likely that resources would have been diverted from other (social or investment) expenditure to recapitalise the banking system.

- Privatisation would become attractive as a means to raise revenues, but it is possible the organisations and assets put forward for privatisation would be undervalued in the political and economic climate of the day, so it is not clear this option would be pursued or be politically acceptable in reality. If it was pursued, it would probably only be as a last resort and it would not have sufficed to meet the financing need.

On balance, the first two effects would dominate and so the gross public financing need would likely increase in the short and medium term.

The impact of no loan support on GDP can be assessed by considering the impact on the main components of spending and/or incomes. In the absence of loan support from the IMF, World Bank and the MFA it is likely that:

- The financing of public sector activities would be curbed or cut, thereby hitting the wages of public sector workers and benefits paid out to disadvantaged groups. This would lead to weaker spending (of wages/benefits) in the private sector and thus hit the performance/prospects of private sector companies, their workers and wages.
- Investor confidence would be weaker and the depreciation of the Hryvnia would be even more severe. This would increase inflation and, combined with weaker nominal wage growth, would lead to flat or falling real wages. Consumer confidence and spending would fall as a result.
- The stronger depreciation of the Hryvnia would boost the price competitiveness of Ukrainian exports, but more than likely this would be offset by the increase in the cost of imports, both intermediate inputs for Ukrainian firms, in particular energy, and goods and services for Ukrainian consumers.
- Faced with weaker government and consumer spending and more expensive imports, firms would be even more reluctant to invest or expand their workforces.

On balance, the absence of loan support would lead to weaker GDP growth in the short and medium term than actually occurred.

Combining the impacts on gross public financing needs and GDP together, we surmise that the gross public financing needs-to-GDP ratio would have increased in the counterfactual case, and by more than what happened in reality.

A7.4.2 Debt sustainability with the international donor support but without MFA I and II support

A more plausible counterfactual scenario is that, whilst it would have required greater risk taking by the IMF, the IMF and other international donor support would have provided loan support in the absence of the MFA. However, international donors advise that there would have been no scope to expand their lending to cover the loss of MFA funding. This scenario relates to the loss of MFA funding and related conditionalities.

Separating out the impact of MFA I and II on the sustainability of Ukraine’s debt is a difficult undertaking based on available information. The two MFAs were combined with other finance and used to manage the government budget. As such, no record is available on the amounts that specifically went to debt operations. It is difficult to attribute changes in Ukraine’s debt position to MFA I and II because there were other active programmes (notably, the IMF) at the same time with similar debt-stabilisation objectives. Yet, while the MFAs were smaller than the IMF package: (EUR 1.61 billion) against a little under USD 5 billion disbursed from about USD 17.5 billion pledged by the IMF SBA[41] and USD 5 billion from the IMF EFF, the MFAs were greater than the USD 1.25 billion disbursed by the World Bank (WB)[42] during the lifetime of MFA I and II.

Considering the absence of MFA I and II support, and that Ukraine had a weak economy, a deteriorating political climate and was locked out of international financial markets, the loss of access to USD 2 billion in financing (over a third of its USD 6.3 billion scheduled debt repayments due for 2014) suggests that the risk of default on debt would have risen substantially.

This is because Ukraine would have struggled to secure financing from other sources at reasonable rates. This is in part because Ukraine’s access to financing from other IFIs (the IMF, for example) was already close to or beyond permitted limits. The logic of national accounts indicates that without financing to replace the two MFAs, it is likely that more adjustment would have been necessary on an already over-stretched public budget to close gaps in the balance of payments and the general government budget.

This was validated in stakeholder interviews and through the Delphi survey. For instance, interviewees indicated that adjustments would have been more likely to take the form of cuts to public sector wages and investment, social assistance programmes and, to a much lesser extent, tax rises. Whatever form these adjustments took, economic logic tells us they would have weighed down on GDP growth and ultimately had a negative effect debt sustainability. This is because such budget adjustment would likely have made the 2014-2015 recession deeper, longer in duration and led to further depletion of foreign exchange reserves as capital left the country. The resulting depreciation in the exchange rate would have increased the burden of repayments on Ukraine’s foreign currency denominated debt as well as leading to a higher and less sustainable overall public debt-to-GDP ratio in the long run. In the short run, the absence of the MFA would have lowered public debt, but the impact on the public debt-to-GDP ratio depends on how quickly it would have translated into slower GDP growth. The gross public financing needs-to-GDP ratio, which remained below the IMF benchmark of 15 per cent throughout the MFA, would also have come under more pressure and would likely have risen above 15 per cent from the twin shock of increasing liabilities and falling GDP.

In this scenario, the absence of MFA would also have had an impact on the reform process which was ultimately responsible for returning debt to sustainable levels. Some of the MFA I and II conditions required Ukraine to implement structural reforms such as in the energy sector and on public finance management. These reforms were designed to put Ukraine’s finances on a sustainable path by, among other things, reducing the accumulation of debt. For example, energy sector reforms to improve collection rates for Naftogaz were conditions for MFA I funding. These were important to discourage the accumulation of debt by Naftogaz, debt that was quasi-fiscal due to its State guarantee. The increase in the remit of the Accounting Chamber of Ukraine to audit the revenues of SOEs is another clear example.

Whilst is might be expected that the IMF and World Bank would have extended their range of condionalities to compensate in part for the lack of EU participation, the absence of MFA operations would have still damaged reforms linked to the elimination of fiscal imbalances, a major source of debt accumulation. An example of this was conditionality on the public procurement reforms which over the longer term, may have material fiscal implications.

In the context of falling real GDP in 2014 and 2015, the absence of MFA-linked reforms to stabilise the economy would have reduced the signal to banks’ creditors

[41] Under one-third of the IMF SBA was disbursed before the programme was cancelled and replaced by the EFF programme. USD 5 billion from the EFF was disbursed in March 2015.

[42] The USD 1.25 billion was disbursed from a World Bank financing package of USD 4.3 billion.

that the economy would soon grow, thus reducing the incentive for them to agree to debt reprofiling. Less debt reprofiling would have reduced liquidity that would otherwise have been used to strengthen banks' balance sheets many of which had large amounts of non-performing loans. The absence of the MFA would also have weakened government efforts to strengthen the banking system through recapitalising some of the systemically important banks.

Overall, the economic situation in Ukrainian which stabilised in autumn 2015, in large part because of the international package that MFA I and II were part of, would have been compromised. Key macroeconomic indicators with implications for debt growth may not have improved as fast as they have. In 2016 real GDP grew by 2.3 per cent and the CPI inflation fell to 12.4 per cent from 43.3 per cent in 2015. The fiscal deficit dropped from 4.6 per cent in 2014 to 2.3 per cent in 2016 and the current account deficit improved to 3.6 per cent in 2016 from -9.2 per cent in 2013.[43] One could therefore expect these improvements to be of a smaller scale and at later time.

A7.5 Summary

Prior to the disbursement of MFA monies, the Ukrainian economy was weak and fragile and heading for a recession. At the same time, the political situation was becoming less stable.

Of the main debt burden indicators, the debt-to-GDP ratio and the public gross financing needs-to-GDP ratio were both below their IMF high-risk benchmark for emerging countries, pubic debt to GDP was rising quickly. Yet, while the debt-to-GDP ratio had stabilised at about 40 per cent over 2010-2013, it was still much higher than its 2007 level of just under 12 per cent.

The political and economic situation continued to worsen in early 2014, as a rescue package was being agreed with donors. Debt sustainability deteriorated in the period 2014-2015 even with the disbursement of MFA and IMF funds. The debt to GDP ratio continued to rise and exceeded the high-risk threshold in 2014 and 2015.

Indeed, faced with the prospect of increasing borrowing requirements due to a weak economy (and falling tax receipts) and a weak currency but sustained expenditure pressures, and locked out of international capital markets, it is hard to see in the absence of from international support, including MFA I and II, that Ukraine could have avoided a large and spontaneous disorderly adjustment, potentially even greater depreciation leading to hyperinflation, and consequently greater falls in GDP and ultimately, if not formal then effective default.

With international support, while the macroeconomic situation deteriorated initially with contractions in GDP in 2014 and 2015 and a sharp increase in inflation in 2015, this was later reversed as the economy stabilised with inflation falling and growth returning in in 2016.

Looking at the management of public debt from 2014 onwards, funds from MFA I and II (and associated reforms) helped to restore confidence in Ukrainian authorities' efforts to contain the economic crisis that was threatening the sustainability of Ukraine's debt, presumably helping to avoid even larger depreciation with further price rises. Approving and disbursing MFA I and II also helped to establish Ukraine's credibility with other international financial institutions (IMF, WB, EBRD and EIB, for example) whose support in the form of loans or grants helped Ukraine to meet its financial obligations and to alleviate the pressure on its budget.

It is difficult to isolate and quantify the impact of MFA I and II because they were combined with other financial support. In addition, the size of the MFA I and II (EUR

[43] https://www.imf.org/en/News/Articles/2017/04/03/na040417-ukraine-receives-imf-support-but-must-accelerate-reforms

1.61 billion) was relatively small compared to Ukraine's financing needs or the IMF package from which about USD 10 billion was disbursed during the period of MFA I and II. However, the timing of MFA disbursements was highly propitious, in providing support and confidence at an extremely difficult time. Furthermore, MFA I and MFA II contributed to the overall impact of finance packages from international financial institutions.

At the same time, MFA I and MFA II helped reinforce conditions attached to IMF and World Bank support packages, and initiate structural reforms that ultimately put Ukraine's debt back on a sustainable path. Examples include public finance management reform, energy market reforms or public procurement reforms.

Annex 8 Social Impact Analysis

A8.1 Introduction

This Annex provides a review of the possible social impact of the MFA operations in the Ukraine. The assessment reviews a number of social trends occurring before and since the MFA operations (Section A8.2) and considers the possible impacts of the MFA operations (Section A8.3).

A8.2 Social trends in Ukraine

A8.2.1 Effects of political instability

The recent political instability in Ukraine – triggered by the suspension of the Ukraine–European Union Association Agreement in November 2013 and culminating in the ousting of President Viktor Yanukovych in February 2014 – has posed considerable challenges to Ukraine society and the need for policy response.

For example, the hostilities in the east of the country, following the annexation of the Crimea in March 2014, have resulted in a sharp increase in the number of internally displaced persons (IDPs). The Internal Displacement Monitoring Centre (IDMC) has estimated that there were 1.4 million IDPs[44] in Ukraine as of August 2015, and provisional estimates by the Ministry of Social Policy suggest that the figure exceeded 1.7 million in 2016[45].

The subsequent change in government, the economic crisis in 2014/15 as well as continuing military conflict in the east, has meant that the policy response has had to be vigorous, energised by the reforms agreed with the international donor community,

A8.2.2 Income and wealth trends

Ukraine exhibits very high levels of wealth inequality when compared to most countries in its regional block with an estimated wealth GINI coefficient of 91.7 per cent in 2016[46]. By this measure, wealth inequality in Ukraine greatly exceeds that of Poland (73.0 per cent), Slovakia (49.0 per cent), Hungary (62.5 per cent), Romania (73.0 per cent), and Moldova (68.0 per cent). Russia and Papua New Guinea are the only non-African countries in which wealth inequality is estimated to be higher than Ukraine[47] (Figure 25).

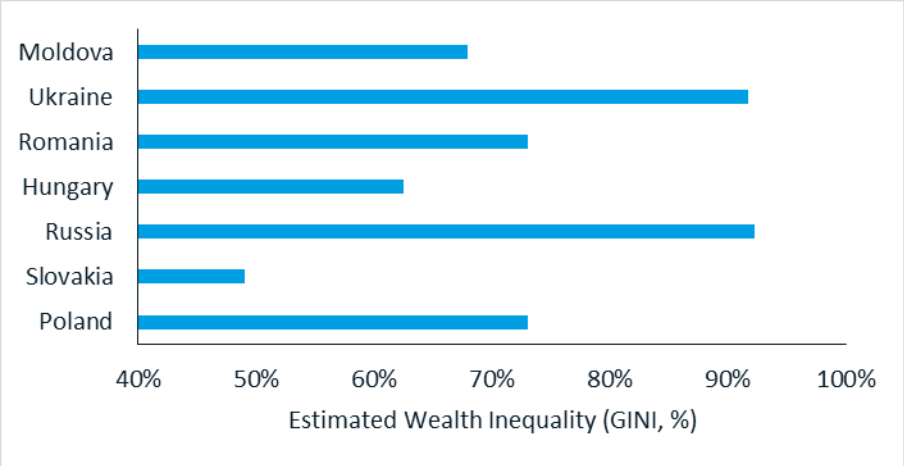
[44] *Internal Displacement Monitoring Centre (IDMC)* [accessed here]

[45] *Internal Displacement Database* [accessed here]

[46] Credit Suisse, 'Global Wealth Report', 2016

[47] It can be suggested that the very high concentration of wealth is at least partly responsible for the continuing influence of 'oligarchs' – influential individuals with vested interests – that restrains the reform process

Figure 25 Cross-country comparison (wealth inequality)



Source: *Credit Suisse, The Global Wealth Databook (2016)*

Intergenerational equity has also been a cause for concern in Ukraine's social profile. Ukraine has performed poorly in recent years in its ability to allocate resources to future generations. Adjusted net savings (which accounts for net national savings plus education expenditure and minus energy depletion, mineral depletion, net forest depletion, and carbon dioxide and particulate emissions damage) has been negative in recent years, reaching a low point of -12.6 per cent of Gross National Income in 2012.

