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UKRAINE: FROM WAR TO PEACE AND RECOVERY

Analytical Assessments
October 2023



I.

NATIONAL SECURITY AND DEFENCE: KEY DEVELOPMENTS, PROCESSES, TRENDS

In October 2023, the seasonal factor stimulated rather than restrained the combat activity, but the high intensity of hostilities ended in minor tactical gains with no significant changes in the overall strategic situation. Various signs suggest the beginning of the war's another positional phase.

It is currently difficult to assess the balance between political and military priorities influencing the decisions of military commanders on both sides. Ukraine's summer offensive campaign is likely to be nearing its end, and its results are clearly far from the expected. Russia's attempts to launch the largest offensive in several months in the Avdiivka area, while intensifying counterattacks in other areas, also resulted in minor tactical gains.

At least two powerful external factors have emerged affecting the further course of the Russia-Ukraine war – the escalation of violence in the Middle East and military and technical support for Russian aggression by North Korea.

COMBAT ACTION

Avdiivka became a new epicentre of escalation in October, where Russian troops launched the largest offensive operation in several months. According to some reliable estimates, the assault on Avdiivka may have been the factor that undermined Ukraine's prospects for breaking through Russian defences in the South. Despite bearing significant losses of personnel and equipment, the Russian side achieved not only certain tactical successes, but also created additional pressure on Ukraine's offensive capabilities. Russia also stepped up its aviation use, despite high losses. At the same time, the situation

analysis as of the end of October raises questions about the ability of the Russian offensive on Avdiivka to achieve its declared intentions, namely, to encircle the Ukrainian forces in the area, seize the strategic initiative and break the course of hostilities on the eve of winter.

The analysis of fighting in the Avdiivka area reaffirms previous conclusions about the ineffectiveness of armoured fist tactics in modern warfare. According to various sources, the Russians lost between 100 and 200 pieces of military equipment in less than a month of assault operations. Ukraine gained its own tragic experience of concentrating equipment at the initial stage of its offensive in June 2023. Modern intelligence and transmission of information for targeting and adjusting killing agents have made it virtually impossible to covertly concentrate and, accordingly, use relatively large mechanised strike units.

In October, Ukraine forces' reconnaissance and sabotage raids helped establish a small foothold on the left bank of the Dnipro River. Despite the obvious logistical difficulties of holding and further expanding the controlled area and turning it into a real bridgehead for an offensive, such actions clearly came as a threatening surprise to Russia, as evidenced by the replacement of the Russian group's commander in the Kherson sector (the Dnipro military force).

For the first time since the large-scale invasion, Ukraine had numerical superiority in artillery shells. Thus, in the first decade of October, the ratio of artillery shots was 9:7 (thousand per day). In 2022, Russian artillery used 20,000 to 63,000 shells daily, while the Ukrainian military could only afford firing

4,000 to 7,000 shells on average. However, there was the first evidence of North Korea transferring ammunition and heavy weapons to Russia, which, if continued on regular basis, could again change the quantitative balance not in Ukraine's favour.

Over the past three months, Ukraine has made significant progress in the maritime theatre of operations, having virtually driven the Russian navy out of its main base in Sevastopol. In September, a new Black Sea transport corridor was launched, demonstrating Black Sea Fleet's inability to organise the declared naval blockade. It is noteworthy that Ukraine managed to seize the initiative in the north-western part of the Black Sea by asymmetric methods, forcing the Black Sea Fleet to flee from Ukrainian drones, missile attacks and special forces.

UKRAINIAN GOVERNMENT'S POLICY DECISIONS AND ACTIONS IN THE DEFENCE SECTOR

The Ministry of Defence has introduced important changes to the procedure for writing off military property lost in the combat zone, reducing it from 6 months to 2 weeks. The relevant order shortened the required list of bureaucratic procedures (investigation, documents, approvals, etc.) for property worth up to UAH 1.5 million. For example, instead of up to 18 documents previously required to write off a lost UAV, they now need only 2 documents (a launch certificate and a technical condition certificate). This is certainly a positive, albeit belated (at the 22nd month of the war) decision, which once again highlights the problem of distracting the military and the entire military command and control system from fulfilling priority tasks by having to «deal with piles of paperwork».

FOREIGN EVENTS (EXTERNAL FACTORS)

October saw the emergence of several external factors influencing the further course of the Russia-Ukraine war. They primarily include the conflict in the Middle East and

the rise of North Korea as a new source of military support for Russia. In addition, the ongoing political crisis in the United States has already had a negative impact on the volume of its aid to Ukraine.

Sudden outbreak of violence in the Middle East was a proverbial «black swan». The very first reports of a Hamas terrorist attack on Israel on 7 October 2023 not only displaced the «Ukrainian issue» from the front pages of the world media but pushed it down the global political agenda. It is currently hard to predict how the mutual influence of both conflicts will develop in the future, but the emergence of a «competitor» requires Ukraine to make additional efforts to maintain international attention and, accordingly, diverse support: with the lack of media attention, there is lack of ammunition.

Moreover, Russia is trying to make the most of the Israeli-Palestinian conflict to discredit Ukraine, such as spreading fake accusations of Ukraine supplying weapons to Hamas, and to disrupt the pro-Ukrainian international coalition.

In early October, objective data surfaced confirming military supplies from North Korea to Russia. The estimated volume of such deliveries during the month could reach 500,000 shells. Other reports suggest that Pyongyang may have also transferred a certain number of outdated artillery systems. The first military deliveries from North Korea were documented in late 2022, but they were limited and intended for the PMC Wagner Group.

On 26 October, Elon Musk made a rather loud statement that once again illustrated the growing role of non-state actors, and especially international corporations, in global politics. He publicly called for an immediate ceasefire in the Russia-Ukraine conflict and re-establishment of relations with Russia to avoid World War III. Earlier, Musk had repeatedly and ambiguously interfered in the course of the war, both by supporting Ukraine and by

taking steps that could be seen as assistance to Russia's aggressive policy.

