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**Association Implementation Report on Ukraine**

## Association Implementation Report on Ukraine

### 1. Summary

This report outlines the state of play of Ukraine's implementation of its commitments under the EU-Ukraine **Association Agreement** (AA). It covers developments since the publication of the previous Association Implementation Report on Ukraine of 1 December 2020 until the launch of Russia's war of aggression against Ukraine on 24 February 2022, in view of the EU-Ukraine Association Council in September 2022.

Ukraine continued to prioritise association and further integration with the EU on the basis of the AA and has taken important steps in its implementation. The Ukrainian Government published its own AA implementation report for 2021 in April 2022<sup>1</sup> and continued to work on prioritisation of legislative reforms relating to AA commitments. Ukraine's **civil society and independent media** continue to play an active role in the promotion and oversight of reforms, as well as monitoring of AA implementation.

In 2021, Russia's destabilising actions in **eastern Ukraine and illegally annexed Crimea** and the city of Sevastopol, along with an the unprovoked build-up of military equipment and personnel in and around Ukraine, continued to challenge Ukraine's territorial integrity, sovereignty and independence, along with democracy and human rights for its citizens. Violations of the ceasefire in eastern Ukraine continued on a daily basis. Ukraine established an International Crimea Platform as a consultative coordination format with the aim of peacefully ending Russia's illegal annexation and temporary occupation of the peninsula. EU together with many other international partners joined the Platform.

Between April 2019 and February 2022, Russia issued at least 600 000 passports to residents of the non-Government-controlled areas (NGCAs) in eastern Ukraine. Russia's discriminatory maritime inspection regime remained in place causing delays for all vessels going through the Russia-controlled Kerch Strait on their way to or from the Ukrainian Sea of Azov ports. Several entry-exit crossing points on the line of contact with the NGCAs remained closed by Russia-backed armed formations which hampered the well-being of the most vulnerable conflict-affected population unable to get access to basic needs such as access to their pensions. The estimated total number of people in need of humanitarian assistance was **3.4 million**, living in the NGCA and in the areas along both sides of the contact line. The Government undertook administrative and legislative steps aimed at easing the situation of the conflict-affected population.

The Global COVID-19 pandemic continued to affect the Ukrainian **economy**, while financial support from the IMF and the EU has helped to ease economic impact. Key reforms such as land reform and digital transformation have gained new momentum.

A law on "**de-oligarchisation**" was signed by the President in November 2021, providing for restrictions on individuals designated as oligarchs by the National Security and Defence Council. Ukraine imposed sanctions on a number of media outlets associated with Russian interests. Freedom of media remained broadly respected but audio-visual media legislation approximating Ukrainian rules with EU law remains to be adopted, including as regards independence of media regulator, transparency of media ownership, and equal market conditions.

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<sup>1</sup> <https://eu-ua.kmu.gov.ua/>

In the area of **justice, rule of law and the fight against corruption**, key laws aiming at reforming the High Council of Justice (HCJ) and re-launching of the High Qualifications Commission of Judges (HQCJ) were adopted and their implementation has started. At the same time, the Supreme Court challenged at the Constitutional Court of Ukraine certain provisions of the judicial reform, namely establishment of the vetting body (the Ethics Council for the HCJ).

Significant outstanding challenges include urgent reform of the Constitutional Court (CCU). A draft law on the reform of the CCU is pending in the Ukrainian Parliament. However it does not include rules on competitive selection of judges and a temporary raise of the quorum for decision-making (as recommended by the Venice Commission).

Legislation related to the National Agency for Corruption Prevention (NACP) has been largely restored, including deterrent sanctions for submitting false declarations. A situation of legal uncertainty for the National Anti-Corruption Bureau (NABU) was resolved with the adoption of a new NABU law. The selection process for a new head of the Specialised Anti-corruption Prosecutor's Office (SAPO) has not been concluded and the Asset Management and Recovery Agency (AMRA) has been without a permanent head for over two years. Progress was made in the area of digitalisation with the adoption of the law establishing the legal basis for an e-case management system for the anti-corruption institutions.

The High Anti-corruption Court (HACC) continues building a solid track record and a law on whistle-blowers protection was adopted. Another significant step was taken in the reform of Ukraine's system for combating serious economic and financial crimes with the creation of the Bureau for Economic Security (BES). A draft law on the Security Service of Ukraine (SSU) has passed the first reading in Parliament.

The Law on Land Turnover entered into force, along with further related legislation, resulting in the opening of the land market on 1 July 2021. Implementation has been progressing smoothly.

A new **public administration reform** strategy was adopted by the Government in line with OECD and European public administration principles and merit-based recruitment to the civil-service was restored. The general law on administrative procedures was adopted in February 2022, with signature by the President pending. A new public finance management strategy was adopted in line with the Public Expenditure and Financial Accountability (PEFA) methodology.

Government intervention in the management of state-owned energy company Naftogaz raised concerns over the pursuit of **State-Owned Enterprise (SOE) corporate governance** reform. A new draft law on corporate governance of SOEs passed first parliamentary reading in July 2021. It aims to align Ukrainian legislation with OECD guidelines.

Ukraine's financial sector remained profitable despite the impact of the Covid-19 crisis. Developments at the **National Bank of Ukraine (NBU)** sustained concerns over central bank independence and banking supervision and Ukraine's **state-owned banks** have continued to face challenges in the corporate governance area. February 2021 saw a first criminal case and arrest relating to acts of alleged (USD 5.5 billion) fraud by the management of PrivatBank prior to its 2016 nationalisation, while the bank's former owners and associates have continued using Ukrainian court proceedings in efforts to undermine the nationalised bank.

**Trade** between the EU and Ukraine rebounded in 2021 following the decline experienced in 2020, reaching €52.4 billion, which is a 100% increase since the entry into force of the Deep and Comprehensive Free Trade Area (DCFTA) Title of the AA in January 2016. The EU remains by far Ukraine's biggest trading partner. Both sides agreed on a Priority Action Plan

to enhance the implementation of the DCFTA, including concrete measures to improve market access and facilitate trade. There has been some progress on the preparatory work towards an eventual Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) and on the approximation with the EU Digital Single Market law. Ukraine's wood export ban, a longstanding trade-irritant found non-compatible with commitments under the DCFTA in a bilateral dispute settlement procedure in December 2020, has yet to be removed by Ukraine.

In the energy sphere, Ukraine's wholesale electricity market continued to operate with some signs of distortion and market manipulation. The strategic goal to connect Ukrainian power grid to the Continental European Network CEN (grid synchronisation) was a top priority for Ukraine in the electricity sector. There was little progress in environmental reforms in 2021. However, in the area of climate action, Ukraine adopted and submitted its Nationally Defined Contribution to the Paris Agreement and National Strategy on Adaptation to Climate Change. An EU Ukraine focused dialogue on the EU Green Deal and Ukraine's green transformation was launched and two extended working sessions were held in Brussels and Kyiv.