Moreover, evidence from the Human Capital Report (2017) indicates a lack of social mobility. Survey data[48] from the World Economic Forum measured the extent to which individuals felt they had "the opportunity to improve their economic situation through their personal efforts regardless of the socioeconomic status of their parents". The results of this survey found that Ukraine ranked 120th out of 122 countries.

In contrast to wealth inequality, income inequality[49] is relatively low when compared to other lower middle income countries and has followed a decreasing trend throughout the 21st century (from 32.4 in 2000 to 25.5 and 24.3 in 2010 and 2015 respectively[50]).

Table 11 illustrates the evolution of the poverty rate, as estimated by the percentage of the population living below subsistence-level income (which measures absolute poverty). This indicator has been relatively stable running up to the implementation of MFA despite the threshold being revised upwards in real terms over 2010-13. The highest poverty rate observed in the given time-frame is in 2012, where the poverty rate reached 9 per cent. However, a portion of this spike in people in poverty is likely to stem from the sharp increase in the subsistence minimum income used to define poverty. The poverty rate fell then in 2015 and 2016 to around 6.4 and 3.8 per cent respectively.

Table 11 Population with equalized total income under subsistence minimum

	2010	2011	2012	2013	2014	2015	2016
Population (millions)	3.6	3.2	3.8	3.5	3.2	2.5	1.5
% of the total population under subsistence income	8.6	7.8	9.0	8.3	8.6	6.4	3.8

[48] *The Human Capital Report, Insight Report, World Economic Forum 2013*

[49] *Standardised World Income Inequality Database, Solt (2016)*

[50] Ukrstat

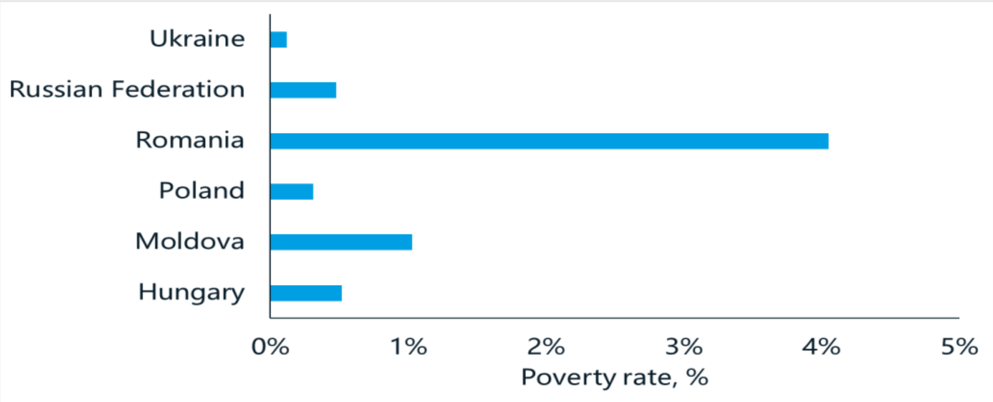
	2010	2011	2012	2013	2014	2015	2016
Subsistence minimum (per person, monthly average, (UAH nominal prices)	843.2	914.1	1042.4	1113.7	1176	1227	1388
Subsistence minimum (per person, monthly average, (UAH 2010 prices)	843.2	846.3	959.4	1028.1	968.4	679.5	674.9

Note: data does not include AR Crimea; since 2014 data also does not include the occupied territory on the Eastern Ukraine.

Source: *State Statistics Service of Ukraine*

Cross-country comparisons of poverty are positive for Ukraine, in light of the political and social challenges. Where poverty is defined to be the percentage of the population living on less than $3.10 (PPP) a day at 2011 international prices, Ukraine outperforms all other countries in its income-group, with 0.12 per cent of the population earning below this threshold level. This compares (Figure 26) with Poland, Romania, Moldova and Russia which have poverty rates of 0.31, 4.05,1.03 and 0.48 per cent, respectively (World bank, 2014 or most recent).

Figure 26 Cross-Country Comparison of poverty rates, 2014 (or latest)



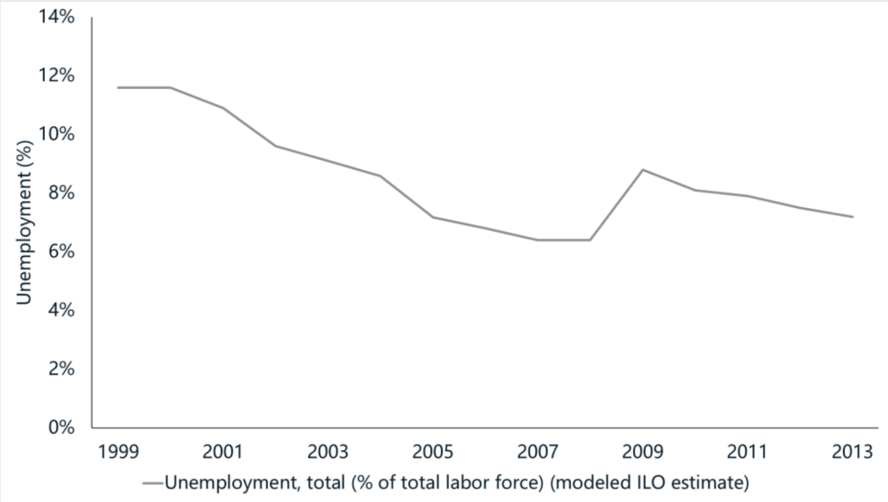
Source: *World Bank, 2014 or most recent*

A8.2.3 Labour market performance (pre-2014)

A8.2.3.1 Unemployment

Prior to the macroeconomic crisis in 2014 – and the implementation of MFA (and financing from other international donors) – the unemployment situation in Ukraine, though somewhat volatile, had been improving. At the turn of the century, the unemployment rate was 11.6 per cent (ILO estimates, source World Bank), a figure which improved markedly over the course of the following decade (Figure 27). In 2013 unemployment totalled 1.5 m.

Figure 27 Total unemployment, Ukraine, 1999-2013



Source: World Bank (ILO estimates)

The average duration of job search fell during the period 2010-2013 from 7 months to 6 months in 2013. The average period of unemployment fell from 13 months to 11 months in 2013.

A8.2.3.2 Wages

Nominal wages increased on average by 14.5 per cent each year between 2010 and 2013. This was explained by economic recovery after the crisis of 2008-2009, minimum wage increase and wage indexation. Wages increased on average by 10.4 per cent in real terms in each of this years. Improved purchasing power of employees was reflected in the growth of private consumption.

A8.2.3.3 Employment

Estimated employment levels have remained stable in the period (2000-2012) at approximately 20 million. Total employment was lowest in 2001 when it dipped to 19.9 million and peaked in 2009 where it reached 20.9 million

A8.2.3.4 Employment by sector

Official data from the State Statistics Service of Ukraine (SSSU) shows that the structure of employment had been relatively stable in the years preceding the crisis[51].

The retail and wholesale sector – encompassing the hospitality sector and motor-vehicle repair – had the highest level of employment (4.9m in 2012, accounting for 24 per cent of total employment). This sector has been the biggest employer of workers in Ukraine since 2005, before which, 'industry' was the largest sector, closely followed by agriculture[52] (Figure 28)

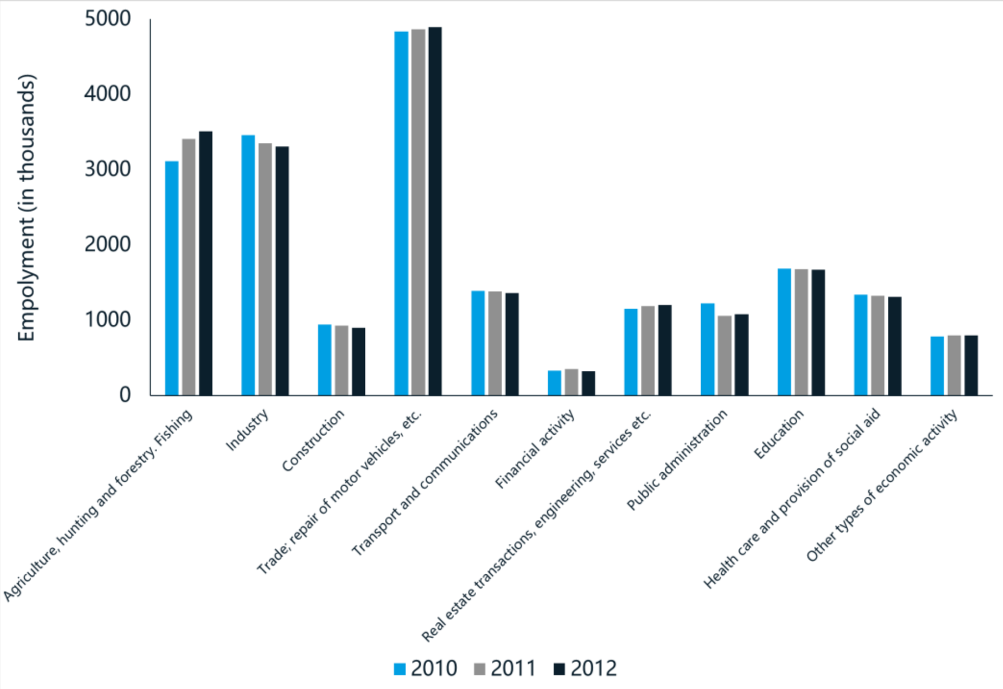
The agriculture sector was the second largest sector with employment of 3.5m in 2012. Employment decreased from 2000 (4.4m) to 2010 after which there has been an increase to 2012.

The agriculture and the retail and wholesale sectors have been the largest employers in Ukraine in recent years, and remain so. Together, they accounted for 41.2 per cent of employment in 2012.

[51] The SSSU changed the statistical categorisation of industries in 2012, making comparison between 2012 and 2013 problematic

[52] According to data from the SSSU (2000-2012)

Figure 28 Employment by sector, Ukraine, 2010-2012



Source: *State Statistics Service of Ukraine*

A8.3 Social impact of MFA I and II

In this social context, the social impact of the MFA can be considered to be reflected in the performance of the labour market, especially in terms of avoided job losses and the avoided loss in real incomes, as a result of the financial support and the boost provided to the economy. In contrast, the scale of the problem and the limited elapsed time, means that it is unlikely that MFA operations, even indirectly, had any significant impact on the prevailing levels of wealth inequality.

There were also important reforms promoted by the MFA and other international donors that by design were intended to have direct positive social impacts. Although not a conditionality of the MFA, the IMF condition for the removal of universal subsidies to the energy sector with attendant price increases provided the context for the operation of the MFA conditions for the establishment of a social safety net. This safety net sought to protect lower income households against the higher energy prices.

In addition, other MFA I and II conditions had also some social consequences (see Annex 10.2 for some examples of potential outcomes that could translate into social impacts). The clear anti-corruption objectives present in number of conditions, along with some tangible effects stemming from those conditions, helped to address a pressing issue faced by Ukrainian society – endemic corruption. Anti-corruption measures (e.g. more transparent public procurement process, enhanced audit of public finances or resource sufficient anti-corruption authorities), meant that MFA I and II not only helped to lower the costs related to the inefficient resource allocation/waste associated with corruption, but also contributed to the ongoing process of change in perception and reduction in tolerance of corruption.

There is also reported to be a very active civil society, empowered by reforms (including anti-corruption measures) and the opportunities for participation in society.

A8.3.1 Labour market performance (post-2013)

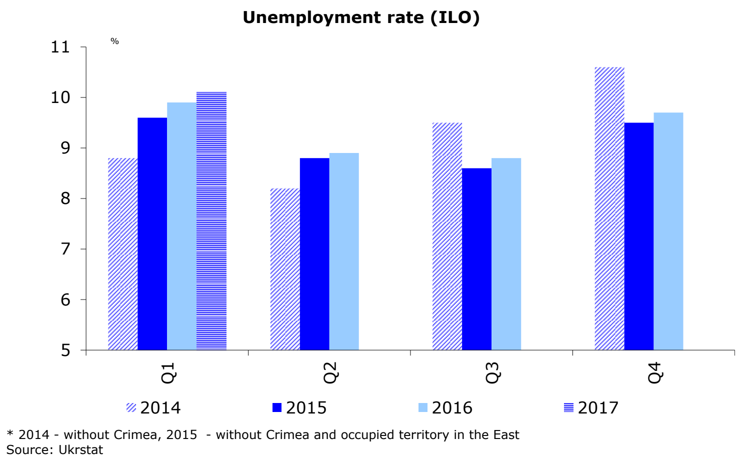
Comparison of trends post 2013 with earlier trends is not possible without adjusting earlier trends for the removal of the Crimea peninsula and parts of the Donetsk and Luhansk regions that are not in the control of the government. The Ukraine Statistical Office (Ukrstat) has not yet revised time-series data, but a general descriptive analysis of trends for certain indicators is possible (unemployment rates and wages).