An analysis of the most important events, political statements and decisions leads to the following conclusions:

- ✓ as of the end of October 2023, neither party to the conflict has a strategic initiative, and the hostilities, despite the high intensity, are increasingly acquiring signs of a positional war;
- ✓ the war in the Middle East has already caused a negative media effect that may distract global politics from the Russia-Ukraine war and can be used by the Kremlin to split the pro-Ukrainian coalition;
- ✓ against the absence of Ukraine's convincing success on the battlefield, the supporters of early end of the war and compromises at Ukraine's expense have substantially intensified their efforts.



II. FOREIGN POLICY

In October 2023, Ukrainian diplomacy continued to focus on the priority tasks of ensuring military, political, financial and economic conditions to effectively resist the aggressor and win in the war. At the same time, the month saw new challenges and threats, as well as intensification of contradictory global trends that affected Ukraine and its foreign policy, both directly and indirectly.

INTERNATIONAL PROCESSES AND EVENTS

Outlining the nature of global and regional processes, one should note the aggravation of geopolitical situation that will affect Ukraine's external position and ability to promote its interests globally.

International processes

A massive terrorist attack against Israel by Hamas militants on 7 October caused yet another escalation in the Palestinian-Israeli conflict. The large-scale fighting provoked a surge in tension in the Middle East with some dangerous consequences that also affect Ukraine. In particular, the war has a) increased political instability and conflict in the EU; b) opened a «second front» that diverts the attention and resources of Ukraine's strategic partners – the US, EU, and NATO; c) initiated contradictions among countries, in particular, the states of the Global South, on whose support Ukraine counts. Moreover, the war poses a threat of escalation of an extremely dangerous conflict with religious colouring at the West – the Islamic world level.

Events in the United States around the adoption of a temporary federal budget with the withdrawal of Ukraine aid and the election of a Trumpist Republican Mike Jones as the new US House Speaker were quite unfavourable for Ukraine, possibly affecting further military and financial support for Kyiv.

The results of elections in Slovakia became a problem for Brussels and a challenge for Kyiv, as they resulted in the formation of a new Slovak government headed by pro-Russian populist Robert Fico. Already on 26 October, he made a statement about Slovakia terminating military assistance to Ukraine. According to observers, the change of power in this country could lead to an aggravation of Bratislava-Brussels relations, curtailment of democratic processes, creation of a pro-Russian Orban-Fico tandem in the EU, and complications for Kyiv's European integration.

International community's polarisation continues to deepen. On 20 October, the US-EU summit adopted a joint statement outlining the directions, means and tools for coordinating Washington and Brussels' foreign policy in different regions of the world, declaring joint opposition to challenges and threats, and emphasising support for Ukraine in its confrontation with the aggressor. In parallel, the camp of authoritarian countries continued consolidation of its own. On 17 October, Vladimir Putin visited Beijing, where he took part in the One Belt, One Road Forum and held talks with China's Xi Jinping and Hungary's Viktor Orban. On 18 October, Russian foreign minister Sergei Lavrov visited Pyongyang, as Russia's political and diplomatic contacts and military-technical cooperation with North Korea have significantly intensified. In this context, quite noteworthy were the visits of Iranian government officials and a Hamas delegation to Moscow.

Foreign policy events

On 2 October, the meeting of the EU Foreign Affairs Council took place in Kyiv. This first-ever Council meeting outside the EU was critical for Ukraine in the context of coordinating Kyiv and Brussels' foreign policy, clarifying steps for further military and financial support for Ukraine, and advancing the EU membership negotiation process.

On 3 October, the leaders of the United States, Canada, Germany, France, Italy, the United Kingdom, Poland, Romania, and Japan, as well as the leaders of the EU and NATO, held a joint meeting to support Ukraine and counter Russian aggression. In particular, they discussed the provision of long-term multilateral and bilateral security guarantees to Ukraine in accordance with the G7 Joint Statement of Support for Ukraine.

On 4 October, the NATO-Ukraine Council took place in Belgium, where the Ukrainian side presented a plan of political, security and defence reforms as part of the Annual National Programme. The creation of specialised units of the NATO-Ukraine Council to optimise its activities was agreed.

On 13 October, the PACE adopted important resolutions, which: a) called on the member states of the Council of Europe to recognise Putin as illegitimate after the end of his current presidential term and b) called on to cease all contacts with him, except for humanitarian contact; c) stated that the Russian Federation has turned into a «de facto dictatorship»; d) reaffirmed its support for the establishment of an ad hoc international criminal tribunal «to hold to account the Russian leadership». PACE also voted to recognise the Holodomor as an act of genocide against the Ukrainian people.

On 19 October, US President Joe Biden addresses the nation with a special speech in which he compared Hamas and Putin, noting that «they share one thing: they both want to completely annihilate a neighbouring democracy». The US leader's speech is of strategic importance in terms of ensuring consolidation of the democratic world in confronting the threats of authoritarian aggressive regimes and supporting Ukraine and Israel.

On 26-27 October, the European Council meeting was held. Its concluding document mentioned a) the delivery of missiles, ammunition and air defence systems to Ukraine; b) the consultations with Ukraine on the EU's future security commitments; c) the provision of funds and equipment to support Ukraine's energy system; d) the establishment of a tribunal for the

prosecution of the crime of aggression against Ukraine; e) the strengthening of sanctions policy against the aggressor; and f) the support for Ukraine's Peace Formula. Unfortunately, Hungary's anti-Ukrainian stance continues to hamper provision of €50 billion macro-financial assistance to Ukraine for the next four years.

Other October events focused on the important topic of compensation for Ukraine's losses at the expense of the aggressor. In particular: a) on 12 October, G7 finance ministers adopted a statement committing to keep Russia's sovereign assets immobilised until rays for the damage it has caused to Ukraine; b) Belgium has set up a special €1.7 billion relief fund to support Ukraine to be filled by taxing frozen Russian assets; c) Estonia has prepared amendments to the law on international sanctions, which provide for the use of frozen assets of sanctioned persons to compensate for the damage caused to Ukraine; d) the Task Force on the Russian Elites, Proxies and Oligarchs (REPO), established at the G7 initiative, has estimated the frozen Russian assets at approximately \$280 billion; e) The EU summit decided to accelerate efforts on using the proceeds from the management of frozen Russian assets for the restoration of Ukraine.