Ukraine has continued to make significant progress in the area of **digital transformation**. In some instances this has already contributed to more efficient and transparent government and the fight against corruption. Ukraine was among the first countries whose digital COVID-19 certificates were recognised by the EU.

The 4th Report under the Visa Suspension Mechanism (COM(2021) 602 final) from 4 August 2021 concluded that overall, Ukraine continued to fulfil the visa liberalisation benchmarks and had taken action to address previous COM recommendations. However further efforts were needed inter alia in the areas of the fight against corruption, money laundering and the prevention and fight against organised crime.

At the EU Ukraine Summit in October 2021, the EU and Ukraine signed three agreements: the Common Aviation Area Agreement, agreements on Ukraine's association to Horizon Europe and Euratom Programme and Creative Europe Programme.

The EU continued to provide financial assistance to support Ukraine's stabilisation and reform process as well as to the conflict-affected populations. Under the EU's **COVID-19 response** package approximately EUR 190 million have been committed. In addition, an **EU macro-financial assistance** package of EUR 1.2 billion intended to mitigate the economic impact of COVID-19, was fully disbursed by 25 October 2021. Since 2014, the EU and European Financial Institutions have mobilised over EUR 17 billion in grants and loans for Ukraine.

## **2. Political dialogue, good governance and strengthening institutions**

### **a. Democracy, human rights and good governance**

The Government formed by the "Servant of the People" parliamentary majority associated with President Volodymyr Zelenskyy retained office during the reporting period.

Work on amendments to the **Electoral Code** to implement previous international and domestic recommendations is underway within a working group in Parliament. The process has been transparent and inclusive. The law on national referenda was adopted in January 2021. The work on the law on local referenda is underway. Both laws were drafted in an inclusive process involving civil society. By-elections to Parliament and mayoral elections in Kharkiv took place on 31 October 2021, with some irregularities noticed by local observers. Elections in 18 Government-controlled municipalities in eastern Ukraine were overdue as a result of security

concerns cited by local administrations. Full restoration of financial reporting obligations of political parties is pending Parliament's approval.

Following completion of the administrative part of continuing **decentralisation reform** in 2020, a revised legislative framework aimed at ensuring effective local self-government, including constitutional amendments, is still in preparation. One-stop-shops (484) offering administrative service locally to citizens and businesses (administrative service centres) and access points (1300) delivering service locally, have now been established or modernised with EU's support.. Fiscal decentralisation continued with a share of personal income tax and other taxes safeguarded for municipalities. Implementation of a law adopted in 2020 on transfer of property to municipal level from previous district structures was pursued. The new law on land reform provides new opportunities for municipalities.

Ukraine adopted a new National **Human Rights Strategy for 2021-2023**, based on amendments to the previous strategy and its Action Plan. In March 2021, it was approved by the Presidential Decree. Ukraine has yet to harmonise legislation with international conventions concerning torture and ill-treatment.

**The human rights situation in the Crimean peninsula** annexed illegally by the Russian Federation remained extremely dire. This includes systematic repression of individuals and groups, who refuse to align themselves with the *de-facto* "authorities", torture and ill-treatment, arbitrary arrest and refusal of medical care. Crimean Tatars as well as ethnic Ukrainians are also subject to violations in the exercise of language and religious rights. Freedom of expression remains suppressed through administrative decrees and court-imposed sanctions against individuals sharing content on social media.

Human rights and fundamental freedoms continued to be severely curtailed by armed groups **in the NGCAs of eastern Ukraine**, including through targeted killings, arbitrary and incommunicado detention, sexual and gender-based violence, torture and arbitrary violation of property rights. Media in these areas remained subjugated fully to the security forces of *de-facto* authorities, while freedom of religion or belief also remained severely affected and civic space highly restricted.

The **humanitarian situation in eastern Ukraine** presented a fundamental challenge. Prior to 24 February 2022, the estimated total number of people in need of humanitarian assistance was **3.4 million**, living in the NGCA and in the areas along both sides of the contact line.

According to the UN, eastern Ukraine remained one of the places most severely affected by **mines and unexploded ordnance** in the world.<sup>2</sup> A state policy and mechanisms on remedy and reparation for civilians injured during the hostilities, as well as compensation schemes for lost and damaged property, remain to be established.

In the reporting period, Ukraine was yet to ratify the Istanbul Convention<sup>3</sup>. It joined the Biarritz Partnership promoted by G7 countries on, inter alia, inclusion, gender equality in work and education and combating gender-based violence. UN agencies have documented some violations related to discrimination, hate speech and violence targeting the Roma and the sexual minorities, with sometimes ineffective investigation and punishment of these crimes. In September, a Pride (equality) march was held in Kyiv for the 10<sup>th</sup> time with some 7,000 participants and in several other Ukrainian cities without major incident, thanks to police

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<sup>2</sup> <https://www.unhcr.org/news/stories/2019/4/5ca200c04/clearing-landmines-ukraine-careful-step-time.html>

<sup>3</sup> At the time of publication of this report, the Verkhovna Rada had voted in favour of the ratification of the Istanbul Convention. The law was signed by President Zelenskyy on 21 June 2022.

protection from counter demonstrations. The Roma minority, a vulnerable group, continued to face challenges including a lack of access to identity documents and adequate healthcare, education and housing. People with disabilities continue facing challenges in their daily lives due to architectural and informational inaccessibility. A new law on anti-Semitism was adopted, introducing strengthened punishments for antisemitism and revised mechanisms allowing victims to claim compensation.

In November 2021, a law on “**de-oligarchisation**” entered into force. It defines an oligarch as a person with significant economic and political weight in society, including influence on media. A body headed by the President, the National Security and Defence Council (NSDC), is tasked to determine who meets the criteria. A number of restrictions will be applied to those designated as oligarchs, such as ban on sponsoring political parties and ban on participation in privatisation of major state-owned assets.

Freedom of the **media** remains broadly respected. However, physical attacks and acts of intimidation of journalists and media professionals continue to occur. Investigations into the killing of prominent journalist Pavel Sheremet in 2016 have yet to bring results. Oligarch-owned outlets continue to dominate the media landscape. Independent Public Broadcasting Service (PBS), a key element of modern European media landscape, remains underfinanced but is nonetheless a cornerstone for unbiased, quality media reporting. In February 2021, the authorities imposed sanctions on interests linked with the Russian Federation, including in the media sphere. Audio-visual media legislation approximating Ukrainian rules with EU law<sup>4</sup> is overdue, including as regards the media regulator’s jurisdiction over all media types, transparency of media ownership, and equal market conditions. Ukraine established two new entities countering disinformation in 2021.

Implementation of a law on Secondary **Education**, adopted by Parliament in 2020, aims to fulfil the remaining recommendations of the Venice Commission in its assessment of the 2017 Framework Law on Education. As of 16 of January 2021, the Ukrainian language became obligatory for the service industry. This is part of the ongoing implementation of the **Law on State Language**. The law allows businesses to switch to another language at the client’s request, while customers are not obliged to use Ukrainian and can communicate in other languages.