A8.3.1.1 Unemployment

In the fourth quarter of 2014 unemployment rate (ILO methodology) reached 10.6 per cent of the economically active population (15-70 years) (Figure 29). A double-digit unemployment rate was last observed in the first quarter of 2002. The unemployment rate increased significantly for men due to a sharp decline in industrial output and construction. In particular, lower demand as well as the termination of operations due to the military conflict in the Eastern Ukraine, which forced many companies to reduce employment.

In the last quarter of 2015, the unemployment rate (ILO methodology) had declined slightly and to 9.5 per cent of the economically active population i(15-70 years). The share of the urban population in the total unemployed population was 67.3 per cent while share of men in the unemployment structure was 59.0 per cent. The unemployment rate increased slightly in the last quarter of 2016 to 9.7 per cent.

Figure 29 Unemployment in Ukraine



A8.3.1.2 Wages

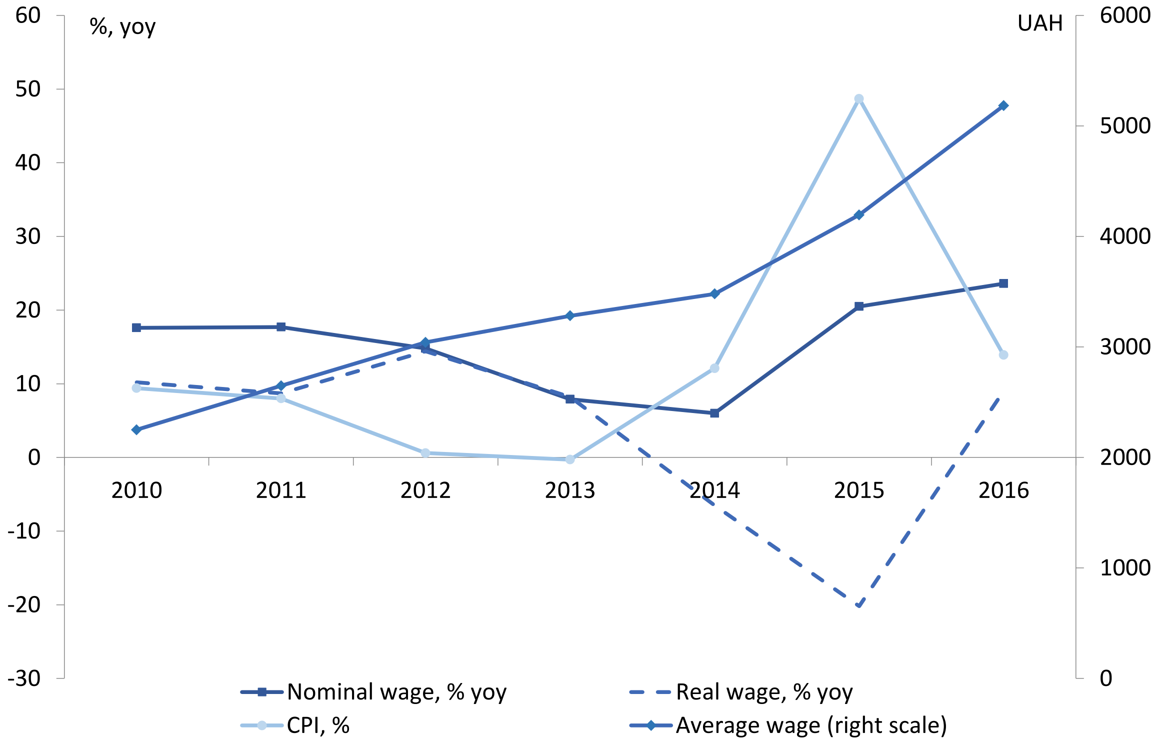
According to the Ukrstat[53], average wage in 2014 grew by 6.0 per cent in nominal terms due to indexation of wages for inflation (Figure 30). However, real wages dropped by 7.5 per cent due to inflation and the introduction of military fees. Fiscal consolidation measures continued to put a downward pressure on wage growth in public sector. Nominal average wage increased by mere 2.6 per cent in public administration and defence, by 1.8 per cent in education and 3.8 per cent in health care. In real terms in translated into 10.5 per cent, 11.2 per cent, and 9.4 per cent decrease, respectively.

Average nominal wage in 2015 grew by 20.5 per cent to UAH 4195 as a result of wage indexation and minimum wage increase. Again though, real wage decreased, this time by 20.2 per cent as inflation surged. Finally, nominal wage growth in state administration and in public sectors substantially accelerated as a result of an increase in the base wage (by 35.3 per cent y-o-y in education, 47.2 per cent y-o-y in health care, and by 28.9 per cent y-o-y in state administration). Still, wages in these sectors declined in real terms by 24 per cent on average in 2015.

[53] Ukrstat, 2017. Wage data. Available at: http://www.ukrstat.gov.ua/operativ/menu/menu_u/zp.htm

In 2016, the average wage increased by 23.6 per cent in nominal terms to UAH 5183. Importantly, it also increased in real terms (by 9.0 per cent) as companies compensated for lost purchasing power of wages during previous years, rise in minimum wage, and the slowdown of inflation. High wage growth was also reported by state administration and defence (at 35.9 per cent in nominal terms and 19.9 per cent in real terms), which was again attributed to rise in base wages.

Figure 30 Change in nominal, real wage growth, average wage and the average inflation from 2010 onwards



A8.3.2 Policy reform - gas and heating tariffs and social protection

A8.3.2.1 Tariff reform

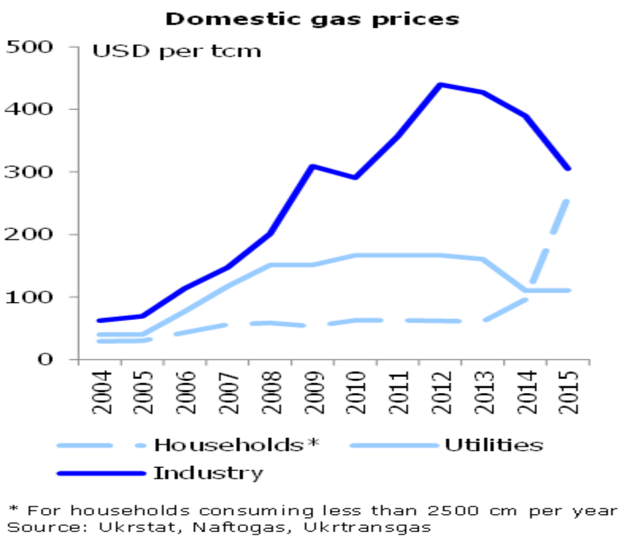
The major policy reform, supported by the IMF, influencing social conditions was the increase in energy tariffs designed to secure the removal of subsidies to NJSC Naftogaz (the national energy utility) and hence to reduce the considerable pressure on the budget, with total subsidies amounting to around 7 percent of GDP.

Under the subsidy to residential gas and heating tariffs, the average Ukraine household paid only 20 per cent of the import price of gas. The former tariff structure was highly regressive with around 30 per cent of subsidies going to the top income quintile.

Reforms led to a small increase in the retail price of gas (UAH per th cm) in May 2014 and a large increase in May 2015, from UAH 725 at the beginning of 2014 to UAH 3,600 in 2015 after the second increase, representing a fivefold increase before adjusting for inflation. A subsequent increase also took place in May 2016[54], taking the tariff to almost UAH 6,879 per th cm. Since April 2017 the tariff was increased from UAH 6900 to 6957.9 per th cm.

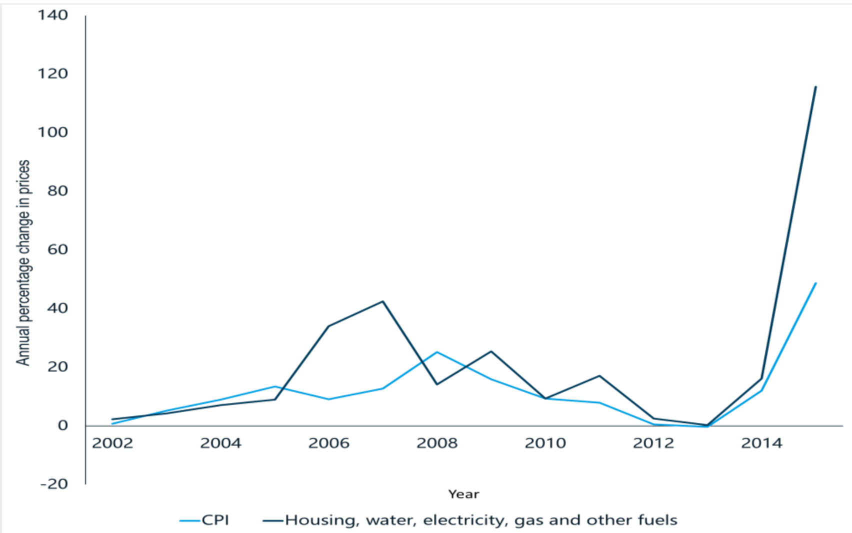
[54] Gas price was unified for all HDs. Before, there were different prices for those who uses the gas for heating or just for cooking. Yet, for some HDs this was a *de facto* decline in tariff

Figure 31 Trends in gas tariffs, Ukraine, 2004-2015



Increase in gas prices for heating generating companies also resulted in surge of heating tariffs for population. The sharp increases in gas and heating prices substantially contributed to high levels of consumer price inflation as the consumer price of 'housing, water, electricity, gas and other fuels' increased by 115.8 per cent from 2014 to 2015 (Figure 31).

Figure 32 Consumer Price Index inflation, Ukraine (2001-2015)



Source: *State Statistics Service of Ukraine*

Tariff increases would impact negatively and disproportionately on the poor. In the cold season (October-April), poor households typically spend around 10 per cent of their income on gas and district heating[55], spending which is expected to increase by 48 per cent[56] in the wake of the tariff changes.

The World Bank estimated in 2014 that if the planned tariff increases were implemented without any changes to social protection for poorer households, poverty

[55] ibid

[56] IBRD 2014 "Program Document on a Proposed Development Policy Loan in the Amount of US$ 750 Million to Ukraine"

could be expected to increase by 4 percentage points (to 13 per cent)[57]. However, as discussed below, changes in social protection measures were required by the MFA conditionalities (and World Bank).

A8.3.2.2 Social protection and safety nets

An explicit condition of the Memorandum of Understanding (MoU) for MFA I and II was to compensate vulnerable households for the increase in gas prices by strengthening the national social safety net, formerly called Housing and Utilities Subsidy (HUS). Enhancement of the social safety net was also part of the conditionality of the World Bank Development Policy Loan 1[58].

Before 2014, if a household's housing and utility bill was above 15 per cent of household income (or 10 per cent for non-working household), the household was protected by the HUS (which covered the rest of payment).

In July 2014, the government started paying special compensation to households with per capita income below a minimum subsistence income. The payment covered the full difference in the utility bill of households before and after hikes in tariffs for gas, electricity and heating, compensating for the full price increase. The special compensation was complementary to the usual housing and utility subsidy. The compensation was envisaged for the heating season of 2014/2015, after which another wave of changes in housing and utility subsidies was envisaged.

From October 1, 2014, the government introduced amendments to the provision of housing and utility subsidies. It introduced new social housing and utility usage caps instead of previous standards. These caps were defined by household size, and limited compensation payments to covering the costs of the specified use of gas, water and electricity consumption. If households exceed the usage cap the extra payment is excluded from the utility bill subject to subsidies and paid directly by the household.

At the same time, the government changed the formula for the calculation of the share of the housing and utility bill over which the household becomes eligible for the subsidy. A maximum utility payment is now set, depending on income after which subsidies are paid. Households with per capita income at the level of the minimum subsistence level will spend no more than 7.5 per cent of their income on their utility bill if they apply for subsidies. Middle income earners (defined as 4 times subsistence minimum) will have to spend over 30 per cent of their income on utilities to be eligible for subsidy. The new formula aimed at targeting the subsidy to poorer households and reduction of payments to richer households.