Targeted military and financial assistance to Ukraine from partner countries continued in October. In particular, some countries announced new military aid packages, including the Netherlands (€102 million), Sweden (€143 million), and Finland (€95 million). Germany announced a «winter package» of military aid worth about €1 billion, while the Pentagon provided \$200 million in military aid to Ukraine. Following the Ramstein meeting, Ukraine received \$500 million in aid.

FOREIGN POLICY ACTIVITIES OF UKRAINIAN GOVERNMENT

Political dialogue with foreign partners

During the month, intensive consultations and international meetings were held at various levels. The most significant contacts included talks with the presidents of the United States, France, Romania, Turkey, South Africa, the United Arab Emirates, the German Chancellor,

as well as with the heads of international organisations – the UN Secretary-General, the President of the European Parliament, the leadership of the European Council and the European Commission, the NATO Secretary-General, etc.

Other important contacts included meetings and talks with the prime ministers of the United Kingdom, Italy, Spain, the Netherlands, Denmark, Norway, Belgium, Israel, Saudi Arabia, and others. Important bilateral and multilateral talks were held with diplomats, government officials, and parliamentarians from the United States, Switzerland, Japan, Croatia, Qatar, Bahrain, Armenia, Brazil, and others. The Ukrainian side tried to use the «turbo mode» in negotiations to attract assistance in countering the aggressor, deepen bilateral partnerships, promote its own initiatives, including the Peace Formula, accelerate European integration, and so on. The results of these efforts include a) launching the process of negotiating agreements on security guarantees with Japan, the Netherlands, and France within the framework of the G7 Joint Declaration on Support for Ukraine; b) signing a package of strategic agreements and arrangements with Romania; c) concluding an agreement with Croatia on cooperation in the field of demining; d) signing a Memorandum of Interparliamentary Cooperation with the Czech Republic.

Participation in international events

In October, Ukraine used various international events and activities to promote its interests and initiatives. In particular, during meetings with foreign counterparts at the Third European Political Community Summit in Spain, the Ukraine representatives actively lobbied for the idea of holding a Global Peace Summit, strengthening economic, energy, and food security in the region and the world.

President Zelenskyy took part in a meeting of the NATO Parliamentary Assembly on 9 October 2023. In his speech, he called for unity and determination in the fight against international terrorism.

The Ukrainian delegation attended the 10th Warsaw Security Forum, where participants,

among other things, discussed the critical topic of Ukraine's integration into NATO.

President Zelenskyy also spoke at the 16th meeting of the Ramstein Contact Group, attended by representatives of more than 50 partner countries. Mr Zelenskyy drew attention to the importance of preparing for the winter war and strengthening Ukraine's air defences.

In the second half of October, Kyiv hosted a conference «United for justice. United for nature» of the International Working Group on the Environmental Consequences of War. The event was aimed at raising awareness of the world community about the devastating consequences of Russian aggression and strengthening the fight against environmental crises.

Promotion of Ukrainian interests and initiatives globally

In October, Kyiv focused efforts on expanding international support and institutionalising its projects. In this regard, two strategically important events deserve attention. One of them was the second parliamentary summit of the Crimea Platform that took place in the Czech Republic on 24 October, bringing together about 70 delegations from across the world. It added an important «parliamentary component» to international support for Ukraine's sovereignty and territorial integrity and made sure that the topic of Crimea remained on the international agenda, thus contributing to its de-occupation in the future. The other event was the third meeting of foreign and national security advisers on the Ukraine's Peace Formula, hosted by Malta on 28 October and attended by more than 65 countries from the West and the Global South. This event was part of the preparations for the Global Peace Summit, which the Ukrainian side plans to hold at the end of 2023.

UKRAINE'S STEPS TOWARDS THE EU: EVENTS AND TRENDS

October was the final month for Ukraine to wrap up implementing the European Commission's recommendations. In early November, the Commission is expected to

issue a report and conclusions on the possible launch of EU membership talks. Therefore, Ukraine made a powerful «finishing burst» on the European integration track. On 10 October, an important law reintroducing e-declarations of public officials entered into force; then, on 26 October, the President signed a key European integration law on financial monitoring of politically exposed persons (PEPs), the relevance of which was emphasised by official Brussels.

In his address to the European Council Summit on 26 October, President Zelenskyy said: «...Ukraine has practically implemented seven recommendations of the European Commission... And we are counting on your unity in response – the decision to start negotiations on Ukraine’s accession to the European Union». Given the results of pro-European reforms, Ukraine has all reasons

to expect a «green light» from the European Commission. In October, the media, citing some unofficial sources, reported that Brussels was preparing a positive decision to start EU membership talks.

Summarising foreign policy events and processes in October 2023, it can be stated that Ukraine has made a number of important steps on its European integration path, which, together with the previous achievements, prompts a new stage of Kyiv and Brussels relations – EU membership talks. For Ukraine that continues to fight in a large-scale war, this is vital in the political, economic, moral and psychological sense. Major escalation of the Palestinian-Israeli conflict was another key October event given its unpredictable geopolitical consequences that may pose challenges and threats to Ukraine, both direct and indirect.





CONSTITUTIONAL AND LEGAL FIELD

LEGISLATION

1. The Law No. 3379-IX «On Amendments to Certain Legislative Acts of Ukraine on Strengthening Social Protection of Servicemen, Police Officers and Some Other Persons» entered into force on 5 October 2023. With this act, lawmakers amended the Civil Protection Code of Ukraine, the Law of Ukraine No. 2011-XII of 20 December 1991 «On Social and Legal Protection of Servicemen and Members of Their Families» and the Law of Ukraine No. 580-VIII of 2 July 2015 «On the National Police», adding new provisions that partially change the conditions for leave and remuneration to military personnel, rescuers and police officers. In particular, the provision on leave based on the conclusion of a military medical commission for treatment of illness or injury has now been supplemented by a rule that, if a serviceman is treated abroad, the total time spent there for treatment, including the time moving from one foreign health facility to another and the waiting time between scheduled surgical interventions, may not exceed 12 consecutive months. In addition, in the year of servicemen's discharge (excluding servicemen in regular military service) from service, if they do not use their annual basic or additional leave, they are paid monetary compensation for all unused days of annual basic and additional leave during their military service. Instead, if servicemen are not granted annual basic leave due to the onset of a special period or martial law, such leave will be granted after the end of such period (previously the law referred to granting the leave «next year»). Another new provision is that in the event of the death of servicemen, monetary compensation for all unused days of annual basic and additional leave during military service is paid to family members of the deceased servicemen.