Drafting a law on national minorities, now renamed **Law on National Communities** – adoption of which was a recommendation by the Venice Commission relating to adoption of the Law on State Language – continued. Representatives of national minorities should be closely involved in this process. Some representatives of minority groups continued to voice concerns regarding a diminishing space for their linguistic identity in the absence of a dedicated law regulating these rights.

On 1 July 2021, a **law on indigenous peoples** was adopted. The law establishes Crimean Tatars, Krymchaks, and Karaites (all originating from Crimea) as indigenous peoples of Ukraine. The three ethnic groups receive guarantees of legal protection. This includes the deprivation of cultural values, eviction or forced relocation from areas of settlement in any form, forced assimilation and/or forced integration in any form.

Ukraine’s **civil society** continues to play an active role in the promotion and oversight of reforms, as well as monitoring of AA implementation. A 10th meeting of the EU-Ukraine Civil Society Platform took place on 27 September 2021 with special focus on rural youth and on

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<sup>4</sup> In Particular Directive 2007/65/EU (as amended by Directive 2010/13/EU)

digital and green skills.<sup>5</sup> Little progress has been made in investigating the murder of protestors during the Revolution of Dignity.

The COVID-19 pandemic exacerbated concerns over Ukraine's penitentiary and psycho-neurological institutions, while child institutionalisation rates (nearly 1.5%) remain among the highest in the world.

In July 2021, following an inclusive consultation process, the Government adopted a new **public administration reform** strategy for 2022-2025. Institutional reorganisations and civil service law changes combined with a suspension of merit-based recruitment to the civil service attributed to COVID-19 quarantine measures resulted in the recruitment of more than 19,000 civil servants without competition, including over 100 high-level posts. In March 2021, merit-based recruitment was restored. It included a commitment to terminate all contracts concluded under the previous procedure by 6 December 2021. Implementation of a civil service Human Resource Management Information System progressed. A general Law on Administrative Procedure, was adopted in February 2022 and awaits signature by the President. The new 2022-2025 Public Finance Strategy and the Action Plan for its implementation were adopted in December 2021, in line with the PEFA methodology, international and EU standards.

Ukraine has continued to make significant progress in the area of **digital transformation**. More than 14 million Ukrainian citizens use the "Diia" platform. Available digital services are growing. Since August 2021, it was among the first countries outside of the EU to issue digital Covid-19 certificates recognised as equivalent to those issued by EU Member State authorities and accepted for travel to and throughout the EU. The Law on Electronic Communications and the Law on the National Telecoms Regulator, which both entered into force in mid-February 2022, were necessary steps on the way for an in-depth sectoral reform and approximation with the EU Digital Single Market acquis. The plan on the electronic trust services is being implemented. Some legislative and institutional gaps still need to be addressed, notably operationalising the new powers of the new telecom regulator.

A working group launched in 2020 and chaired by the Prime Minister has continued to meet with a focus on prioritisation of AA-related legislation and cooperation with Parliament and civil society.

## 2.2. Foreign and security policy

According to the UN (OHCHR) estimates, as of 31 December 2021, at least 3,404 civilians have been killed since the beginning of the conflict in eastern Ukraine (including 298 on board of MH17 flight on 17 July 2014). This includes 1,242 civilian casualties caused by mines and explosive remnants of war (366 killed and 876 injured). This made up approximately ten per cent of total conflict-related civilian casualties, estimated at over 7,000.

In 2021, Russia-backed armed formations in eastern Ukraine continued to violate Ukraine's territorial integrity, sovereignty and independence. Since the beginning of 2021, the number of cease fire violations increased. The work of the Organisation for Security and Cooperation in Europe Special Monitoring Mission (OSCE SMM) continued to face obstacles, mainly in the NGCAs, close to the Russian border. From October 2021, the *de facto* authorities in NGCA restricted SMM's movement across the contact line in Luhansk oblast. The *de facto* "authorities" in the NGCAs continued to intimidate OSCE SMM and restrict its freedom of

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<sup>5</sup> See also the [Joint Declaration of the 10<sup>th</sup> meeting of the EU-Ukraine Civil Society Platform](#)

movement. The OSCE SMM also continued to face obstacles in operating its technical assets, including long-range unmanned aerial vehicles (UAVs).

In March and April 2021, the **Russian military** deployed around additional 15,000 troops (22 battlegroups) regionally, bringing this to an estimated 104,000 troops at Ukraine's border, creating additional tension and instability in the Azov and Black Sea regions. In October 2021, Russia started deploying troops to the vicinity of Ukraine's borders again.

According to Ukrainian authorities, between April 2019 and February 2022, at least 600,000 **Russian Federation passports** have been issued to residents of self-proclaimed separatist entities in eastern Ukraine. The issuance of passports accelerated in the run-up to September 2021 Russian State Duma elections. Holders of these passports were encouraged to vote in settlements of the Russian Rostov region, or through online registration. In violation of international law, voting in Russian Duma elections was organised on the Crimean peninsula.

Since its launch in June 2018, Russia's discriminatory **maritime inspection regime** in relation to all vessels going through the Kerch Strait on their way to or from Ukrainian Sea of Azov ports, remained in place, affecting also EU-owned, EU-flagged or EU-bound vessels. While delays decreased gradually since 2019, the trend reversed towards the end of 2021 and in the beginning of 2022. The delays of vessels amount on average to 40 hours per vessel, which was significantly higher than 5-7 hours before June 2018. The delays resulted in additional costs for ship-owners and have serious negative economic impact on the UA Azov Sea ports, which have suffered economically since 2014 also due to their vicinity to the conflict area.

Since 9 March 2020, a criminal trial is underway of four individuals (three Russian and one Ukrainian), charged in 2019 for their role in the downing of **Malaysian Airlines Flight MH17** over eastern Ukraine on 17 July 2014.

Little progress was achieved on the implementation of tasks as agreed at a "Normandy Four" Summit in Paris in December 2019 on broader **implementation of the Minsk agreements**. The Trilateral Contact Group's re-commitment to the ceasefire in July 2020 was a promising achievement, but it gradually lost its effect towards the end of 2021.

The line of contact with the NGCA remained effectively closed from March 2020 to February 2022, primarily as a result of measures imposed by the Russia-backed armed formations under Covid-19 pretext.—Only two entry-exit crossing points were partially open, one in Luhansk region and one in Donetsk region. A *de facto* NGCA visa system requires pre-approval before crossing from NGCA to Government-controlled territory. Compared to pre-COVID times, crossings decreased by more than an estimated 85%.

On 23 August 2021, 46 participants, foreign countries and international organisations including the EU at the level of the President of the European Council and Vice President of the European Commission, gathered in Kyiv for the launching summit of the **International Crimea Platform** and adopting a joint declaration. The Platform was established as a consultative and coordination format with the aim of peacefully restoring Ukraine's control over its territory in full accordance with international law.