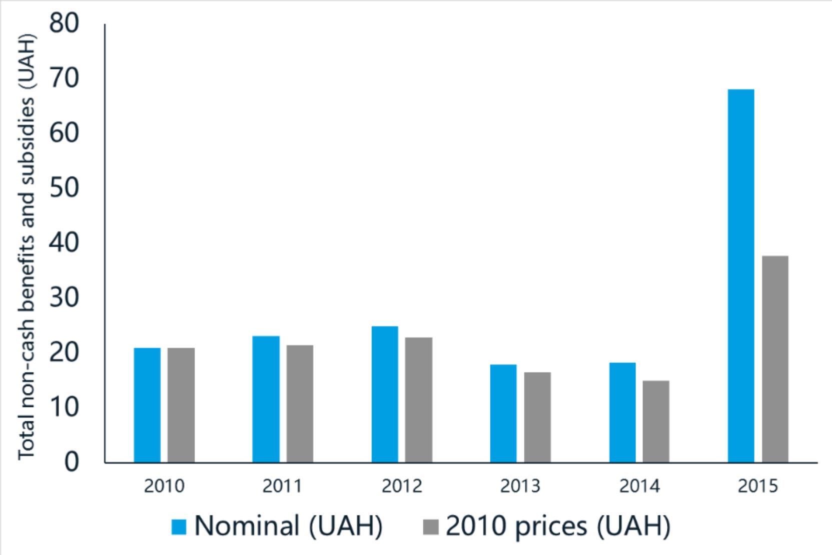
Aggregate data[59] on the allocation of total household resources supports the suggestion that households are receiving more social assistance to cover utilities, electricity and fuel. Subsidies to pay for housing and utilities (water, heating), electricity and fuel increased as a percentage of total monthly resources (average) from 0.4 per cent in 2014 to 1.3 per cent in 2015. In absolute (nominal) terms, this constitutes an increase from 18.25 UAH to 68.01 UAH in 2015 (or to 45.74 UAH in constant 2014 prices) Figure 32).

[57] IBRD 2014 (p23)

[58] World Bank, 2017. DPL-1. Available at: http://projects.worldbank.org/P150313?lang=en and http://projects.worldbank.org/P128344/social-safety-nets-modernization-project?lang=en

[59] State Statistics Service of Ukraine [accessed here]

Figure 33 Average monthly subsidies per household to pay for housing and utilities, electricity & fuel (UAH)



Source: *State Statistics Service of Ukraine*

Under the eligibility criteria established for the safety net, the number of households eligible for housing and utilities subsidies (HUS) has increased dramatically (from 1.6 million in 2014 to nearly 7 million at the end of 2016).

The rise in tariffs and the associated increase of eligible households, along with the simplification of the procedures required for financial assistance, led to a considerable expansion in the coverage of HUS. By December 2015, 30.5 per cent of households received housing subsidies, and total spending on HUS was 2.8 times greater in 2015 than the previous year (UAH 6.8 billion). The value of the average household subsidy payment has increased by 3.3 times in 2015 compared to 2014.

The effectiveness of the new HUS in providing compensation by income group has not been identified and the impact on poverty not established. Since the new HUS provides subsidies for very low income households once the utility bill (as long as usage is below the cap) reaches 7.5 per cent of income, compared to 15 per cent under the old HUS, it would seem likely, subject to the operation of the usage caps, that the reforms have protected these households.

More recently, it has become clear that recent extension of eligibility criteria resulted in unexpected increase in size of the program with some major fiscal implications. Energy subsidies will reach 2 per cent of GDP in 2017 while they accounted for 0.5 per cent of GDP in 2014 (NBU Financial Stability Report[60]). In 2016 5.5 million HH received the subsidies while this number rose to 6.7 million by March 2017[61].

A8.3.3 Civil society

Experts who took part in the focus group in Kiev, when asked about the risk of 'back-tracking' on the reform process, highlight the influence that civil society organisations play in supporting reforms and maintaining the pursuit of the ambitions behind the original Association Agreement. The signature of the MFA had the effect of signalling continued support for these ambitions and provided much needed confidence in the

[60] https://bank.gov.ua/doccatalog/document?id=40819104

[61] WB, April 2017. The World Bank in Ukraine. Country Snapshot. Available at: http://pubdocs.worldbank.org/en/700481492598099956/Ukraine-Snapshot13Apr2017.pdf

reform process. This fosters a 'virtuous' circle whereby the reform process encourages civil society, and civil society supports the reform process.

A8.4 Conclusions

In the period to 2013 the Ukraine labour market and unemployment remained broadly constant and in line with other countries (EU, Russia). Income and wealth inequalities also remained largely unchanged. The political crisis reflected in the suspension of the Ukraine–European Union Association Agreement in November 2013, the ousting of President Yanukovych in February 2014 and the annexation of the Crimea in March 2014, subsequently led to a major financial and economic crisis.

MFA I and II operations, combined with other international donors, provided financial support to reduce the scale of the financial crisis. Even with this combined support the economic and employment effects were severe, but would have been worse without it.

The social impact of the economic trends has also been severe with a major loss of real income in 2014 and 2015. However, the MFA operations as part of the support provided, contributed in part to avoiding further loss of incomes, and the lay-off of public sector employees as the government received financing for direct wage payments.

The MFA operations and requirement for changes in existing social protection (through HUS), along with the assistance from WB, also ensured that necessary reforms of the energy sector were achieved by cushioning the shock of increased prices and facilitate the political acceptability of the new energy prices[62]. ,Absence of enhanced social safety net could have led to social unrest, weakening of the civil society's support for reform and some negative impact on poverty rates. However, the detailed effect of tariff rises by income group after subsidies, has not been identified.

The expert workshop also considered that the MFA operation was understood (and expected) by civil society groups to confirm the ambitions set out in the Association Agreement and has encouraged civil society to continue to support the reform process.

Finally, other MFA conditions had also certain social implications including more efficient allocation of public funds and a reduction of the public tolerance for corruption.

[62] WB, April 2017. The World Bank in Ukraine. Country Snapshot. Available at: http://pubdocs.worldbank.org/en/700481492598099956/Ukraine-Snapshot13Apr2017.pdf

Annex 9 Media Analysis

A9.1 Twitter analysis

The PowerPoint document with key findings from Twitter analysis:

EN + UA&RU - Social Media Insights_EU MF

Additional commentary to the PowerPoint document:

EN + UA&RU - Twitter analysis - FINA

A9.2 Press analysis

The PowerPoint document with key findings from press analysis:

Press Analysis_FINAL.pptx

Annex 10 Conditionality tables

Table 12 Assessment of the relevance of the MFA I and II specific conditionality – Public Finance Management (PFM) – anti-corruption

Area of conditionality	Condition	Tranche	Assessment of relevance[63]	Rating of relevance[64]
PFM - anti-corruption	Adopting a national anti-corruption strategy that is in line with international best practice and a State Programme with time-bound deliverables to implement it.	MFA I, 2nd tranche, #3	The National Anti-Corruption Strategy for 2011-2015, approved in 2011, had several shortcomings, including very few references to "specific targets envisaged for the end of the implementation period" and to "the monitoring and evaluation mechanisms"[65].	High
PFM - anti-corruption	Implement comprehensive anti-corruption legislation in line with the recommendations made by the Council of Europe's Group of States against Corruption (GRECO) and other international standards	MFA I, final tranche, #17	There was a broad political consensus around the need for legislative amendments at the time, as reminded e.g. in OECD report[66].	High

[63] This column provides some key evidences that were considered when assessing the relevance of each condition

[64] This column encapsulates the relative judgment on the degree of relevance of each condition

[65] see 2012 EC report on progress in implementation by Ukraine of the Visa Liberalisation Action Plan quoted in OECD (2015) Anti-Corruption Reforms in Ukraine. Available at: https://www.oecd.org/corruption/acn/Ukraine-Round-3-Monitoring-Report-ENG.pdf

[66] OECD (2015) Anti-Corruption Reforms in. UKRAINE. Round 3 Monitoring of the. Istanbul Anti-Corruption Action Plan

Area of conditionality	Condition	Tranche	Assessment of relevance[63]	Rating of relevance[64]
PFM - anti-corruption	Implementation of the Law on Principles of Preventing and Counteracting Corruption (2011), article 12, which foresees annual declaration of assets (property, income, expenses and financial obligations) by persons defined in the legislation as declaration subjects. The government will prepare a draft law setting up an independent body with sufficient financial and human resources to ensure proper implementation and enforcement of the legislation.	MFA II, 2nd tranche, #4	The condition addressed directly the concerns of many experts and general public about the lack of transparency and hence available evidence to clamp on the corruption among public officials. The system at the time had several shortcomings including for instance no focus on high level and high-risk officials and no verification mechanisms, as highlighted e.g. in OECD report. The system was launched in September 2016 and about 1 million officials have submitted their declarations by May 2017. Yet, by June 2017, National Agency for Preventing Corruption has not been able to start efficiently verify the declarations. Some groups i.e. employees of the Security Service in Ukraine, SBU and substantial number of judges and prosecutors still refused to disclose their declaration by June 2017. Overall, there has been noticeable pressure exercised by some groups of vested interests to hamper the implementation of the system[67].	High

Table 13 Assessment of the relevance of the MFA I and II specific conditionality – Public Finance Management (PFM) – other

[67] Kyiv Post, June 2017. Reformer of the week.

Area of conditionality	Condition	Tranche	Assessment of relevance	Rating of relevance
PFM - Budget processes	The government submits to the Verkhovna Rada and publishes (after submission to the Parliament) the first draft of the national Budget for the year 2015 at the latest on 15 September 2014 in line with the Budget Code.	MFA II, 2nd tranche, #2	This condition merely asked Ukrainian authorities to comply with their own legislation – but it was still relevant as there were years where the calendar and the transparency aspects of the process were neglected, including in 2013 as per EC mission reports. The 2011 PEFA assessment points out to similar issues for the year 2009 already.	Medium
PFM - Budget processes	In order to improve budget transparency, publication of monthly data on budget execution in line with article 28 of the Budget Code.	MFA II, 2nd tranche, #3	No major weakness had been identified in this area in the 2011 PEFA assessment – Ukraine got the maximum score (A) on indicator PI-24 Quality and timeliness of in-year budget reports. Yet, Commission was of the opinion that requirements set out in the Budget Code were not fully adhered to on the ground (insufficient coverage and breakdowns available – according to an EC Note to the Committee on Macro-Financial Assistance). Local experts[68] confirmed also that lack of availability of monthly data was a serious impediment for the analysis of the budget execution.	Medium
PFM - external audit	Ensuring that the Accounting Chamber of Ukraine has the Authority to audit not only budget expenditures, but also revenues in line with the standards of the	MFA I, 2nd tranche, #5	With regards to the external audit function, the 2011 PEFA assessment scored the scope/nature of audit performed by the ACU (PI-26) as very low: D. It specifically flagged that the ACU's remit excludes revenue.	High

[68] IER in Kyiv

Area of conditionality	Condition	Tranche	Assessment of relevance	Rating of relevance
	International Organisation of Supreme Audit Institutions (INTOSAI)		Lack of audits of the revenue side of the government finance was also facilitating large scale corruption[69].	
PFM - external audit	Increase the financial resources allocated to the external audit function to a level that will ensure an appropriate increase in the number and quality of audits	MFA I, final tranche, #18	Ensuring sufficient financing of the ACU should be given high priority given the extension of its remit and powers. Resources were generally under pressure given the pressing fiscal consolidation needs.	High
PFM - external audit	Submission to the Verkhovna Rada of a draft law updating the existing legislation on the ACU and extending its remit to include state-owned enterprises.	MFA II, 2nd tranche, #5	With regards to the external audit function, the 2011 PEFA assessment scored the scope/nature of audit performed by the ACU (PI-26) as very low: D. It specifically flagged that the ACU's remit excludes SOEs. Based on national accounts from Ukraine's state statistical service? SOEs generated 12 per cent of output and 21 per cent of the gross value added of nonfinancial corporation sector in …. The rest was generated by private sector corporation including foreign-owned.	High
PFM - internal audit	Adopting a strategy for staff training at the different levels of government (central and municipal level, including internal audit services) and for certification of internal auditor	MFA I, 2nd tranche, #4	2011 PEFA assessment concluded that internal audit as defined by international standards was not effectively operating in Ukraine in 2010 – this certainly called for the long-term need to build capacity on this aspect. The 2014 operational assessment confirmed only 250 internal auditors (out of 1,700) were trained in internal audit.	High

[69] View expressed by WB and local economists from IER.

Area of conditionality	Condition	Tranche	Assessment of relevance	Rating of relevance
PFM - PIFC standards	Adopt an appropriate set of Public Internal Financial Control standards	MFA I, final tranche, #15	PIFC was an area with many weaknesses. Although the legal basis for PIFC standards dates back from 2011, the actual implementation had not followed suit – as highlighted in the 2016 ECA report[70].	High
PFM - public procurement	Continue to make progress towards establishing a system of public procurement based on the principles of transparency, competition and non-discrimination among tenderers.	MFA I, 2nd tranche, #1	A flawed public procurement function had been introduced in 2004. The new public procurement law of 2010 attempted to fix the system but the 2011 PEFA assessment had concluded that "considerable efforts would still be required to put the system back on track". By the end of 2013, The number of exemptions from the 2010 PP law increased from 5 to 37 at the end of 2013 and the share of competitive procurement procedures in the total number of procedures was divided by two between 2010 and the first half of 2014 (82% to 41%). The OECD report[71] labelled the public procurement sector as "the most corrupt-prone area in Ukraine".	High
PFM - public procurement	Continue to make progress towards establishing a system of public procurement based on the principles of transparency, competition and non-discrimination among tenderers	MFA I, final tranche, #16		
PFM - public procurement	As stipulated by the Law of Ukraine "On carrying out public procurement", make the Anti-Monopoly Committee operational as the authority to handle appeals in the sphere of public procurement, including by establishing within the Committee an appropriately staffed unit capable of effectively dealing with complaints submitted by aggrieved bidders.	MFA I, 2nd tranche, #2	The AMCU established the relevant body back in 2010, but it persistently lacked funds as last highlighted in the ECA report.	High

[70] European Court of Auditors, 2016. Special Report - EU Assistance to Ukraine.