2. On 11 October 2023, the Parliament's «Holos Ukrayiny» newspaper published Law No. 3384-IX «On Amendments to Certain Laws of Ukraine Determining the Procedure for Submission of Declarations of Persons Authorised to Perform State or Local Government Functions under Martial Law». The law entered into force the next day after its official publication. By adopting this document, lawmakers attempted to restore e-declarations and open access to the register of declarations of persons authorised to perform state or local government functions. Special emphasis was on restoring the financial control mechanism in this area, but with due regard to the security factors directly related to martial law. Thus, from now on, declarations will be subject to logical and arithmetic control with the determination of risk indicators for a full audit. However, a number of declarants, including the military, persons involved in the defence of the country, persons staying in the occupied territories or where active hostilities are taking place, persons undergoing treatment for injuries, and family members of all the above persons, will be entitled to a deferral of the obligation to file declarations for no more than 90 days after the change in the conditions entitling them to such a deferral. At the same time, declarations are to be filed by persons who are serving in the military as ministers, heads of central executive bodies, local authorities, in positions in the staffs of ministries, military medical commissions, territorial recruitment centres, involved in defence procurement or seconded to such positions. Persons who already filed declarations for 2021-2022 during martial law have the right to submit corrected declarations for these periods once within 30 calendar days (from the date of access) by writing to the National Agency on Corruption Prevention within 14 days from the date of entry of this law into force.

3. In October 2023, the focus of Ukrainian MPs was traditionally on improving the legal regulation of defence and national security, preparing the country for reconstruction now and after the war, and bolstering the fight against corruption. In this regard, the legislators adopted the Law No. 3410-IX of 5 October 2023 «On Amendments to the Law 'On Compensation for Damage and Destruction of Certain Categories of Real Estate as a Result of Hostilities, Terrorist Acts, Sabotage Caused by the Armed Aggression of the Russian Federation against Ukraine, and the State Register of Property Damaged and Destroyed as a Result of Hostilities, Terrorist Acts,

Sabotage Caused by the Armed Aggression of the Russian Federation against Ukraine'», Law of Ukraine No. 3415-IX of 6 October 2023 «On Amendments to the Law 'On the State Budget of Ukraine for 2023' concerning Financial Provision of the Security and Defence Sector and Addressing Priority Issues», and Law of Ukraine No. 3919-IX of 17 October 2023 «On Amendments to the Law of Ukraine 'On Prevention and Counteraction to Legalisation (Laundering) of Proceeds of Crime, Terrorist Financing and Financing of Proliferation of Weapons of Mass Destruction' concerning Politically Exposed Persons».



IV.

ECONOMY

DECISIONS

On 6 October, the Verkhovna Rada of Ukraine approved a UAH 323 billion increase in state budget expenditures for 2023, with the lion's share going to security and defence. In particular, expenditures of the Ministry of Defence are increasing by UAH 211 billion, and the Ministry of Internal Affairs – by UAH 79 billion. The Ministry of Social Policy also received additional UAH 16.5 billion. As a result, the general budget expenditures will exceed UAH 3.39 trillion, and the deficit will exceed UAH 2 trillion, setting record highs. At the same time, thanks to partner assistance, the budget deficit will be financed in full.

On 19 October, the Verkhovna Rada approved Draft Law No. 10000 «On the State Budget of Ukraine for 2024» in the first reading. Relevant draft law was presented by the Cabinet in September, and the Parliament began its consideration on 20 September. The document envisages state budget revenues of UAH 1,746.3 billion, expenditures of UAH 3,308.9 billion, and a deficit of UAH 1,593.6 billion in 2024. However, there are all reasons to believe that these figures will increase significantly, at least to the adjusted level of the current year, following the second and third reading.

It is expected that a significant part of the deficit will be financed with the help of international partners, as it happened this year.

On 2 October, the NBU announced switching from a fixed exchange rate regime to a so-called «managed flexibility» regime. This means that the NBU is not letting the hryvnia float and plans to continue supporting it, but allows the exchange rate to respond to certain market trends. In particular, the regulator is ready to sell gold and foreign exchange reserves to meet excessive demand for dollars in order to prevent sharp exchange rate fluctuations.

This shift to the new regime is one of steps towards full currency liberalisation and a return to the pre-war FX market.

In the near future, one may expect some tension and increased demand for foreign currency, as more foreign currency now leaves Ukraine than enters the economy due to foreign trade deficit, reduced income from labour migrants, and increased spending abroad by Ukrainian migrants. International assistance will compensate for this deficit.

Some tension in the FX market already materialised during the first week of October, when the NBU sold \$1,163.7 million on the interbank market – the largest amount of foreign currency sold in a week since the beginning of the year.

The immediate risks to the exchange rate dynamics are related to the fact that if the military situation deteriorates or partner assistance decreases, the demand for foreign currency is likely to skyrocket, thus strengthening devaluation trends. So far, the NBU's foreign exchange reserves are sufficient to prevent FX shocks in Ukraine.

In the meantime, the NBU is taking new steps towards monetary easing. On 26 October, the NBU Board decided to lower its key policy rate from 20% to 16%, while adjusting the levels of interest rates on the NBU's operations with banks, which, although they remain virtually unchanged, allow the NBU to respond more quickly to external risks and threats.

Partner countries continue providing assistance to Ukraine. For example, the European Parliament supported the European Commission's initiative to create an assistance fund for Ukraine. It is a new instrument called the Ukraine Facility, which will allocate €50 billion over 2024–2027 in grants and loans to support Ukraine's recovery, reconstruction, and modernisation.