In May 2021, Ukraine established a National Cyber Centre, with a mission to protect state information resources, critical information infrastructure and Ukrainian cyberspace more broadly. In June 2021, Ukraine was the first EU Neighbourhood country to launch a **cyber security dialogue** with the EU. Ukraine has revised its cybersecurity strategy and adopted the law on critical infrastructure, which will contribute further to enhancing cyber resilience.

In August 2021, Ukraine also adopted a new Foreign Policy Strategy outlining key vectors, including continued prioritisation of political association and economic integration with the EU.

Ukraine aligned itself in 2021 with the EU on 79% of its Common Foreign Security and Defence Policy Declarations.

### 2.3 Justice, Freedom and Security

Ukrainian reform efforts in relation to the rule of law and the fight against corruption have in 2021 been focused on restoring legislation intended to guarantee the independence and effectiveness of the anti-corruption institutional framework.

Legislation related to the **NAPC** has largely been restored with effect *ex nunc*, including the powers and role of the NAPC in the asset declaration system. A law reinstating liability for false asset declarations was also adopted, with imprisonment remaining as a possible sanction, for a maximum of one year. The NAPC elaborated the **new anti-corruption strategy 2020-2024**. The draft passed the first reading in Parliament.

In October 2021, amendments to the **NABU** law were adopted. They provide the Bureau with a firm legal basis and foresee an independent selection of its Director. NABU cannot yet conduct autonomous wiretapping operations, in spite of a legal basis for this being in place, as a result of delays in concluding an inter-agency agreement with the State Security Service.

**The HACC** continued to build a solid track record. After two years of its activity, guilty verdicts have been passed pertaining inter alia to Members of Parliament, representatives of local councils and judges. The HACC was, after long delays, allocated permanent premises. However, a case was pending at the CCU on the constitutionality of the HACC. In June 2021, Parliament adopted a law enabling digitalisation of the criminal justice system through operationalisation of a modern e-Case Management System for NABU, SAPO and the HACC.

The selection process for a new head of **SAPO** has been ongoing for over a year, and was resumed in the autumn of 2021, but not concluded in 2021. **ARMA** has been without a permanent head for more than a year and a half. A law on **whistle-blowers protection** was adopted, including rules on the protection of personal data and on remuneration of whistle-blowers, and in response to proposals to weaken such protection.

Work on the **judiciary reform** continued in the reporting period. In July 2021, two key judicial reform laws were adopted. They concerned the reform of the HCJ, which is responsible for appointments and disciplinary proceedings, and the re-establishment of the HQCJ which conducts the selection procedures for judges. The laws include a temporary but significant role for independent experts nominated by international donors to the Selection Commission to re-launch the HQCJ and the HCJ Ethics Council charged with selecting new and vetting sitting members of the HCJ and selecting members of the HQCJ. The independent experts will work alongside Ukrainian members of the respective selection panels of both these judicial governance bodies.

No progress was achieved in **reforming the CCU**, in particular as regards establishment of a transparent and merit-based selection procedure for CCU judges in line with Venice Commission recommendations. A number of cases concerning important reforms are pending at the CCU.

On 31 December 2021, a new permanent Director of the **State Bureau of Investigation (SBI)** was appointed after a long period of vacancy.

A draft law on the **SSU** reached second reading in Parliament offering a basis for reform of the service, but adoption is still pending. Further legislation will be needed to implement key provisions of the law.

Legislation creating a **Bureau of Economic Security (BES)** entered into force. BES is charged with investigating criminal offences of an economic and financial nature. In November 2021, the Government adopted a resolution launching the activities of the Bureau leading to the dissolution of the Tax Police and Parliament adopted legislation defining the mandate of the Bureau and delimitating its competences vis-à-vis other law enforcement agencies. Proper operationalisation of the Bureau and transparent and merit-based recruitment of staff are required following its establishment.

**Integrated Border Management (IBM)** reform proceeded with implementation of the Government's 2020-2022 action plan under the 2019-2025 integrated border management strategy. A draft law criminalising the smuggling of all goods was adopted in first reading in July 2021, with final adoption still pending. Ukraine continued good cooperation with Frontex both on border management, as well as on return and readmission. A Frontex Liaison Officer with regional mandate for the Eastern Partnership has been deployed.

Ukraine continued implementing the 2018-2021 migration policy strategy. Ukraine also regularly raised awareness on the rights of asylum seekers in state bodies and local communities, via information campaigns and meetings with local authorities. Member States reported overall good cooperation with Ukraine in the area of return of irregular stayers. Ukraine also made efforts to accelerate the readmission dialogue and the drafting of implementation protocols and has increased efforts to dismantle networks involved in the smuggling of nationals and foreigners to the EU.

Ukraine expressed interest to join the European Migration Network as an observer.

Europol and Ukraine have since 2016 an operational and strategic cooperation agreement, allowing for the exchange of personal data. Cooperation with Europol concerns cybercrime, drug trafficking, migrant smuggling. Within the **EMPACT** (European Multidisciplinary Platform Against Criminal Threats) activities, cooperation with Ukrainian law enforcement agencies is on the rise and appreciated (and facilitated in particular by both projects "TOPCOP" and "Fighting Organised Crime in the EaP Region") led by the EU Law Enforcement Training Agency (CEPOL). Ukraine has, since February 2020, benefitted from a Working Arrangement (CEPOL), notably on interagency cooperation and cryptocurrencies; combating drug related crime; trafficking in human beings and illegal immigration; joint international operations and criminal analysis.

In June 2020, Parliament adopted a new law on the repression of organised crime. In January 2021, another law was adopted in order to clarify the competences of the law enforcement agencies, limiting the responsibilities of State Security to counter-terrorism, counter-intelligence, and national security, among other areas. Law enforcement competence formerly belonging to State Security was attributed to the State Bureau of Investigation (SBI).

Ukrainians were among the most reported **non-EU victims of trafficking in human beings**. To combat this phenomenon, the Ukrainian authorities were organising awareness events in close cooperation with international (e.g. OSCE) and non-governmental organisations. In 2021, the National Strategy in the Field of Human Rights was updated and the Action Plan for its implementation until 2023 was adopted by relevant authorities.

On 7 September 2021, Ukraine attended the High-Level Meeting on Countering Firearms Trafficking in South East Europe, organised by the European Commission.

The anti-money laundering (AML) legislation is not fully operational pending adoption of secondary legislation.

### 3. Economic development and market opportunities

#### 3.1. Economic development

In early 2021, the Government adopted an overarching **National Economic Strategy** until 2030, outlining long-term priorities for the development of Ukraine's economy and strategic measures in main sectors, including industry, agriculture, infrastructure, transport, energy, information and communication technologies, creative industries and services, as well as entrepreneurship. A transformation of Ukraine's Export Promotion Office and SME Development Office (set up with EU support) was initiated to create the Entrepreneurship and Export Promotion Agency. The establishment of a single SME support institution creates the basis for future coordination of entrepreneurial support and development programmes. Ukraine continued to pursue effective reform of state policy promoting a favourable **business environment** and regulatory framework, especially for SMEs. The Better Regulation Delivery Office (BRDO) remains instrumental in deregulation reform and improvement of the business regulatory environment.