[71] OECD (2015) Anti-Corruption Reforms in. UKRAINE. Round 3 Monitoring of the. Istanbul Anti-Corruption Action Plan

Area of conditionality	Condition	Tranche	Assessment of relevance	Rating of relevance
PFM - public procurement	Elaboration and publication of draft Annual Procurement Plans for the year 2015 by each of the Procurement Entities or Contracting Authorities financed by the State Budget by 15 September 2014.	MFA II, 2nd tranche, #1	By law, all information related to public procurement, including Procurement Plans, should be made publicly available. However the 2011 PEFA assessment highlighted that ACMU statistics specify that 29 per cent of the total number of complaints in the area of Public Procurement do relate to publication of information issues.	Medium

Sources:

- OECD (2015) Anti-Corruption Reforms in. UKRAINE. Round 3 Monitoring of the. Istanbul Anti-Corruption Action Plan,
- European commission (2016) Association Implementation Report on Ukraine, SWD(2016) 446 final.
- Oleksii Khmara (2016) Transparency International Ukraine, Anti-Corruption Policy in Ukraine, 2nd meeting, Brussels, 11 February 2016
- World bank (2016) Ukraine PEFA 2015 Public Financial Management Performance Report
- World bank (2012) Ukraine PEFA 2011 Public Financial Management Performance Report
- European Court of Auditors (2016) EU assistance to Ukraine

Table 14 Assessment of the relevance of the MFA I and MFA II specific conditionality – Trade and taxation

Area of conditionality	Condition	Tranche	Assessment of relevance	Rating of relevance
Trade and taxation - WTO commitments	Refrain from introducing trade-distorting measures and to fully apply Ukraine's WTO commitments	MFA I, 2nd tranche, #6	According to the AA/ DCFTA, Ukraine should work towards an EU-Ukraine Free Trade Area and fulfill its WTO commitments.	High
Trade and taxation - WTO commitments	Refrain from introducing trade-distorting measures and fully apply Ukraine's WTO commitments.	MFA I, final tranche, #19	There is evidence that a lot of trade-distorting measures were considered. Notably, Ukraine's WTO renegotiation request, submitted in 2012, had been	

Area of conditionality	Condition	Tranche	Assessment of relevance	Rating of relevance
Trade and taxation - WTO commitments	Ukraine will consult with the EU and other WTO members on its request for renegotiation of its WTO commitments under article XXVIII of the GATT, so as to address systemic concerns raised by WTO members. These consultations will include the consideration of other WTO compatible instruments, such as the BOP exception. The consultations should result in a further substantial reduction of the number of tariff lines affected by the renegotiation request.	MFA II, 2nd tranche, #6	a long-standing issue between the European Commission and the Ukrainian authorities (plans of increasing more tariffs for more than 350 products). The continued reduction of trade barriers is expected to improve business climate and lead to investment and growth.	
Trade and taxation - VAT arrears	Ensure that all VAT refund arrears are cleared and that all legitimate VAT refund claims are paid in cash, or netted out against VAT obligations of the taxpayer in question, in a timely manner	MFA I, 2nd tranche, #8	The accumulation of VAT refund arrears has been known as a problem in Ukraine for a long time – see for instance Policy Paper on behalf of the American Chamber of Commerce in Ukraine report dated from 2010[72]. It is a problem which affects both domestic and foreign-owned companies established in UA. It is a source of corruption as businesses face unequal treatment in the way their VAT are reimbursed or not. As such, it has been an irritant for EU owned companies as well as for domestic companies, esp. export oriented ones. Although, majority of arrears related to Ukrainian business, Commission services were approached on a number of occasions by	High
Trade and taxation - VAT arrears	Making progress towards strengthening the VAT administration system - ensure timely VAT refunds through the operation of an automatic VAT refund system and risk-based audits	MFA I, 2nd tranche, #10		
Trade and taxation - VAT arrears	Ensure that all legitimate VAT refund claims are paid in cash, or netted out against VAT obligations of the taxpayer in question, in a timely manner.	MFA II, 2nd tranche, #7		

[72] ACC (2010) VAT Refund Arrears in Ukraine. Available at: http://berlin-economics.com/download/studien/VAT%20Refund%20Arreas%20UKR%20BE_en.pdf

Area of conditionality	Condition	Tranche	Assessment of relevance	Rating of relevance
Trade and taxation - VAT arrears	Continue to ensure that all legitimate VAT refund claims are paid in cash, or netted out against VAT obligations of the taxpayer in question, in a timely manner	MFA I, final tranche, #21	companies with complaints about the slow and inefficient refund of VAT claims and its negative impact on their activity (reduced access to working capital)[73]. It negatively impacts the business climate and leads to the weakening of the export sectors. In early 2014 government was seen by some stakeholders [please specify the stakeholders] as 'overwhelmed' and ability to push effectively for reduction in arrears without external support was perceived as low. Issue was also noted by international investors (Fitch referred to it as one of the relevant credit factors) as the one denting confidence.	
Trade and taxation - VAT arrears	Introduce in VAT legislation the provision that any VAT refund arrears carry an appropriate penalty interest of at least 120% of the NBU discount rate – arrears: 74 days after submission of the VAT refund claim.	MFA I, 2nd tranche, #9		
Trade and taxation - customs valuation	Consistent with the Economic Reform Programme, ensure that customs valuation practices are fully in line with WTO standards (Agreement on Implementation of Article VII of the GATT 1994).	MFA I, final tranche, #20	Issues around the interpretation of valuation rules had been trade irritant for businesses (leading to significant delays and disputes) and the simplification of the procedure in line with WTO requirements was a priority of Ukraine's programme of economic reforms 2010-2014. Significant progress had however been made by the time the MFA was actually disbursed. Customs valuation rules were updated in 2012 and a 2013 PwC report[74] on doing business in Ukraine concluded that these generally complied with WTO standards.	Low

[73] Insights provided by the EU Delegation

[74] PwC (2013) Doing business and investing in Ukraine

Area of conditionality	Condition	Tranche	Assessment of relevance	Rating of relevance
			The customs value rules say that Method 6 should be the last resort option where the customs administration has specific reasons to doubt the truthfulness or accuracy of the declared value. The share of customs transactions valued based on Method 6 had reached the standard level of around 10% already in 2011. This condition was of a limited relevance at the time the MFA I was actually disbursed and is a legacy of the early stages of MFA negotiations.	
Trade and taxation - Product coding	Introduce an up-to-date product coding system for foreign trade purposes based on the Harmonised System 2007	MFA I, 2nd tranche, #7	This condition had a limited relevance at the time the MFA I was actually disbursed and is a legacy of the early stages of MFA negotiations. UA was already using the 2007 Harmonized System since 2011 and introduced the Harmonized System of 2012 (also used by the EU) in January 2014, as per EC mission reports	Low

Sources:

- Committee on Economic Reforms under the President of Ukraine (2010) Ukraine's programme of economic reforms 2010-2014
- Pwc (2013) Doing business and investing in Ukraine
- EC mission reports and notes to committees

Table 15 Assessment of the relevance of the MFA I and MFA II conditionality – Energy sector

Area of conditionality	Condition	Tranche	Assessment of relevance	Rating of relevance
Energy sector - collection rate of Naftogaz	Increasing the overall collection rate of Naftogaz through better enforcement of payments discipline, notably among communal utilities.	MFA I, 2nd tranche, #11	The state-owned gas company Naftogaz was experiencing sizable losses. In 2013 its operating deficit reached 1.9 percent of GDP, according to the estimates of the IMF. The losses were ultimately covered from the budget. One of the causes for this, also identified in the Ukraine's programme of Economic Reforms 2010-2014, was the "lack of mechanisms of collection of debts for consumed housing and utilities services".	High
Energy sector - collection rate of Naftogaz	Further increase in the overall collection rate of Naftogaz through improved payments discipline	MFA I, final tranche, #23		
Energy sector - transparency of Naftogaz	In order to increase transparency on the operations of Naftogaz, prepare an Annual Financial Report of Naftogaz and its subsidiaries segmented into (i) production, ii) import/supply, and iii) network management and storage in line with International Financial Reporting Standards.	MFA II, 2nd tranche, #8	This condition relates to a prior commitment that Ukraine took upon joining the Energy Community, namely related to provisions on the unbundling of accounts under the second liberalization package. The commitment was not implemented at the time of MFA II negotiation and the Commission used the opportunity of the MFA to introduce an intermediary milestone whereby accounts segmented by type of activity (transmission, distribution, LNG and storage facilities) would need to be audited before unbundled account can be made available (i.e. separate accounts as if activities were carried out by separate undertakings).	Medium-High

Area of conditionality	Condition	Tranche	Assessment of relevance	Rating of relevance
Energy sector - approximation EU legislation	Achieve substantial progress in the implementation of Ukraine's obligations under the Energy Community Treaty which notably foresees the separation of the production, distribution and transport in the national gas sector.	MFA I, final tranche, #22	This quite broad condition relates to the implementation of Ukraine's prior obligations in an area where progresses had been slow previously. (no comprehensive action, no legislative breakthrough, which meant the preparations for unbundling Naftogaz commenced only after April 2015 gas law)	High
Energy sector - EITI	Reach "Candidate" status in the Extractive Industries Transparency Initiative to underpin transparency in the energy sector.	MFA I, 2nd tranche, #13	EITI standards are important for the good governance of natural resources in which Ukraine is rich (key aim of EITI is to avoid the mismanagement by the government of revenues from the extractive industries).	High
Energy sector - EITI	Make substantial progress towards achieving "EITI Compliant" status in the Extractive Industries Transparency Initiative	MFA I, final tranche, #24		
Energy sector - social safety net	Strengthening of a social safety net – also to compensate for the increase in gas prices while improving collection rate	MFA I, 2nd tranche, #12	The relevance of this condition is high considering the gas tariff hikes by the factor of ten within less than two and a half years, which was required as per IMF conditionalities in order to close the gap between the price of imported energy and end-user price. Without subsidies for vulnerable groups, an increase in tariffs of this scale could be probably hardly possible without any major social unrest.	High

Sources:

- Committee on Economic Reforms under the President of Ukraine (2010) Ukraine's programme of economic reforms 2010-2014
- European Court of Auditors (2016) EU assistance to Ukraine
- IMF Country Report No. 14/106
- EC mission reports and notes to committees

Table 16 Assessment of the relevance of the MFA I and MFA II conditionality – Financial sector

Area of conditionality	Condition	Tranche	Assessment of relevance	Rating of relevance
Financial sector - approximation EU legislation	Preparing the implementation of EU legislation concerning financial services, in particular through adoption of a strategic multi-year plan – defining priorities and a list of specific steps and measures to be taken.	MFA I, final tranche, #25	The relevance of this condition was initially high – in line with AA requirements - but was lower at the time of implementation of MFA I, in 2014/ early 2015. The priority then was the clean-up and rehabilitation of the banking system – a priority addressed by the IMF rather than the EU.	Low - Medium
Financial sector - accounting standards	Amend legislation, notably the accounting law, so as to ensure the application of the International Financial Reporting Standards to all financial market participants by 2014 at the latest.	MFA I, 2nd tranche, #14	As per the Commission own mission reports, this condition had been met prior to the implementation of MFA I. Applying IFRS is a legal requirement since 1 January 2012 for banks and insurance companies, 1 January 2013 for other non-banking financial institutions and 1 January 2014 for auxiliary providers of financial services (i.e. card processing, fin-tech). This condition is a legacy of the earlier stages of negotiations.	Low
Financial sector - disclosure of information	Improvement of implementation of the legislation on the disclosure of ultimate ownership of banks. Publication of data on ultimate ownership for all banks by 1 September on the NBU website.	MFA II, 2nd tranche, #10	Disclosure of ultimate ownership serves purposes related to the consolidation of the banking sector and also related to transparency and anti-corruption. It is an area where progress had typically been slow (it had been included in IMF 2010 SBA, though it yielded only limited progress). Condition #10 was about the implementation of existing requirements while condition #11 was about applying the same requirements to other non-bank players.	High
Financial sector - disclosure of information	The government submits to the Verkhovna Rada the draft law amending the "law on financial services and state regulation of financial services markets concerning disclosure of information".	MFA II, 2nd tranche, #11		

Area of conditionality	Condition	Tranche	Assessment of relevance	Rating of relevance
Financial sector - systemic banks	The NBU will prepare norms and regulations on systemic banks for adoption later in the year.	MFA II, 2nd tranche, #9	This condition had synergies with the IMF condition which required the completion of diagnostic studies by the largest banks. Addressing systemic risks and improving resilience were fundamental issues in early 2014.	High

Sources:

- European commission (2016) Association Implementation Report on Ukraine, SWD (2016) 446 final.
- Support Group for Ukraine (2016) Activity Report - The first 18 months
- EC mission reports and notes to committees

A10.2 Effectiveness of MFA I and II conditions

Table 17 Assessment of the effectiveness of the MFA I and II conditionality – Public Finance Management (PFM) – anti-corruption

Area of conditionality	Condition	Tranche	Assessment of effectiveness[75]	Rating on progresses made[76]	Rating on contribution of MFA[77]
PFM - anti-corruption	Adopting a national anti-corruption strategy that is in line with international best practice and a State Programme with time-bound deliverables to implement it.	MFA I, 2nd tranche, #3	Concise strategy document, implementation plan adopted in April 2015, and National Agency for Prevention of Corruption (NAPC) tasked with the implementation operational since early 2016. The CMU resolution approved in April 29, 2015 defined the clear measures for the implementation of the Strategy[78]. Most essential measures were implemented: the anti-corruption institutions were created and now are relatively well resourced (no major issues in this respect expressed by National Anti-Corruption Bureau), e-declaration system for public officials and civil servants was introduced. However, according to Transparency international, as of beginning of April 2017, the Strategy was fulfilled at 60 per cent instead of planned 90 per cent. The National Anti-Corruption Bureau was unable to indicate specific examples where the strategy would play material role i.e. as an additional argument in discussions with government to move forward with relevant reforms.	High	Medium to High

[75] This column provides some key evidences that were considered when assessing the effectiveness of each condition

[76] This column indicates the assessment on the degree of progress in implementation of a given condition. It is based, inter alia, on the evidences presented in the column 'assessment of effectiveness'

[77] This column indicates the assessment of the degree to which MFA played a role in advancement of a given reform

[78] See http://zakon0.rada.gov.ua/laws/show/265-2015-%D0%BF

Area of conditionality	Condition	Tranche	Assessment of effectiveness[75]	Rating on progresses made[76]	Rating on contribution of MFA[77]
PFM - anti-corruption	Implement comprehensive anti-corruption legislation in line with the recommendations made by the Council of Europe's Group of States against Corruption (GRECO) and other international standards	MFA I, final tranche, #17	Significant progresses made – with now all legal prerequisites in place, covering all major areas of anti-corruption activity. Tendency to purse a chaotic law-making process (gradual additions / adjustments to receive EU endorsement without a clear vision and even with some contradictions).	High	Low-Medium
PFM - anti-corruption	Implementation of the Law on Principles of Preventing and Counteracting Corruption (2011), article 12, which foresees annual declaration of assets (property, income, expenses and financial obligations) by persons defined in the legislation as declaration subjects. The government will prepare a draft law setting up an independent body with sufficient financial and human resources to ensure proper implementation and enforcement of the legislation.	MFA II, 2nd tranche, #4	Significant progresses made – via a new legal framework adopted in 2014 (Law on Prevention of Corruption) which addresses major earlier shortcomings including strengthening of the verification mechanisms. NAPC tasked with this action since early 2016. Launch of the new electronic asset declaration system on 1 September 2016 – though in the first wave over 100,000 declarations have been submitted as of end 2016 and some concerns about the transparency and ability to extract relevant information from the database exist. The role of MFA III here has been essential.	Medium/ High	Medium

Table 18 Assessment of the effectiveness of the MFA I and II conditionality – Public Finance Management (PFM) and related areas

Area of conditionality	Condition	Tranche	Assessment of effectiveness	Rating on progresses made	Rating on contribution of MFA
PFM - Budget processes	The government submits to the Verkhovna Rada and publishes (after submission to the Parliament) the first draft of the national Budget for the year 2015 at the latest on 15 September 2014 in line with the Budget Code.	MFA II, 2nd tranche, #2	The respect of the calendar for the submission of the draft 2015 budget to Parliament was waived on the grounds of the unforeseen early elections of October 2014 and given the letter of comfort received from the IMF). Although condition has not been met, the support of the EU in the form of conditionality under MFA was found by the Ministry of Finance as instrumental in pushing for implementation of this condition in the Parliament. Calendar for the submission of the draft 2016 budget was respected as it was submitted to Parliament on 14 September 2015. (this was one of the conditions related to the disbursement of the second tranche from MFA III)	Low	Low
PFM - Budget processes	In order to improve budget transparency, publication of monthly data on budget execution in line with article 28 of the Budget Code.	MFA II, 2nd tranche, #3	There have been no significant changes in this domain looking at the differences between the 2011 and 2015 PEFA assessments (Ukraine already performing well in 2011). Yet, the State Treasury is now publishing monthly data.	Medium	High
PFM - external audit	Ensuring that the Accounting Chamber of Ukraine has the Authority to audit not only budget expenditures, but also revenues in line with the standards of the International Organisation of Supreme Audit Institutions (INTOSAI)	MFA I, 2nd tranche, #5	Implementation of the condition was problematic, also because it involved substantial changes in law including changes in the Constitution. The rating of the PEFA indicator related to Audit coverage and standards has improved from D to C between 2011 and 2015. The 2015 report specifically notes the fact that ACU now has the authority to audit revenue among the progresses made (contributing to the improvement in grades).	High	High

Area of conditionality	Condition	Tranche	Assessment of effectiveness	Rating on progresses made	Rating on contribution of MFA
			Report on ACU activities in 2016 and early 2017 confirm audits on revenue side are taking place[79]. The MFA condition, together with condition of other donors including World Bank, pointed to the need to reinforce the external audit function. The law was prepared with the support of GIZ consultants. Yet, EC was very vocal and consistent in respect to this reform.		
PFM - external audit	Increase the financial resources allocated to the external audit function to a level that will ensure an appropriate increase in the number and quality of audits	MFA I, final tranche, #18	EC staff indicated that the requirements broadly set by this condition played a safeguarding role when ACU's resources were intended to be downsized in view of fiscal consolidation needs at the time of passing ACU law. More specifically, first draft ACU law planned to introduce a staff ceiling of a maximum of 250 (while 450 positions were at the time filled at the ACU. The EC used this MFA conditionalitiy to raise the staff ceiling (when compared with the initial draft) to 386 in the final version of the ACU law. More recently, and beyond the scope of MFA I & II, the ACU representatives stated current level of staffing is insufficient. In addition, the salary level offered by ACU is less competitive than in main private sector audit organizations.	Medium	High
PFM - external audit	Submission to the Verkhovna Rada of a draft law updating the existing legislation on the ACU and extending its remit to	MFA II, 2nd tranche, #5	The rating of the PEFA indicator related to Audit coverage and standards has improved from D to C between 2011 and 2015. The 2015 report specifically welcomes that the list of bodies which can be audited by the ACU has been expanded. The ACU's annual report for 2016 contains	High	Medium

[79] http://www.ac-rada.gov.ua/control/main/uk/index

Area of conditionality	Condition	Tranche	Assessment of effectiveness	Rating on progresses made	Rating on contribution of MFA
	include state-owned enterprises.		information that the ACU has audited some of the state-owned companies but no specific information on the number of SOEs is available. The MFA condition, together with condition of other donors including World Bank, pointed to the need to reinforce the external audit function. The law was prepared with the support of GIZ consultants.		
PFM - internal audit	Adopting a strategy for staff training at the different levels of government (central and municipal level, including internal audit services) and for certification of internal auditor	MFA I, 2nd tranche, #4	This condition is one of the examples quoted by the ECA and corresponding EC reply to it[80] where . According to EC own assessment, the training strategy as drafted back in the time had important limitations (poor drafting and no clear funding / implementation plan). In addition, there was no strategy for the introduction of an internal audit certification, although plans were being made. The 2015 PEFA assessment does flag issues with staffing of the internal audit function, but levels of qualification, lack of trainings or certification are not specifically discussed and attracting and retaining internal auditors seems to be the primary concern (in the context of a high number of vacant positions and of high turnover). Consultations with line ministries confirm that trainings are being rolled out. In particular, the Ministry of Defence has reported on four waves of trainings so far (financed by the Ministry of Defence of the UK).	Medium	Medium

[80] European Court of Auditors, 2016. EU Assistance to Ukraine.

Area of conditionality	Condition	Tranche	Assessment of effectiveness	Rating on progresses made	Rating on contribution of MFA
PFM - PIFC standards	Adopt an appropriate set of Public Internal Financial Control standards	MFA I, final tranche, #15	PIFC provisions were clarified over the course of 2014, but the ECA concluded that the set of standards were still not entirely compliant with EU PIFC standards. PIFC remained one of the weakest areas among the PFM reform areas because of the location of the Central Harmonization Unit. As from 2017, the Central Harmonization Unit is located back at the MoF, the typical location for such a unit. It is one EC PFM expert's understanding that such a big step can only be achieved when national authorities make it their priorities.	Low	Medium
PFM - public procurement	Continue to make progress towards establishing a system of public procurement based on the principles of transparency, competition and non-discrimination among tenderers.	MFA I, 2nd tranche, #1	The legislative changes that came into force in April 2014[81] focused on limiting the use of non-competitive tendering procedures and increasing the transparency of the PP process. Back then, MFA condition was helpful as the Ministry of Economic Development and Trade had problems to withstand pressures to introduce new exemptions. The share of public procurement contracts issued on the basis of non-competitive bidding practices (single source bidding/negotiated procedure) decreased to 36% in January-September 2014 from 41% in the same period in 2013. More significant legislative changes were introduced in 2015 with a new PP law which further increased transparency, competition and non-discrimination among tenderers (effective as from 2016). The Public Procurement Roadmap on the approximation of EU legislation was also adopted by the government on 24 February 2016 and	High	High
PFM - public procurement	Continue to make progress towards establishing a system of public procurement based on the principles of transparency, competition and non-discrimination among tenderers	MFA I, final tranche, #16			

[81] The new Law on Public Procurement (No. 1197–VII) came into force on 20 April 2014

Area of conditionality	Condition	Tranche	Assessment of effectiveness	Rating on progresses made	Rating on contribution of MFA
			World Bank pointed to crucial role of the DCFTA as a stimulating factor for authorities to embark on reforms more vigorously. The EC – as well as other donors like WB assisting, inter alia, with TA projects focused on legislation approximation/ drafting - have played a leading role setting the direction of changes in the public procurement system. Nowadays, Public Procurement is a flagship initiative of the government, especially of the Ministry of Economic Development and Trade (see introduction of the eProcurement system ProZorro).		
PFM - public procurement	As stipulated by the Law of Ukraine "On carrying out public procurement", make the Anti-Monopoly Committee operational as the authority to handle appeals in the sphere of public procurement, including by establishing within the Committee an appropriately staffed unit capable of effectively dealing with complaints submitted by aggrieved bidders.	MFA I, 2nd tranche, #2	The appeals body is fully operational and approved 592 decisions in 2016. It, however, continues to face staffing and budgetary constraints.	Medium	Medium
PFM - public procurement	Elaboration and publication of draft Annual Procurement Plans for the year 2015 by each of the Procurement Entities or Contracting Authorities financed by the	MFA II, 2nd tranche, #1	The condition was assessed as broadly met because the majority of the draft procurement plans were not	Medium	Low - Medium

Area of conditionality	Condition	Tranche	Assessment of effectiveness	Rating on progresses made	Rating on contribution of MFA
	State Budget by 15 September 2014.		sufficiently well elaborated even if published as required under the new Public procurement law [82].		