European MPs' key demands include the use of frozen Russian assets for the reconstruction of Ukraine, as well as safeguards against corruption, fraud and other violations in the use of European money in Ukraine. Unfortunately, this may complicate receiving funds, as agreed mechanisms for the use of immobilised assets have not yet been developed, while corruption remains a sore spot in the Ukrainian political landscape.

At the end of September, the US Senate approved the budget 2024, which provided for \$6.152 billion in additional assistance to Ukraine, including \$4.499 billion on defence, and another \$1.65 billion on economic support. However, the US Congress did not support this bill, demanding additional funding to strengthen the US-Mexico border. Ultimately, they approved the version without additional funding for Ukraine.

This does not mean that support for Ukraine is being postponed. Rather, it illustrates the peculiarities of the US budgetary (political) process. The United States has been and remains Ukraine's main strategic partner (see subsection «Developments, Processes, Trends» below).

So far, the risks to financial support for Ukraine do not appear to be high, as there is an IMF programme in place. Under this programme, the G7 countries, including the United States, have officially guaranteed their financial support to the Fund for 4 years. This type of guarantee is of high significance to all participants, so it is extremely important for Ukraine to cooperate fruitfully with the IMF.

DEVELOPMENTS, PROCESSES, TRENDS

Ukraine continues to cooperate with international financial institutions. On 25 September, the IMF mission kicked off technical discussions with Ukrainian officials in preparation for the Second Review of the Extended Fund Facility (EFF) programme, which continued in October. The review will cover recent economic developments, including the government's draft budget for 2024, and discuss fiscal, financial, and structural measures to strengthen reforms. Special focus will be on the 19 structural benchmarks that Ukraine has committed to implement under the approved programme.

Meanwhile, the World Bank has improved its forecast for Ukraine's GDP growth to 3.5% in 2023 and 4% in 2024, which is 1.5 and 0.5 percentage points higher than its June estimates, respectively.

The main reasons behind the improved outlook include more stable electricity supply, increased government spending, large foreign aid, a better-than-expected harvest, and higher consumer and business confidence, which contributed to a gradual increase in activity in the first half of this year after a sharp decline a year ago.

At the same time, economic conditions in Ukraine remain extremely challenging amid escalating security risks, additional damage to infrastructure, renewed pressure on energy prices, and capacity constraints on grain transportation routes to international markets.

There is another potentially positive development in these trends, namely rising wage pressures amid ever-increasing labour demand and limited labour supply, which will undoubtedly contribute to improving household welfare.

National authorities also presented their vision of economic dynamics. According to the Minister of Economy, Ukraine's GDP growth in 2023 will be about 5% (in January–September 2023, growth is estimated at 5.3%). In turn, the NBU expects Ukraine's economy to grow by 4.9% by the end of the year, with inflation falling to 5.8%, due to the NBU's revision of key assumptions regarding security risks.

The improved forecast is also due to the fact that the total financial support in the form of loans and grants will reach about \$45 billion in 2023.

These growth figures from the World Bank, the Ministry of Economy, and the NBU could be seen as positive, but one should not forget that Ukraine's GDP fell by almost 30% in 2022. That is, Ukraine's economy has only slightly «pulled away» from the abyss caused by Russian aggression.

Once again, the relatively positive indicators of the country's economic recovery became possible thanks to the large-scale assistance of partner countries. According to

the Council on Foreign Relations, the United States provided \$78 billion in humanitarian, financial and military aid to Ukraine over the 18 months of the war – from 24 February 2022 to 31 July 2023, including:

- ✓ \$26.4 billion – budgetary aid through the Economic Support Fund and loans;
- ✓ \$23.5 billion – weapons and equipment from Defence Department stocks;
- ✓ \$18.3 billion – training, equipment, weapons, logistics support and other assistance provided through the Ukraine Security Assistance Initiative;
- ✓ \$4.7 billion – grants and loans provided through the Foreign Military Financing programme;
- ✓ \$3.9 billion – humanitarian aid, including emergency food assistance, health care, refugee support, etc.

These are unprecedentedly high figures, and it is largely thanks to this aid that Ukraine has been and is still able to withstand the Russian aggressor.

The United States continues to financially support Ukraine on a systematic basis this autumn. In particular, the state budget received \$1.25 billion in September, while in October, Ukraine received a \$1.15 billion US grant through the World Bank's Multi-Donor Trust Fund.

These funds are part of the fifth additional financing under the World Bank's Public Expenditures for Administrative Capacity Endurance in Ukraine (PEACE in Ukraine) project.

European countries also put forward initiatives that could have a decisive impact on

investment expansion in Ukraine in the near future. For example, France has introduced a bilateral insurance mechanism by the state-owned Bpifrance Assurance Export for French companies that are ready to invest in Ukraine and participate in the country's reconstruction until the end of the war.

First, it opens up opportunities for French companies to invest in Ukraine, despite the ongoing hostilities. Second, it minimises the risk of investment loss, as insurance is provided and guaranteed in accordance with French law.

Also important is a new step by Belgium to support Ukraine. The government has set up a special fund worth €1.7 billion, which is being filled by taxing profits from Russian assets frozen in the country. As a reminder, there are currently no agreed mechanisms for using such assets for the benefit of Ukraine; should such mechanisms be found, Ukraine could receive significant resources for its recovery.

Ukraine has put «on hold» the consideration of its complaint against Poland, Hungary and Slovakia at the World Trade Organisation, suspending the lawsuit against these countries in order to address the issues of Ukraine's trade with the EU in general. Preliminary consultations suggest that the problem of imports of Ukrainian agricultural products – the main factor of disagreement – is to be resolved in the coming weeks and months, including by changing the licensing regime.

Meanwhile, Poland considers it insufficient just to suspend Ukraine's complaint and demands its withdrawal from the WTO, as only such a step «will help improve relations between the partner countries». It would be good if the parties come to acceptable solutions as soon as possible, which is particularly important for Ukraine.

V.