On 1 July 2021, after almost 20 years during which the sale and purchase of farmland were banned in Ukraine, the Law on Land Turnover entered into force. Between November 2020 and June 2021, four additional laws entered into force to secure a transparent and inclusive **land reform**. In November 2021, the fifth law on establishment of an independent Partial Credit Guarantee Fund to help small farmers' access financing was adopted. It is expected to be operational in autumn 2022. Thanks to a law on the State Agrarian Register adopted in November 2020 and sub-legal act adopted in June 2021, unregistered **small and family farms** will be able to access agricultural state support programmes. By the end of December 2021, more than 118 000 hectares of agricultural land had been sold in around 92 000 transactions. The next steps of the reform will be the strengthening of the public monitoring system, the anti-corruption audit of the State Geocadastré, and the continuation of the communication campaign to inform farmers of the rights and opportunities. In the first phase of the reform, until 1 January 2024, land turnover is limited to physical persons with a maximum amount of 100 hectares. Land ownership of foreigners will only be allowed after a referendum, tentatively planned for 2024.

With regard to the **certification of organic production**, four sub-legal acts aimed at establishing an appropriate control system were being prepared for adoption. Ukraine continues to strengthen its **geographic indication (GIs) system**. In **spring 2021**, two Ministerial decrees on GI rules, specification requirements, and approval procedures under the framework Law on GIs, were adopted. The Law regulating state controls over **genetically modified products** was registered in August 2021 for adoption by the Parliament in 2022.

Reform of **fisheries governance** aimed at sustainable management of fishing resources and fighting against illegal, unregulated, and unreported fishing remained slow. In addition, the implications of the illegal annexation of the Crimean peninsula continued to overshadow technical aspects and international cooperation. The reorganisation of fisheries administration is aimed at smooth continuity of bilateral cooperation and work in the General Fisheries Commission for the Mediterranean. Ukraine continued its active participation and contribution to the implementation of the regional cooperation framework **on sustainable blue economy**, the Common Maritime Agenda for the Black Sea (CMA), also via its CMA national hub. More

concretely, by mobilising national stakeholders as well as policy actors on CMA priorities at regional and national level and by identifying draft projects in the sectors of blue economy entrepreneurship, marine environment, coastal and maritime tourism, green maritime transports.

In December 2021, the State **Forestry Management strategy** until 2035 was adopted.

The Government maintained a satisfactory **tax** revenue mobilisation performance. Reforms of tax and customs administrations continued. Implementation of new business processes is ongoing in these administrations. Preparatory steps were being undertaken to enable Ukraine to join the global network of automatic exchange of tax information. Further ongoing reforms include enhancing the risk management system, introducing e-audit, roll out of cash registers for individual entrepreneurs, including electronic ones, and improving tax dispute administration.

Work continued on the alignment of National Accounting Regulations to the International Forum of Independent Audit Regulators (IFRS) and IFRS for SMEs. The Audit Public Oversight Body of Ukraine continued building the supervisory framework for **audit** activities, including the attestation system of auditors. The start of a single window electronic financial reporting system for enterprises is delayed.

A new draft law on corporate governance of state-owned enterprises was passed in the first reading in July 2021. It aims at aligning Ukrainian legislation with OECD guidelines and strengthening the role and independence of supervisory boards. In 2021, the Government kept intervening in the supervision of state-owned energy company **Naftogaz**, raising concerns about Ukraine's adherence to European principles and standards of corporate governance.

In July 2021, Parliament adopted a law on corporatisation of state-owned defence industry. It was signed by the President in October 2021, implementing corporate governance reforms in line with the OECD principles. A law on defence procurement adopted in July 2020 was yet to be implemented.

Ukraine's **financial sector** remained profitable despite the impact of the Covid-19 crisis. In 2021, the **NBU** has resumed the annual stress testing of the Ukrainian banks that did not take place the previous year due to Covid-19. It showed that the Ukrainian banking sector was quite resilient and did not need additional recapitalisation. There has been positive dynamics in lending in particular to SMEs supported by the Government interest rate subsidy programme 5-7-9%. The replacement of all but one member of the NBU's board members and a wave of resignations among its middle management have sustained concerns over the independence of Ukraine's central bank and its banking supervision role. A law on improving the organisation of corporate governance in banks was adopted in June 2021. However, Ukraine's **state-owned banks** have continued to face some challenges in the corporate governance area. Legal cases relating to **PrivatBank** (Ukraine's largest commercial bank), including on the recovery of USD 5.5 billion allegedly embezzled from the bank prior to its nationalisation in December 2016, continued in Ukrainian and international courts. February 2021 saw a first criminal case and successful arrest relating to acts of alleged fraud by the bank's pre-2016 management. The bank's former owners and associates have continued meanwhile seeking to have the nationalisation overturned in Ukrainian courts.

Following Ukraine's adoption of a landmark law on banking resolution in 2020, a further revision of the law in June 2021 aimed at strengthening the mandate of the Deposit Guarantee Fund and making resolutions more effective. A law amending legislation on the banking system was adopted in June 2021 including measures aimed at enhancing supervisory and management

board responsibility and establishing additional requirements for members of bank councils and management boards. A draft revision of the Joint Stock Companies Law, adopted in the first reading in June 2020, remained to be adopted.

In June 2021, Parliaments adopted a new law on Payment Services. It determines the general principles for the functioning of payment systems in Ukraine, the issue and use of electronic money, supervision of payment service providers, the procedure for oversight of the payment infrastructure and payment instruments. A new law on regulating activities of debt collection agencies from April 2021 is intended to enhance protection of financial services consumers. A law on insurance was adopted in November 2021.

The NBU approved the requirements for financial service providers' ownership structure and temporary licensing conditions for non-bank financial institutions and lessors. The NBU has also set out the procedure for taking corrective action against non-bank financial service market participants or failing to comply with applicable laws and regulations.

Reform of **capital market** regulations slowed, in spite of a new law on capital and organised commodities markets, in force since August 2020. The adoption of draft laws on investment funds, prudential requirements for capital markets participants, non-state pension funds and construction investment remain outstanding.

There was no significant progress in Ukraine's **labour reforms**, with an indefinite postponement of adopting a new Labour Code in favour of a more punctual update of certain provisions. Some of those are still to be developed, and some drafts are not in line with EU directives and relevant ILO conventions. Draft legislation on trade unions remained controversial. Renewed activity introducing a second pillar pension system is taking place, in the absence of an appropriate institutional and regulatory framework.