Sources:

- OECD (2015) Anti-Corruption Reforms in. UKRAINE. Round 3 Monitoring of the. Istanbul Anti-Corruption Action Plan,
- European commission (2016) Association Implementation Report on Ukraine, SWD(2016) 446 final.
- Oleksii Khmara (2016) Transparency International Ukraine, Anti-Corruption Policy in Ukraine, 2nd meeting, Brussels, 11 February 2016
- World Bank (2016) Ukraine PEFA 2015 Public Financial Management Performance Report
- World Bank (2012) Ukraine PEFA 2011 Public Financial Management Performance Report
- European Court of Auditors (2016) EU assistance to Ukraine
- EC mission reports and notes to committee

[82] http://zakon3.rada.gov.ua/laws/show/922-19/ (Ukrainian) Law 922-VIII from 25.12.2015

Table 19 Assessment of the effectiveness of the MFA I and MFA II conditionality – Trade and taxation

Area of conditionality	Condition	Tranche	Assessment of effectiveness	Rating on progresses made	Rating on contribution of MFA
Trade and taxation - WTO commitments	Refrain from introducing trade-distorting measures and to fully apply Ukraine's WTO commitments	MFA I, 2nd tranche, #6	EC mission reports highlight that plans of increasing tariffs for 371 products were abandoned; and quotas for imports of coal and coke as well as recycling fee discriminating against imported vehicles were removed. The reports also note that although Ukrainian authorities decided to introduce import surcharges for balance-of-payments purposes, it was done in a relatively market-friendly and transparent way (via price-related measures). This temporary measure later expired as planned on 1 January 2016. There has been some evidence of backtracking (namely the law introducing an export ban on unprocessed timber that entered into force in November 2015) attributed to the Ukrainian Parliament where the government holds only a slim majority of MPs. Yet this relates to the ongoing MFA III operation.	Medium	High
Trade and taxation - WTO commitments	Refrain from introducing trade-distorting measures and fully apply Ukraine's WTO commitments.	MFA I, final tranche, #19			
Trade and taxation - WTO commitments	Ukraine will consult with the EU and other WTO members on its request for renegotiation of its WTO commitments under article XXVIII of the GATT, so as to address systemic concerns raised by WTO members. These consultations will include the consideration of other WTO compatible instruments, such as the BOP exception. The consultations should result in a further substantial reduction of the number of tariff lines affected by the renegotiation request.	MFA II, 2nd tranche, #6			

Area of conditionality	Condition	Tranche	Assessment of effectiveness	Rating on progresses made	Rating on contribution of MFA
Trade and taxation - VAT arrears	Ensure that all VAT refund arrears are cleared and that all legitimate VAT refund claims are paid in cash, or netted out against VAT obligations of the taxpayer in question, in a timely manner	MFA I, 2nd tranche, #8	The conditions related to VAT arrears were not met and required the issuance of waivers. VAT arrears was perennial problem in Ukraine long before MFA I & II implementation. Problematic negotiations, with significant resistance by the authorities due to the limitation for fiscal discretion, made it an area where progresses was difficult. Arrears had reached tangible level in mid-2014 and peaked at the level of UAH 5.7 billion in July. Despite substantial reduction in the following months of 2014, arrears started rising again from January 2015 and reached record high of UAH 7.2 billion in September 2015. Regarding the stock aspect, in July and August of 2014, state securities ('VAT bonds') for clearance of some of VAT refund arrears accumulated prior to 2014 as an exceptional measure given mounting pressure on public finances, with the approval of the IMF. Such recourse was highlighted by the EC in discussion with IMF as inconsistent with MFA I conditionality (MFA stipulated that '*…VAT is to be refund in cash or netted out against the concerned taxpayers' VAT liability.*' In the end, the Commission agreed to issue a waiver. More than lack of coordination among donors, this issue illustrates the fact that EU MFA conditionality is set in stone once agreed. NB: The scale of initially planned issuance of VAT bonds was greater that eventually materialised one (UAH 11-12 billion *versus* actual UAH 6.9 billion). The reduced	Medium	High
Trade and taxation - VAT arrears	Making progress towards strengthening the VAT administration system - ensure timely VAT refunds through the operation of an automatic VAT refund system and risk-based audits	MFA I, 2nd tranche, #10			
Trade and taxation - VAT arrears	Ensure that all legitimate VAT refund claims are paid in cash, or netted out against VAT obligations of the taxpayer in question, in a timely manner.	MFA II, 2nd tranche, #7			
Trade and taxation - VAT arrears	Continue to ensure that all legitimate VAT refund claims are paid in cash, or netted out against VAT obligations of the taxpayer in question, in a timely manner	MFA I, final tranche, #21			
Trade and taxation - VAT arrears	Introduce in VAT legislation the provision that any VAT refund arrears carry an appropriate penalty interest of	MFA I, 2nd tranche, #9			

Area of conditionality	Condition	Tranche	Assessment of effectiveness	Rating on progresses made	Rating on contribution of MFA
	at least 120% of the NBU discount rate – arrears: 74 days after submission of the VAT refund claim.		scale was also partly determined by the EU that pressed for lower issuance. Regarding the flow aspect, the introduction of an electronic VAT system, which was expected to shorten the standard period for VAT refund settlement by a month, was postponed repeatedly, notably due to opposition by businesses that believe the new system can negatively impact on their liquidity. It was only introduced (by law) in April 1, 2017. It still needs to be seen whether it works efficiently. As of Q2 2017 arrears level was relatively low and key stakeholders (EBRD, EU Delegation, WB) indicated that substantial improvement was achieved in comparison to 2014. Both, the EC and the IMF are believed to have played a role in the advancement of the reforms.		
Trade and taxation - customs valuation	Consistent with the Economic Reform Programme, ensure that customs valuation practices are fully in line with WTO standards (Agreement on Implementation of Article VII of the GATT 1994).	MFA I, final tranche, #20	See 0 on relevance. Progresses were largely made before MFA I & II implementation.	High (before MFA I & II implementat ion)	Low
Trade and taxation - Product coding	Introduce an up-to-date product coding system for foreign trade purposes based on the Harmonised System 2007	MFA I, 2nd tranche, #7	See table on relevance. Progresses were largely made before MFA I & II implementation.	High (before MFA I & II implementat ion)	Low

Sources:

- Committee on Economic Reforms under the President of Ukraine (2010) Ukraine's programme of economic reforms 2010-2014
- PwC (2013) Doing business and investing in Ukraine
- EC mission reports and notes to committees

Table 20 Assessment of the effectiveness of the MFA I and MFA II conditionality – Energy sector

Area of conditionality	Condition	Tranche	Assessment of effectiveness	Rating on progresses made	Rating on contribution of MFA
Energy sector - collection rate of Naftogaz	Increasing the overall collection rate of Naftogaz through better enforcement of payments discipline, notably among communal utilities.	MFA I, 2nd tranche, #11	Collection rates of Naftogaz have improved over the implementation of MFA I & MFA II (71.2 per cent in Q4 2014 compared to 51.2 per cent the preceding year), reflecting: • On the prevention side: the introduction of special purpose accounts for centralized collection of gas settlements from communal utilities (increased visibility of amounts by end users without the need to go through intermediaries; • On the coercive side: imposition of restrictions in case of delays with payments and beefing up of procedures enforcing debt collection. The collection rate from heating companies was 44 per cent in 2013 and after introduction of new law increased to 70 per cent in 2014. Collection rates remain under expectations for heating generating companies and gas distribution companies (compared to households). In Q1 2017 the collection rate for distribution companies was claimed to be 26 per cent. The improvement of collection by Naftogaz was one of the factors supporting the reduction of the operational	High	Low/ Medium
Energy sector - collection rate of Naftogaz	Further increase the overall collection rate of Naftogaz through improved payments discipline	MFA I, final tranche, #23			

Area of conditionality	Condition	Tranche	Assessment of effectiveness	Rating on progresses made	Rating on contribution of MFA
			deficit of the company. This deficit was virtually eliminated in 2016. MFA conditionality focusing on the need for specific actions to boost collection rate was often used by Naftogaz management as an additional leverage in the discussions with the authorities. IMF, EBRD and WB have played crucial role in restructuring of the operations of Naftogaz.		
Energy sector - transparency of Naftogaz	In order to increase transparency on the operations of Naftogaz, prepare an Annual Financial Report of Naftogaz and its subsidiaries segmented into i) production, ii) import/supply, and iii) network management and storage in line with International Financial Reporting Standards.	MFA II, 2nd tranche, #8	Since 2015 Naftogaz has been producing Annual Reports in IFRS standards (as a first state-owned company). New Naftogaz management that started its work in 2015 was indicated as a crucial factor behind the recent progress in company's restructuring and improvement in corporate governance. No quarterly cash flow data is being produced for the whole holding (it is for Naftogaz entity though). Naftogaz pointed to importance of the EBRD in supporting the reforms in corporate governance area. The unbundling of the Naftoogaz has already begun.	Medium	Medium
Energy sector - approximation EU legislation	Achieve substantial progress in the implementation of Ukraine's obligations under the Energy Community Treaty which notably foresees the separation of the production, distribution and transport in the national gas sector.	MFA I, final tranche, #22	After years of cooperation with the EU in the energy domain (including via three sectoral budget support programmes since 2007) without any breakthrough, progresses, made during and even more so after MFA I and II, include major steps, especially in the gas sector: • New gas law entered into force in October 2015 and secondary legislation in place;	High	Medium

Area of conditionality	Condition	Tranche	Assessment of effectiveness	Rating on progresses made	Rating on contribution of MFA
			• Gas utility tariffs for households and district heating companies raised to their cost-recovery levels; • Progress in the fields of market opening and establishment of metering devices as well as enforcement of competition rules; • Advancement of the process for unbundling Naftogaz and unbundling of distribution companies; • Significant steps were also taken in the energy sector: • New electricity market law passed first reading in September 2016, a Law on Energy and Utilities Regulator was adopted and a draft Electricity Market Law; • Relevant law on the energy market regulator adopted in September 2016.		
Energy sector - EITI	Reach "Candidate" status in the Extractive Industries Transparency Initiative to underpin transparency in the energy sector	MFA I, 2nd tranche, #13	Ukraine approved important changes in 2014[83]. It passed a law in 2014[84] requiring an upfront disclosure of beneficial ownership of companies to the Ukrainian authorities. All companies previously registered in	Medium	Medium

[83] UAEITI, 2016. Overview. Available at: https://eiti.org/ukraine

[84] Reanimation Package of Reforms. Available at: http://rpr.org.ua/en/

Area of conditionality	Condition	Tranche	Assessment of effectiveness	Rating on progresses made	Rating on contribution of MFA
Energy sector - EITI	Make substantial progress towards achieving "EITI Compliant" status in the Extractive Industries Transparency Initiative	MFA I, final tranche, #24	Ukraine are required to disclose their ultimate beneficiaries in a public register[85] Recent report under the Extractive Industries Transparency Initiative was published in Feb 2017[86]. Ukraine has not yet reached "EITI Compliant" status. The establishment of the National EITI Secretariat was financed by a grant from the World Bank but then the matter was entirely taken over by the EC.		
Energy sector - social safety net	Strengthening of a social safety net – also to compensate for the increase in gas prices while improving collection rate	MFA I, 2nd tranche, #12	See Annex 8.	High	Medium to High

[85] Ukrainian Ministry of Justice, 2017. https://usr.minjust.gov.ua/ua/freesearch

[86] UAEITI, 2016. Key documents. Available at: https://eiti.org/ukraine#eiti-reports-and-other-key-documents

Table 21 Assessment of the effectiveness of the MFA I and MFA II conditionality – Financial sector

Area of conditionality	Condition	Tranche	Assessment of effectiveness	Rating on progresses made	Rating on contribution of MFA
Financial sector - approximation EU legislation	Preparing the implementation of EU legislation concerning financial services, in particular through adoption of a strategic multi-year plan – defining priorities and a list of specific steps and measures to be taken.	MFA I, final tranche, #25	Although not an immediate priority, authorities had been keen to progress on this aspect. A road map, entitled Comprehensive Programme for Financial Sector Development to 2020 was adopted in June 2015[87] and updated in February 2017. The roadmap took the EU acquis as the reference point and the authorities specifically requested a technical assistance project to move forward in this area (in which the SGUA has been heavily involved). NBU was not able to indicate specific examples where multi-year plan would be used to advance the reforms but it stated that it helped indeed in approaching the reforms. There was very high level of ownership at NBU at the time of the implementation of MFA I & II. Much of the reforms had been already at its agenda. International donors, in particular World Bank, played crucial role in the reforms of the financial sector.	High	Low to Medium
Financial sector - accounting standards	Amend legislation, notably the accounting law, so as to ensure the application of the International Financial Reporting Standards to all financial market participants by 2014 at the latest	MFA I, 2nd tranche, #14	Progress was largely made prior to the MFA I & II implementation.	High (before MFA I & II implementation)	Low

[87] http://zakon0.rada.gov.ua/laws/show/v0391500-15

Area of conditionality	Condition	Tranche	Assessment of effectiveness	Rating on progresses made	Rating on contribution of MFA
Financial sector - disclosure of information	The government submits to the Verkhovna Rada the draft law amending the "law on financial services and state regulation of financial services markets concerning disclosure of information".	MFA II, 2nd tranche, #11	The draft law was submitted and came into force. The law targeted non-banking financial institutions regulated by the National Commission for State Regulation of Financial Services Markets (insurance companies, pension funds, leasing companies, non-bank credit firms, etc). In total, about 2000 companies. Local experts confirmed that the law contributed to the overall increase in transparency of the sector. National financial Services Commission didn't compile financial reports database as required by law although financial institutions started to publish financial reports on their websites as required by law.	High	Medium
Financial sector - ultimate ownership of banks	Improvement of implementation of the legislation on the disclosure of ultimate ownership of banks. Publication of data on ultimate ownership for all banks by 1 September on the NBU website.	MFA II, 2nd tranche, #10			
Financial sector - systemic banks	The NBU will prepare norms and regulations on systemic banks for adoption later in the year.	MFA II, 2nd tranche, #9	There is now a clear definition of systemic banks (law adopted in July 2014 by the Rada). World Bank, among others, played central role in supporting the NBU. MFA I & II were most likely a reinforcing factors. This is still work in progress: some of the requirements towards systemic banks are to be implemented in 2018.	Medium	Low-medium

Annex 11 Timeline of economic and political events 2014-2016

To access the timeline, please open the spreadsheet. The spreadsheet has been formatted for A4 landscape printing.