ENERGY SECTOR

PREPARATION FOR THE WINTER 2023-24

In October, the heating season started in most regions of Ukraine. Therefore, as of the end of the month, coal stocks at TPPs and CHPPs dropped again to 1.25 million tonnes, which is 0.5 million tonnes less than the planned level. Due to bad financial situation of PJSC Centrenergo, which failed to meet the planned accumulation of the resource, its total reserves decreased by 120 thousand tonnes in September-October. According to expert estimates, Ukraine may be lacking 1.5 million tonnes of coal for the normal passage of the winter season.

Ukraine managed to accumulate 15.9 bcm of gas in underground storage (UGS) facilities, which is 2% higher than the average for 2015-2019 and 7% more than the planned amount. However, 2.4 bcm of this volume are stored for future re-export (short haul). Nonetheless, due to an increase in production to 19 bcm (+7% compared to last year) and a decrease in consumption to 18-19 bcm (-40% compared to the pre-war period but +9% compared to October 2022), the gas available in Ukraine is sufficient to pass the winter without import purchases.

By the end of October, 8 out of 9 NPP units under Ukraine's control were operating in the country's integrated power system, with one more unit undergoing scheduled maintenance. There are 22 TPP and CHP units in operation, with 3 of them using natural gas as fuel. DTEK, which accounts for 73% of electricity generation at TPPs, has repaired all 20 power units as planned before the start of the cold season. By the end of 2023, seven more units will undergo scheduled repairs. Centrenergo reported completing all the planned works and had 690 MW of reserve capacity. Ukrhydroenergo is operating in line with its targets, but its generation is limited to 800 MW after the destruction of the Kakhovka Dam. Electricity production at SPPs decreased due to shorter daylight hours and deteriorating weather.

Electricity generation averaged 10.9 GW, which is comparable with the same period last year. NPPs accounted for most generation (62%), followed by TPPs (20%), CHPs (5%), hydropower plants (6%), and renewables (7%). For most of October, electricity exports exceeded imports. Interstate trade was carried out with Slovakia and Moldova. The maximum export capacity in some hours reached 0.4 GW, while imports were 0.2 GW. At the end of the reporting period, imports decreased due to a 0.6-0.8 GW increase in electricity consumption in Ukraine at the beginning of the heating season.

Electricity is sufficient to meet consumption, and there are currently no grounds for introducing stabilisation blackout schedules. Production from RES was limited to 900 MW. Due to the hostilities, 440 to 490 settlements were without power.

The increased density of air defences and the construction of protective structures helped to significantly improve active and passive protection of Ukraine's energy infrastructure. Depending on the region, Ukrenergo's distribution capacity reserve ranges from 140% to 400%.

The problem of the industry's inadequate financial situation remains unresolved. The total debt in the electricity market alone exceeds UAH 60 billion. Electricity payments owed by producers reach UAH 23.6 billion, payments owed to universal service providers amount to UAH 22.1 billion, and Ukrenergo's debt to renewable energy generation is UAH 32.2 billion, although the company does not agree with the amount. Market participants' debts to Ukrenergo itself amount to UAH 30.1 billion. Also, the debts of district heating companies for gas exceed UAH 95 billion.

PRICE SITUATION

According to SOE Market Operator, the weighted average price of electricity on the day-ahead market (DAM) in October increased

to UAH 4,065/MWh (+4% compared to September; +15% compared to October 2022). The DAM base load index was UAH 3,770/MWh (+8% compared to September). The weighted average price of electricity based on the results of exchange trading on 31 October 2023 was UAH 3,344/MWh.

The base load price on weekdays in Poland, Romania, Hungary, and Slovakia averaged € 111-131/MWh, which is 10-20% higher than a month ago. In November, the base load price in Slovakia is expected to reach €126/MWh.

Spot gas prices in the EU increased by almost a quarter in October (TTF on 31 October 2023 – € 525/tcm, on the Ukrainian border – UAH 26,591 including VAT). This was primarily due to a temporary decrease in Qatar's LNG exports and a drop in air temperatures in Northwest Europe by 10°C on 13-16 October, which tripled gas consumption by households and small businesses. Traders' concerns about the normal passage of winter in the EU persist, as evidenced by the higher than the 10-year average premium of TTF quotes over Month-Ahead for Q1 2024 (+6 compared to +€ 3/MWh).

The weighted average price of the monthly gas resource in Ukraine based on the results of electronic exchange trading on the UEEX in October was UAH 15,233/tcm (€ 388/tcm). The tariffs of Naftogaz Ukraine for gas for non-household consumers in October amounted to UAH 18,530, and from 1 November 2023 – UAH 17,600/tcm (including VAT).

Coal (API2) CIF ARA (ARGUS- McCloskey) steam coal futures quotes ranged from \$118 to \$139/t in October (\$128.2/t on 31 October 2023). Coal stocks at ARA terminals amounted to 7.1 million tonnes (+10% compared to the annual average; unchanged from October last year).

Changes in the regulatory framework

The government allowed industrial consumers to avoid power outages by purchasing imported electricity that is not enough within

the established consumption limits. Unlike the previous year's decision, the share of imported electricity in total consumption must be at least 30% in May-September and 50% in October-April. According to experts, this decision will result in additional costs for businesses and discriminate against Ukrainian generating companies.

Electricity in Eastern Europe will become more expensive due to the seasonal increase in consumption, rising gas prices, and planned repairs at NPPs. Therefore, a decision to increase electricity price caps is needed as soon as possible. The first hearings on this issue were held at the NEURC in mid-October. The level of price caps determines the possibility of attracting up to 1.2 GW from the EU on a market basis, primarily during peak hours.

International cooperation

The Ukraine Energy Support Fund purchased transformers worth €9 million and handed them over to Ukrhydroenergo «to replace equipment at one of the largest hydroelectric power plants» that was damaged by Russian attacks.

The Energy Community Secretariat prepared a report on NEURC's independence and governance framework. While acknowledging the progress made since 2019, the Secretariat expressed concern about the provisions of Ukrainian legislation, including in the law on the NEURC, that do not guarantee the regulator's functional and financial independence. At the same time, the Secretariat admitted the NEURC's increasing influence after the adoption of the REMIT law and preparations for the implementation of the Clean Energy Package, which is due by the end of 2023.