**Public health system** reforms in Ukraine were impacted by the COVID-19 pandemic and frequent changes in the leadership of the Ministry of Health. A draft Law on Public Health was passed in first reading, while in the field of blood safety a transfusiological centre has been established, which coordinates and monitors institutions and organisations related to the blood supply system and supports a unified system of information exchange and methodological guidance, at state level. Work is also underway to improve legislation and develop the blood supply service. In December 2021, Ukraine adopted amendments to public health laws on the harmful effects of tobacco, aligning the country's tobacco regulation with EU Directives in the sphere of novel tobacco products. The Ministry of Health was preparing a National Health Strategy 2030 and Public Health Action Plan.

There was tangible progress on the budget process reform in **public finance management**. In May 2021, the Budget Declaration for 2022-2024 was approved for the first time presenting the Government's vision of the fiscal policy on the medium term. It was submitted to Parliament in September 2021. A multiannual public finance management strategy was adopted in December, while the IT Strategy for the relevant institutions was adopted in November 2021. Both documents are necessary for guiding reforms in national budget management.

Adoption by Parliament of the revised Law on **Statistics** focusing on the independence of the State Statistics Service of Ukraine (SSSU), postponed in 2020, was registered in Parliament in September 2021.

### 3.2. Trade and trade-related matters<sup>6</sup>

In 2021, **Ukraine's exports to the EU increased by 47.9% y-o-y** to €24,1 billion. Imports from the EU to Ukraine increased by 22.5% y-o-y to €28.3 billion. **The EU remains the first export and import market of Ukraine**, with 39.4% of total exports and 39.8% of total imports. In 2021, Ukraine was the overall 15<sup>th</sup> largest partner of the EU (17<sup>th</sup> largest partner for EU exports of goods -1.3 %- and the 15<sup>th</sup> largest partner for EU imports of goods -1.1 %-).

In order to enhance the implementation of the Deep and Comprehensive Free Trade Area (DCFTA), the EU and Ukraine agreed in September 2021 on a **Priority Action Plan**. This document contains a set of concrete priority actions to deepen bilateral trade relations within the framework of the Association Agreement. In addition, in February 2021 both sides agreed to activate the **review of the scope of elimination of customs duties** on imports from both sides, under Article 29 of the Association Agreement and first technical exchanges took place in the margins of the 6<sup>th</sup> meeting of the ACTC on 22 and 23 November 2021.

As regards **trade irritants**, a dispute settlement panel set up under the EU-Ukraine Association Agreement found in December 2020 that Ukraine's ban on the exports of all unprocessed wood is incompatible with the Association Agreement. This trade barrier was still not eliminated by Ukraine. In 2021, Ukraine initiated five new safeguard investigations as well as one anti-dumping investigation targeting imports from some EU Member States.

In the area of **customs**, Ukraine's accession to the Convention on Common transit-with the New Computerised Transit System (NCTS) by mid-2022 was agreed. A pilot preparing the NCTS implementation was successfully completed in March 2021. A national NCTS programme is currently running. Ukrainian authorities were completing the necessary steps to join the international NCTS. In November 2021, a preliminary assessment mission of the European Commission and other member countries of the Convention on Common Transit in relation to Ukraine's accession to the Convention and NCTS took place EU's recommendations from this mission are being implemented for the official assessment. If the latter has a positive outcome, Ukraine will be able to start the application of the international NCTS. The national programme of Authorised Economic Operators started, but its usage needs to be expanded.

In May 2021, EU experts concluded a legal pre-assessment on the preparedness of Ukrainian legislation in view of opening negotiations on the **Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA)**. Ukraine is expected to implement its recommendations on further legal alignment. In parallel, the operational pre-assessment on institutional capacities started in September 2021.

Regarding **Sanitary and Phytosanitary (SPS)** provisions, the Ministry of Agriculture and the State Service of Ukraine on Food Safety and Consumer Protection continued to play a strong coordination role in the approximation of Ukrainian legislation to EU norms. The State Service of Ukraine for Food Safety and Consumer Protection (SSUFSCP) remained responsible for technical expertise and implementation. After almost one year of vacancy, a new management team started to work on the modernisation of the institution. Important SPS laws (notably on veterinary medicines) and several sub-legal acts were adopted in 2021. A substantial number of draft by-laws on animal health and welfare, animal by-products, food and feed safety were still pending adoption.

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<sup>6</sup> See also Report From the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on Implementation of Free Trade Agreements - 1 January 2019 - 31 December 2019 (COM(2020)705 final / UPDATE

In the area of **services**, the Annex XVII with the list of EU acquis for approximation by Ukraine in the fields of telecommunication services, postal and courier services, and international maritime transport was formally updated at the 6<sup>th</sup> Association Committee in Trade configuration.

In the area of **public procurement**, there was some progress in 2021 as regards the implementation of the phases 1 and 2 of the roadmap in Annex XXI of the Agreement. Ukraine adopted amendments to its public procurement legislation introducing local content requirements in tender procedures. However, these will not apply to countries with which Ukraine has international obligations (e.g. the EU under the DCFTA, or parties to the plurilateral Agreement on Government Procurement). The electronic procurement system ProZorro continued to be further developed technically, but there were attempts to narrow its scope of application, notably regarding low value contracts. While there has been an increase in the total number and the value of public procurement procedures as a whole, the share of competitive procedures has been going down.

In the field of **intellectual property rights** (IPRs), the Government started implementing new framework laws adopted in 2019-2020, including the law on IPR border measures, geographical indications, trademarks and patents. The limited scope of patentability in the new Patent Law remained to be addressed through implementing regulations, which were under development. The National Intellectual Property Office was established according to the law of 2020.

Progress was made in revamping the State Property Fund (SPF) and in modernising the institution's procedures with the new management. Progress also continued with the **privatisation** of small assets, largely through to the ProZorro sales platform. In spring 2021, Parliament lifted the ban on privatisations of large assets.

In July 2021, the Memorandum of Understanding between the European Union and Ukraine on a Strategic Partnership on Raw Materials was signed together with the agreed Partnership Roadmap 2021-22. This partnership will help to further integrate Ukraine into EU raw material and battery value chains.

As regards the new **State Aid** law introduced in 2017, some flaws hindered its full and effective implementation. The Antimonopoly Committee of Ukraine (AMCU) prepared State Aid law amendments, which were yet to be discussed in Parliament. There has also been some progress with amending the law on competition (anticompetitive conduct and mergers control). The relevant legislation passed the first reading in July 2021, and was adopted in Parliament's Committee for Economic Development in early February 2022.

With regard to the **Trade and Sustainable Development** (TSD) Chapter of the Association Agreement, reforms continued in the area of forestry, and both sides discussed labour-related priority areas (modernisation of labour relations, labour inspections and social dialogue).

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

Ukraine's wholesale electricity market continued in 2021 to operate with some signs of distortion and market manipulation, due to a significant share of some market segments being controlled by few players and due to regulatory interventions. The public service obligation (PSO) for household electricity tariffs was prolonged until end of April 2022, while this tariff has been further reduced. This continued to affect the financial stability of state owned companies Ukrenergo, Ukrhydroenergo and Energoatom.