Timeline
2014-2016.xlsx

Annex 12 Summary of the focus of MFA I and II operations and the relevant programmes of IMF, EBRD and World Bank

Table 22 Overview of the mapped programmes

MFA I (2014)	MFA II (2014)	MFA III (2015)	IMF 2014 SBA/ 2015EFF	WB (S)DPLs	EBRD
MFA I, based on the decisions adopted in 2002 and 2010, provided MFA worth a total of EUR 610 million. The first tranche of EUR 100 million was disbursed in May 2014, shortly after the IMF approved a new two-year SBA for Ukraine. The second tranche of EUR 260 million was disbursed in November 2014, while the third one (EUR 250 million) was disbursed in April 2015. All disbursements are conditional on Ukraine having a working IMF programme in place.	In April 2014, the Council approved a second MFA programme for Ukraine worth EUR 1 billion in loans (MFA II) under the urgency procedure (Article 213 TFEU). The full amount was disbursed in two tranches of EUR 500 million each in June and December 2014.	On 8 January 2015, the Commission proposed a third MFA programme for up to EUR 1.8 billion in loans It was adopted by Parliament and Council on 15 April 2015. The first tranche of MFA III (€600 million) was disbursed in July 2017. The remaining tranches have not been disbursed. Blocking conditionalities are those linked to WTO commitments and IDPs.	After gaining independence in 1991, Ukraine entered into several IMF-supported programmes. The disbursements under MFA I and II are linked to the two-year exceptional access Stand-By Arrangement approved by the IMF in April 2014. The two predecessor programmes had been approved in 2008 and 2010 respectively. The 2014 SBA was however not implemented in full because most risks that were anticipated at the programme design stage materialised and the SBA was replaced, in March 2015, by a four-year Extended Fund Facility (EFF) Arrangement of SDR 12.348 billion (circa USD 17.5 billion or €15.4 billion).	• Overall, the World Bank assistance to Ukraine between in 2014 and 2015 reached around USD 4.3 billion *via* both, policy loans and specific projects' financing. The World Bank's pipeline of policy loans comprised two General Development Policy Loans (DPL 1 and DPL 2) of the value of USD 750 million and 500 million respectively[88] approved in May 2014 and August 2015, and two Financial Sector Development Policy Loans (FSDPL 1 and FSDPL 2) of USD 500 million each approved in August 2014 and September 2015 respectively. All adding up to USD 2.25 billion. All policy loans were provided on preferential conditions[89]. NB: Given the scope of this evaluation (primary 2014 and early 2015), focuses on DPL 1[90] and FSDPL 1[91] only.	The EBRD has been active in Ukraine since 1993. Since early 2014, the EBRD has been able to step up its engagement in Ukraine in view of the new political forces' willingness to implement broad-ranging reforms via its 'Reform Anchoring & Crisis Response Package'. The EBRD indicated that it would support the Ukrainian economy with investments of at least EUR 5 billion over the period until 2020. The EBRD also focuses on strengthening energy efficiency and energy security, unlocking Ukraine's agricultural and industrial potential, providing quality infrastructure and strengthening the financial sector.

88 The World Bank, 2015. Q & A. Available at: http://www.worldbank.org/en/news/speech/2015/08/25/world-bank-assistance-to-ukraine

89 For instance, maturity for 1st DPL was 16 years with grace period of 7 years. Available at: http://www.worldbank.org/en/news/loans-credits/2014/05/22/ukraine-first-development-policy-loan

90 World Bank, 2014. DPL 1. Available at: http://projects.worldbank.org/P150313?lang=en

91 World Bank, 2014. FSDPL 1. Available at: http://documents.worldbank.org/curated/en/547791468309274052/Ukraine-Programmatic-Financial-Rehabilitation-DPL-1-Project

Table 23 Comparison of conditionalitie between MFA operations and programes of international donors

Reform area	MFA I	MFA II	MFA III	IMF SBA / EFF	WB DPL 1 and FSDPL 1	EBRD	Comments/ conclusions
Public finance management							
Public procurement	✓ Broad terms: PP system in line with EU standards	✓ Annual PP plans	✓ Publication of award notices E-tendering	✓ Adopt a new PP law	✓ Adopt new PP law (reduction of exemptions in competitive procurements)	✓ Commitments to engage in TA projects, trainings, concertation in the area of PP	A priority for all, not much overlapping; rather the reforms are complementary Progression of reforms under the three MFAs
Internal / external audit	✓ Training and certification for staff in internal audit Increase the financial resources of the external audit Adoption of PIFC standards	✓ Extend the remit of the powers of the ACU to do audits on SOEs	✓ Publication of the audit reports / follow-up notes of the ACU Allow the ACU to effectively do audits x number of audits of SOEs		✓ Extend the remit of the powers of ACU to state budget revenue Adopt new law to set up external verification of financial disclosures of public officials		An "EU-only" priority (IMF addresses PFM issues in relation to NBU and Naftogaz specifically) A key focus area for MFAs Progression of reforms under the three MFAs
Governance and transparency							
Public administration			✓	✓			New reform area for MFAIII

Reform area	MFA I	MFA II	MFA III	IMF SBA / EFF	WB DPL 1 and FSDPL 1	EBRD	Comments/ conclusions
			Strategy and implementation plan for public administration reform Legislation on de-politicisation of the civil service Open competition for recruitment of civil servant	Preparation and implementation of revenue administration reform plan (2010 SBA) Public administration reform plan			IMF focuses more on reform of administration linked to fiscal policy
Anti-corruption	✓ Broad terms: Implement anti-corruption legislation	✓ Broad terms: Implement anti-corruption legislation	✓ Set up of Anti-Corruption Bureau + Prosecution Office + National Agency Specific conditions on asset disclosure / asset recovery	✓ Diagnostic study Set up and functioning of National Anti-Corruption Bureau (NABU) Legislative amendments for more powers to NABU (New EFF): Prosecution function of NAB Amend AML law, Implement AML framework Specific conditions on asset disclosure	✓ Anti-corruption dimension was strongly emphasised and incorporated in most of the FSDP 1 and DPL 1 conditions	✓ Linked to fair treatment of business (see competition)	Large degree of overlap / reinforcement between MFA / IMF and SBC MFA I and II conditions formulated in broader terms

Reform area	MFA I	MFA II	MFA III	IMF SBA / EFF	WB DPL 1 and FSDPL 1	EBRD	Comments/ conclusions
State-owned enterprises (SOE)		✓ [see also audits of SOEs in PFM]	✓ Strengthen reporting obligations (conversion to joint stock companies) (+audits on SOEs) [see also audits of SOEs in PFM]	✓ Diagnosis, strategy, with aim to establish list of SOEs to keep as SO, privatise or liquidate. (New EFF): Adoption of action plan for the privatisation / restructuring of SOEs with largest fiscal risks			Addressed from the PFM perspective by the EU. IMF more involved in restructuring / privatisation
Fiscal governance / policy		✓ Draft national budget by X Data on budget execution	✓ Draft national budget by X Action plan to improve tax compliance Launch OECD peer review Broad condition TI and predictability fiscal policy	✓ Budget in line with new tax code Pass supplementary state budget Adopt supplementary state budget law and a package of tax and expenditure legislation	✓ Amend the law to improve public investment management framework (incl. Budget Code)		EU more focused on fiscal governance, IMF on fiscal policy
Business environment, trade and customs							
Trade	✓	✓	✓				Compliance of WTO commitments is an

Reform area	MFA I	MFA II	MFA III	IMF SBA / EFF	WB DPL 1 and FSDPL 1	EBRD	Comments/ conclusions
	WTO commitments Harmonised product coding system	WTO commitments	WTO commitments* EU-compatible Authorised Economic Operator system / Common Transit Procedure convention				EU concern only but repeatedly addressed via MFAs*
Customs / tax	✓ VAT refunds incl introduction of penalties for arrears	✓ VAT refunds	✓ Reduced arrears incl VAT refunds	✓ VAT refunds (2010 SBA) Reversal of the general VAT rate reduction; revisions to sectoral VAT policy (e.g. agriculture) Merging of the customs and tax administration Other specific conditions	✓ Adopt law requiring publication of monthly data on VAT refunds/ revoke order of Ministry of Revenue and Duties that established targets for additional assessments and fines Extension of automatic VAT refund procedures		VAT refunds is a recurring issue addressed by MFA / SBC and also one where domestic political commitment to reform was lacking IMF tackles the wider VAT reform needs (linked to fiscal policy)
Competition			✓ Increase efficiency of competition policy e.g. by lowering discretion of competition authority			✓ Linked to fair treatment of business Detailed conditions on setting up and functioning of a Business	An EU specific conditionality. EBRD and MFA III conditions can be seen as complementary

Reform area	MFA I	MFA II	MFA III	IMF SBA / EFF	WB DPL 1 and FSDPL 1	EBRD	Comments/ conclusions
						Ombudsman Institution	
Deregulation			✓ Simplified permits and licences for businesses		✓ Adopt law that will ease the business and property registration/ reduce the number of permits		Overlapping conditions between the two EU instruments
Judiciary							
Judicial reform Constitutional reform Electoral reform			✓ Qualification and evaluation system of judges Law on effective enforcement system Amend legislation (Venice convention	✓ selective increase of court fees strengthening of the provisions in the Code of Civil Procedure on Order for Payment for domestic transactions and on garnishment of bank accounts			MFAIII and SBC address this from a wider perspective compared to IMF Not tackled by MFA I and II
Financial							
Legislative and institutional reform	✓	✓	✓	✓	✓		Key focus area for the IMF,

Reform area	MFA I	MFA II	MFA III	IMF SBA / EFF	WB DPL 1 and FSDPL 1	EBRD	Comments/ conclusions
	IFRS Alignment to EU legislation	Data on ownership of banks Draft law on financial services	Draft law on financial services Central credit register	Amendments to legislation re bank resolution Resolution strategy of problem banks Data on ownership of banks Legislation on liability of bank owners on losses incurred Law on governance and autonomy of NBU (new EFF): strengthen insolvency and credit enforcement regimes, remove tax impediments Operationalise prosecutorial function of NAB Diagnostic studies on largest banks Recapitalisation of banks (by public funds under strict rules)	Entire focus of FSDPL 1 including reforms related to (i) bank recapitalization and restructuring, (ii) resolution and consolidation of the banking system i.e. norms and regulations on systemic banks, (iii) strengthening of Deposit Guarantee Fund		Also pushed forward via MFA MFA: focused on improvement of laws, rules, standards IMF and EBRD: also on recapitalisation of viable banks. Ownership of banks: concern addressed under both MFA and IMF

Reform area	MFA I	MFA II	MFA III	IMF SBA / EFF	WB DPL 1 and FSDPL 1	EBRD	Comments/ conclusions
National Bank of Ukraine reform		✓ Norms and regulations on systemic banks	✓ Rules to identify counterparties	✓ Put in place internal control Governance and autonomy framework of the NBU	✓ The formulation and implementation of a strategy for crisis management Governance framework for NBU including enhancement of management of DGF	✓ Recapitalisation of viable banks Financing of corporates Provision of support / TA	Complementary reforms promoted by the EU and IMF
Energy							
Naftogaz	✓ Increased collection rate / payment discipline	✓ Annual Financial report	✓ Annual Financial report (further specs)	✓ Audit of Naftogaz Recapitalisation of Naftogaz		✓ Restructuring of Naftogaz	Complementary reforms aimed at increasing transparency and viability of Naftogaz
Compliance with EU / international obligations Legislative / market reform	✓ Broad condition: Implementation of obligations under Energy Community Treaty		✓ Strenghten independence of Regulatory Commission Amend Electricity market law Adopt secondary legislation in line	✓ Raising of households tariffs (already since 2008/10) Law on depolitisation of tariff settings (remit of NURC)		✓ Liberalisation legislation Independent regulator	Complementary reforms aimed at improving the functioning of gas and electricity markets as well as energy efficiency (MFA III)

Reform area	MFA I	MFA II	MFA III	IMF SBA / EFF	WB DPL 1 and FSDPL 1	EBRD	Comments/ conclusions
			with Gas Market Law Gas sector reform implementation plan Law on energy efficiency, Use of meters and control devices	Law to improve payment discipline / improve Naftogaz collection rate (incl. lifting moratorium on enforcement proceedings for SOEs) New gaz market law			
Extractive Industries Transparency Initiative	✓ Reach candidate status						Reform clearly driven by accession process
Social safety nets	✓ Compensation for increase in gas prices		✓ Compensation for increase in energy tariffs, higher targeting Effective provision if social benefits and services to IDPs* Evaluation of social services for IDPs	✓ New Social assistance schemes for those not covered by existing schemes (New EFF) Reform utility-related social assistance (better targeting, within envelope)	✓ Adoption of law and establishment of the system to compensate increase in gas and heating bills of the poorest 30 percent of the population (very strong technical support of WB here)		Both MFA I and III and IMF have conditions to improve social safety nets to counter the negative effects of tariff increases
Pensions				✓ (New EFF) Parliamentary passage of pension reform legislation,			

Reform area	MFA I	MFA II	MFA III	IMF SBA / EFF	WB DPL 1 and FSDPL 1	EBRD	Comments/ conclusions
Monetary policy				✓ Official exchange rate calculation			
Agriculture				✓ Submit law on agricultural land circulation to parliament			