Following the 4th German-Ukrainian Business Forum, the German Federal Ministry for Economic Affairs and Climate Action will make an additional €54.3 million contribution to the Ukraine Energy Support Fund, established to support the Ukrainian energy system during the war.

VI.

SOCIAL SPHERE REFORM

PENSION SYSTEM REFORM

Ukraine continues to reform its pension system, with large-scale transformations being prepared to radically change the way pensions are calculated. The reform is intended to make the pension system «fairer, clearer and more transparent». The main innovations include the following:

Changing the pension indexation formula and introducing a points-based pension calculation system. Starting from 1 March 2024, inflation and salary dynamics are to be replaced by points that will be awarded to each pensioner, depending on the ratio of salary that a person received before retirement to the average wage in those years. The point system seeks to equalise the disproportion between pensioners who have retired long ago and those who have retired recently. For this purpose, it is planned to increase the Pension Fund's budget by UAH 100 billion and bring up payments to pensioners who retired earlier up to the current level.

PENSION POINTS

The new scheme calculates the ratio of the person's salary to the average wage in that month and year for each month that this person paid an insurance premium. If the salary was equal to the average wage, 10 points will be awarded; if it was higher, then a person will receive 11-12 points, and vice versa, that is, in proportion to the average wage. The total number of points will be unique for each person, allowing this indicator to be assessed each year in relation to the average wage in a particular year and, accordingly, to index pension payments.

The 2023 indexation was the largest in recent years. Pensions are being recalculated based on the formula 50% of inflation plus 50% of the average salary growth over the past three years. High inflation of 26.6% in 2022, compared to 10% in pre-war 2021, contributed

to a record pension indexation of 19.7% (compared to 8-11% in previous years). More than 10 million pensioners received extras. Also, minimum pensions, which were not previously recalculated according to the formula, were subject to indexation for the first time. As a result, pensioners received increases of up to UAH 500+.

The advantage of the points-based system is that it eliminates differences in pension payments for the same length of service for people who reached retirement age at different times. According to the Cabinet, the new approach will ensure that pensioners receive higher payments.

However, the points-based system raises many questions:

First, how much money will be paid to the holder of a particular number of points? Technically, the government can adjust the «value» of a point manually, depending on the availability of funds in the budget.

Second, which period of the pensioner's working life will be taken into account? Those who had significant fluctuations in their salaries during their working life may find themselves at a great disadvantage and receive minimum points.

Third, if pensions are raised more actively than they are now, then where will money come from? The draft budget for 2024 provides more than UAH 350 billion for subsidies to the Pension Fund, but this does not include a more significant increase in pensions.

The Cabinet of Ministers has also announced the introduction of a funded component starting in 2025. The introduction of a mandatory funded pension system in Ukraine has been up for debate for several years, with a number of draft laws registered in the Verkhovna Rada. However, none of these bills

offers an answer to the main question – how to protect pension savings from depreciation.

REFORMS IN THE SYSTEM OF SOCIOMEDICAL ASSESSMENT

The new draft law is being developed to improve the existing legislation and reform the MSEC (medical and social expert commissions) system. In particular, the Ministry of Health is elaborating the document that will introduce a new methodology for determining the status of Ukrainians with a particular disease. Among other things, it is planned to abandon the term «disability» and replace it with an «assessment of loss of functionality». The latter term is more comprehensive than the concept of «disability» as defined in the current legislation, and covers not only purely medical sphere, but also the social, educational and employment spheres, enabling a broader assessment of people's needs and providing them with the necessary services.

The main goal is to bring a person back to an «economically active state», that is, to do everything possible to make him or her able to work again.

Reforming the disability system will include:

- ✓ transition from the «disability» concept to the concept of «limitation in daily functioning»;
- ✓ transition from a medical approach to a «biopsychosocial» approach. That is, not only the physical state of a person will be taken into account, but also his or her moral state, readiness to adapt to a «new life»;
- ✓ determination of the moment when a person with «limited functionality» should become eligible for services – rehabilitation, social services, benefits, employment;
- ✓ formation of a system where services are provided at the last moment to prevent «persistent limitation of functioning»;
- ✓ redistribution of functions of MSECs with a view to their disbandment, revision

of the reasons for conducting special examinations, cancellation of some examinations.

The draft Law «On the Assessment of Needs and the Procedure for Meeting Them for Persons with Limited Functioning and Reforming Sociomedical Assessment in Ukraine» is designed to reduce state expenditures on payments to persons with disabilities, whose number has increased dramatically during the war, and to eliminate (or at least complicate) schemes where medical commissions issued «fake» disabilities and thus allowed some to be exempted from military duty. Such a reform becomes critical in the context of a full-scale war, as more and more people are being injured.

It should be added that in May, the Cabinet approved a programme of reforming medical and sanitary commissions, which have recently drawn plenty of criticism. The Cabinet's Directive No.483-r approved the Action Plan to change the needs assessment for «persons with limitations in daily functioning» and reform sociomedical assessment. In particular, the first stage of the Action Plan introduces a new rehabilitation system (individual rehabilitation services, electronic document management, etc.) Recommendations for rehabilitation is to be provided by an «interdisciplinary team» based on the International Classification of Functioning, Disability and Health (ICF).

The list of measures includes, for example, studying international experience and legislation on working with people with certain serious illnesses, creating a working group to develop a new methodology for people with disabilities and their rehabilitation, redistributing the functions of MSECs and reforming them, etc.

The second stage begins with the development of the legislative framework, but no later than 1 January 2025, and includes the following:

1. Implementing tools to assess the loss of functionality in the medical, social, educational, and economic spheres. This means not only determining the person's health status in a new way, but also identifying the specifics

of his/her education, employment, receipt of assistance, etc.

2. Information sharing between government agencies on the provision of services to such people.

3. Changing the approach to payments, namely abandoning assistance based on the disability group and switching to «needs assessment based on the presence of a persistent limitation of functioning». This wording means that only those who are now called severely disabled (or Group I) will receive payments, while others (current Groups II and III) may be deprived of assistance.