The strategic goal to connect Ukrainian power grid to the Central European Network CEN (**grid synchronisation**) was a top priority of Ukraine in the electricity sector, with Ukrenergo implementing necessary technical measures. The law adopted in April 2021 finalised the necessary legislative amendments for certification of Ukrenergo as an independent transmission system operator (TSO). On 3 December 2021, the Energy Community Secretariat issued a positive opinion on the decision of the Ukrainian Energy Regulator (NEURC) on preliminary certification of Ukrenergo while reiterating concerns regarding the financial situation of the company. There was limited progress in renewable energy related legislation. Legal and financial uncertainty of the investment climate increased. Renewable energy support financing is not sufficient to cover costs. New retroactive changes in the legislative framework affecting investments made are in planning. The law on Energy Efficiency (aimed at transposing major parts of the EU Energy Efficiency Directive and the Ecodesign Directive) was adopted and entered into force in November 2021. The quality of this law was significantly improved in the dialogue with the European Commission and EU experts. A draft law including amendments to four existing laws in the area of energy efficiency of buildings was prepared by the Government in late summer 2021. It requires modifications to align with EU legislation and to streamline and render more flexible the work of the Energy Efficiency Fund (EEF). During the first two years of operation, the EEF effectively supported energy efficiency in the residential sector (70,000 households). At the end of 2021 a replenishment of Ukraine's contributions of UAH 2.6 billion was confirmed for the state budget 2022.

There was some progress in 2021 on strengthening nuclear safety and in preparations for the decommissioning of ageing nuclear power units. However, Ukraine is lagging behind with the legislative changes needed to align its legal and regulatory framework to the Euratom legislation on nuclear safety, safe management of spent fuel and radioactive waste, and radiation protection. Both governance and economic problems of Energoatom persisted. Some concerns remained also regarding the independence of the nuclear safety regulator, SNRIU, following the dismissal of its Chairperson at the end of 2021.

In the area of transport, the EU-Ukraine Common Aviation Area Agreement (CAAA) was signed on 12 October 2021. The Inland Waterways Transport Development Strategy and the Action Plan for its implementation were developed in 2021, based on the law on inland waterway transport (adopted in December 2020), paving the way for further development and investments in this transport subsector. The law on multimodal transport was adopted on 17 November 2021. Other key draft laws on market opening, including on railway, dangerous goods and multimodal transport were pending adoption by Parliament. The Action Plan for the Implementation of the National Transport Strategy up to 2030 was adopted in February 2021. The Complex Action Plan for reforming infrastructure projects has been not approved yet. The financial situation of the unreformed Ukrainian Railways company remained critical.

There was little reform progress in the environmental sector reform. Negotiations on amending Annex XXX of Chapter 6 to the Association Agreement have progressed slowly. A law on limitation of the use of plastic bags was adopted in June. However, broader waste management reform has not progressed, with the relevant framework law still awaiting second reading in Parliament. In October 2021, the Government approved a Marine Nature Protection Strategy running until 2034. A draft law on environmental control passed first reading in July, but the overall reform of enforcement of environment legislation remained delayed. Also in July, Parliament rejected the law on prevention of industrial emissions and the draft law on Emerald network of areas of a special conservation interest. A procedure and funding for implementation of The National Emission Reduction Plan was planned to be developed by the end of October. In parallel, the Ministry of Energy proposed draft amendments to extend the implementation deadlines that are not in line with commitments in the Energy Community Treaty. There were

also attempts to limit implementation of the law on Strategic Impact Assessment (SEA) through amending the legislation on regulation of city planning activities. The National Forest Reform Strategy to 2035 is in the last phase for adoption by the Government in autumn 2021.

In the area of climate action, 2021 was marked by Ukraine's adoption and submission to UNFCCC of the updated Nationally Defined Contribution to the Paris Agreement, as required under the Agreement and in time for COP26, in spite of resistance both from major emitters in the private sector and State actors. An Integrated Energy and Climate Plan was under development, but was not yet released. National Strategy on Adaptation to Climate Change was also approved. Following the adoption of relevant legislation on monitoring, reporting and verification of greenhouse gases emissions that entered into force in January 2021, Ukrainian companies are now obliged to gather and provide to the Ministry of Environment relevant yearly reports. A new tax code adopted in December 2021 includes the tripling of the current carbon tax by 2024. No emission trading system has been established yet and accelerated implementation of measures to adapt to climate change and decarbonise has yet to materialise.

In February 2021 a focused dialogue between the EU and Ukraine on the EU Green Deal and Ukraine's green transformation was launched in the margins of the EU-Ukraine Association Council. Two meetings were held in May and September 2021, with discussions covering climate architecture/governance, clean hydrogen, just transition of coal regions and EU industrial alliances, green transition financing, Carbon Border Adjustment Mechanism (CBAM) and Reforestation Strategy, energy efficiency as well as environment-related topics. The dialogue may be expanded to cover further topics.

In the area of civil protection, in May 2021 the first digital hybrid Table-Top exercise was organised with EU support to test Ukraine's capabilities to respond to a major flood disaster, combined with other events such as COVID-19 response. Coordination, information management and decision-making processes at all levels in case of emergency response were tested. Early Warning System, Response plans and Host Nation support protocols through the activation of the Union Civil Protection Mechanism (UCPM) were also tested. In September 2021, Ukraine hosted the Full-scale field exercise "EU-CHEM-REACT 2" under the UCPM with the aim of enhancing the preparedness of response teams from Ukraine, Member States and Eastern Partnership countries to respond to multi-hazard events involving among others chemical and biological risks.

## 5. Mobility and People-to-People contacts

The global COVID-19 pandemic continued to affect mobility for Ukrainian and EU citizens but Ukraine continues to implement its commitments under the **visa free regime** with the EU, as outlined in the fourth annual assessment by the European Commission under the revised visa suspension mechanism.<sup>7</sup>

In the area of **education**, the focus of reform in 2021 was on quality preschool, school, inclusive and out-of-school education; competitive vocational training, professional pre-higher, higher and adult education, development of science and innovation; and accessible distance learning. The New Ukrainian School reform is in progress. Its main pillars are: a competency-based education program, re-skilled teachers, and the new educational environment. In this context, it is important to implement further the recommendations of the Venice Commission, in close cooperation with relevant stakeholders.

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<sup>7</sup> [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_21\\_3965](https://ec.europa.eu/commission/presscorner/detail/en/ip_21_3965)

The Ministry of Education and Science drafted a Strategy of Digital Transformation of Education and Science and its implementation plan until 2024, currently in consultation with line ministries. During the periods of the COVID-19 pandemic lockdown, secondary, professional and higher education were provided in on-line teaching/learning mode. An all-Ukrainian on-line school was developed further. The Ministry was finalising a Strategy for the Development of Higher Education in Ukraine until 2031. In early 2021, the Ministry adopted a revised Roadmap on Integration into the European Research Area.

In July 2021, a law on formation of the network of lyceums for the introduction of high quality field-specific upper secondary education was adopted.

The Action plan on the implementation of the reform concept for vocational education until 2027 in Ukraine ("Modern Vocational Education") is in progress. A law on Professional Education has not yet been adopted. The State Target Social Program for the Development of Vocational Education and Training for 2022-2027 is under development.

In April 2021, the Government approved the Concept of the State Programme for the Development of Research Infrastructures until 2026, aimed at fulfilling preconditions for increasing the competitiveness of research infrastructure in Ukraine and expanding access of Ukrainian scientists to advanced research infrastructure in the EU. An EU-Ukraine Agreement on Scientific and Technological Cooperation was ratified by Parliament in July 2021.

In August 2021, the Cabinet of Ministers approved an action plan on reforms of the system of National academies of Agriculture, Legal Sciences and Educational Sciences for 2021-2022.

In 2021, Ukraine continued to benefit from available international actions of the **Erasmus+ programme 2021-2027**.

On 12 October 2021, the EU and Ukraine signed agreements on Ukraine's association to **Horizon Europe Programme (2021-2027)** and **Euratom Research and Training Programme (2021-2025)**. Entry into force of the agreement is pending ratification by Ukraine's Parliament.

Also on 12 October, the EU and Ukraine signed an agreement on Ukraine's association to **Creative Europe 2021-2027**.

In April 2021, Ukraine adopted a Law on youth policy. The Government approved a Strategy for the development of physical culture and sport until 2028. A draft law on anti-doping in sport passed the first reading.

## **6. Financial Assistance**

The EU continued to provide financial assistance to support Ukraine's stabilisation and reform process as well as conflict-affected populations. To this end, the EU mobilised together with European Financial Institutions over EUR 17 billion in grants and loans since 2014 (exceeding its EUR 11.175 billion pledge made in 2014).

Ukraine received EUR 1.2 billion from the EUR 3 billion emergency COVID-19 Macro-Financial Assistance package for ten enlargement and neighbourhood partners to help them limit the economic fallout from the coronavirus pandemic. The disbursement of the first EUR 600 million tranche happened in December 2020. Following the successful implementation of all eight structural policy measures in the areas of public finance management, governance and rule of law, improving the business climate, and sector reforms and state-owned enterprises, as agreed in the Memorandum of Understanding (MoU), the second EUR 600 million tranche was

disbursed on 25 October. This brought the total outstanding loans to Ukraine under its last five MFA programmes since 2015 to EUR 4.4 billion.

Implementation of the EU's **COVID-19 response** package for Ukraine (approximately EUR 206 million) continued. All immediate emergency assistance (EUR 7.2 million) and approximately 70 per cent (EUR 10.3 million) of foreseen support for Ukraine's healthcare system have been delivered since April 2020. The disbursement of socio-economic support funds has reached 46 percent (EUR 85 million) of its total. At the same time, the EU is supporting Ukraine's vaccination campaign through two regional initiatives launched in 2021 covering the six Eastern Partnership countries worth in total EUR 75 million. This adds to the support that the EU provides as major co-financier of the COVID-19 Vaccines Global Access (COVAX) facility from which Ukraine also benefits.

Multiannual Indicative Programme (MIP) for Ukraine for the period from 2021 to 2027 under the **Neighbourhood, Development and International Cooperation Instrument – Global Europe** was adopted on 13 December 2021. The focus would remain on Ukraine's stabilisation and sustainable post-COVID-19 socio-economic recovery, while helping the country advance on its reforms agenda, in line with the Association Agreement, the Joint Staff Working Document (JSWD) *Recovery, resilience and reform: post 2020 Eastern Partnership priorities*<sup>8</sup> and the annexed Economic and Investment Plan (EIP) which seeks to unlock up to EUR 6.5 billion in public and private investments for Ukraine.

The EU supported peacebuilding, stabilisation and early recovery efforts with projects of a total value of over EUR 130 million (from the 'Instrument contributing to Stability and Peace' and 'NDICI Crisis Response'). In 2021, new actions focused on further support to the OSCE Special Monitoring Mission, humanitarian mine action and the participation of key stakeholders in peace- and state-building processes at the local, national and multilateral level.

## **7. Concluding remarks and future outlook**

*Throughout 2021 and up until the Russian war of aggression of February this year, Ukraine pursued its implementation of the Association Agreement with the European Union and reforms demanded first and foremost by its citizens. This includes commendable efforts to prioritise legislative reform relating to its commitments under the Agreement and necessary coordination among the President's Office, Government, Parliament and civil society to achieve this, as well as engagement and consultation with international partners including the EU and its Member States. Ukraine continued notable reform progress in 2021 in a wide range of areas relating to the Association Agreement, for example in digital transformation, customs and climate action, while reforms in areas such as environmental protection, energy and labour, audio-visual media faced challenges. Good cooperation with its international partners, beginning with the EU, has also continued to help Ukraine bolster its resilience to challenges such as that of the COVID-19 pandemic. New EU-Ukraine dialogues on Green Deal and cyber security offered good examples of expanding cooperation in areas of joint strategic interest. Mutual recognition of digital COVID certificates also showed significant further cooperation potential in the digital sector. At the same time, Ukraine's leaders bore responsibility to resist populist and protectionist measures, such as the outstanding ban on the export of wood, which are at odds with the principles and provisions of the Agreement.*

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<sup>8</sup> SWD(2021) 186 final, 2.7.2021

*The rule of law and fight against corruption remained, justifiably, at the centre of reform efforts and engagement with international partners, including as regards critical reform of Ukraine's judiciary. Implementation of key reforms adopted this year, such as the reform of the High Council of Justice and High Qualifications Commission of Judges, thus remain a litmus test for broader reform efforts and for Ukraine's further progress in its democratic and strategic European orientation. This also applies to the draft law on the reform of the Security Services of Ukraine and implementing legislation as well as to finalising the reform of the legal framework for national minorities and adopting effective implementation mechanisms.*

*Pursuing efforts to build and strengthen modern institutions such as the new Bureau of Economic Security, and efficient systems needed for example to tackle economic crime, will be instrumental in promoting investment, growth and prosperity. Continued demonstration of commitment to broader European norms and principles of good governance, for example as regards the corporate governance of state-owned enterprises and banks, would also serve Ukraine's cause in this regard, in the interest of its citizens. The European Union will continue, with all the means at its disposal, to support Ukraine in this endeavour.*

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*Russia's war of aggression against Ukraine launched on 24 February this year has brought with it terrible suffering and destruction. While this war may, temporarily, slow the pace of Ukraine's implementation of some obligations and commitments undertaken in the context of the Association Agreement, including the DCFTA, it has not changed the fundamentals of the present report, nor weakened the determination of Ukraine to pursue its European path.*