4. Eliminating MSECs and transferring their functions to «other institutions» (that are yet to be specified), or automation.

What does a large-scale reform mean?

First, Ukrainian legislation is outdated, as the current procedure for establishing disability is a Soviet system's legacy;

Second, there are currently about 3 million people with disabilities in Ukraine. Of these, only 430,000 are employed, and all of them claim benefits from the state. Unfortunately, the number of people with disabilities will only grow, creating a huge burden for the state social

system. Therefore, the government is trying to change the ideology of payments.

Currently, disability payments in Ukraine are for Group I – 100% of the pension that a person would have received at retirement age; for Group II – 90%; and for Group III – 50%. A person can apply for such payments if he or she has at least one year of pensionable service record. With no such record, a person is eligible for social assistance in the amount of the subsistence minimum. The average pension in Ukraine is now about UAH 5,300, which means payment of UAH 15.9 billion a year to 3 million persons with disabilities. And as their number increases, this amount will grow even higher.

Payments are linked to the disability group, which is granted based on the list of diseases, without taking into account how a particular person feels, whether he or she can work, and so on.

Therefore, the use of limited functioning and health approach in various areas will make it possible to consider a person not in terms of medical diagnosis received as a result of injury, but in terms of his or her potential to restore lost functioning, needs and what can be done to help this person return to normal life.

Following changes to the legislative framework in Ukraine, the issue of «vetting» all persons with disabilities may be raised, along with the revision of criteria for mobilising people with limited functionality.

VII.

CITIZENS' OPINIONS ABOUT CURRENT ISSUES¹

HOW DO YOU TRUST THE FOLLOWING SOCIAL INSTITUTIONS? % of respondents												
	July-August 2021				July 2023				September 2023			
	Trust*	Distrust**	Hard to say	Trust-distrust balance***	Trust*	Distrust**	Hard to say	Trust-distrust balance***	Trust*	Distrust**	Hard to say	Trust-distrust balance***
Armed Forces of Ukraine	68.3	24.8	6.7	43.5	92.6	5.3	2.3	87.3	93.1	5.2	1.7	87.9
Volunteer units	53.5	33.4	13.1	20.1	86.8	8.6	4.6	78.2	85.2	9.3	5.5	75.9
Volunteer organisations	63.6	25.1	11.3	38.5	82.9	11.2	5.9	71.7	84.3	11.1	4.5	73.2
State Emergency Service	61.4	28.7	9.9	32.7	81.3	13.4	5.4	67.9	82.8	13.0	4.3	69.8
National Guard of Ukraine	53.6	36.0	10.4	17.6	81.0	13.8	5.3	67.2	80.8	14.3	5.0	66.5
State Border Guard Service	55.0	34.3	10.7	20.7	77.9	16.4	5.6	61.5	76.5	17.2	6.3	59.3
President of Ukraine	36.2	57.6	6.2	-21.4	79.9	15.0	5.2	64.9	71.7	20.2	8.2	51.5
Ministry of Defence of Ukraine	—	—	—	—	74.9	19.1	6.1	55.8	70.6	22.3	7.1	48.3
Security Service of Ukraine (SBU)	37.5	49.7	12.7	-12.2	66.9	25.1	7.9	41.8	66.0	25.2	8.8	40.8
NGOs	47.0	37.4	15.5	9.6	60.4	25.8	13.8	34.6	60.5	27.2	12.3	33.3
Church	63.5	26.3	10.3	37.2	58.2	28.2	13.7	30.0	59.2	27.7	13.1	31.5

* A total of answers «fully trust» and «rather trust».

** A total of answers «fully distrust» and «rather distrust».

*** The difference between those who trust and those who distrust.

¹ Results of a sociological survey conducted by the Razumkov Centre's sociological service on 21-27 September 2023 as part of the Pact's ENGAGE (Enhance Non-Governmental Actions and Grassroots Engagement) programme in Ukraine funded by the United States Agency for International Development (USAID). The contents of the survey are the sole responsibility of Pact and its partners and do not necessarily reflect the views of USAID or the United States Government.

The face-to-face survey was conducted in Vinnytsia, Volyn, Dnipropetrovsk, Zhytomyr, Zakarpattia, Zaporizhzhia, Ivano-Frankivsk, Kyiv, Kirovohrad, Lviv, Mykolaiv, Odesa, Poltava, Rivne, Sumy, Ternopil, Kharkiv, Kherson, Khmelnytskyi, Cherkasy, Chernihiv, Chernivtsi oblasts and the city of Kyiv (survey in Zaporizhzhia, Mykolaiv, Kharkiv and Kherson regions was only carried out in government-controlled areas not subject to hostilities).

The survey was based on a stratified multi-stage sampling method with random selection at the earlier stages of sampling and a quota method of selecting respondents at the final stage (when respondents were selected according to gender and age quotas). The sample structure reflects the demographic structure of the adult population of the surveyed areas as of the beginning of 2022 (by age, gender, type of settlement).

A total of 2,016 respondents aged 18+ were interviewed. The theoretical sampling error does not exceed 2.3%. Additional systematic sampling deviations may be caused by the consequences of Russian aggression, in particular, the forced evacuation of millions of citizens.

HOW DO YOU TRUST THE FOLLOWING SOCIAL INSTITUTIONS? % of respondents (продовження)												
	July-August 2021				July 2023				September 2023			
	Trust*	Distrust**	Hard to say	Trust-distrust balance***	Trust*	Distrust**	Hard to say	Trust-distrust balance***	Trust*	Distrust**	Hard to say	Trust-distrust balance***
National Police of Ukraine	38.5	52.9	8.5	-14.4	61.3	30.7	8.0	30.6	56.9	36.0	7.1	20.9
Mayor of your city/town/village	57.1	33.6	9.3	23.5	60.5	31.8	7.7	28.7	53.7	38.9	7.5	14.8
Local council of your city/town/village	51.4	37.8	10.7	13.6	55.1	33.8	11.1	21.3	48.6	41.3	10.2	7.3
Ukrainian media	45.4	45.8	8.9	-0.4	55.7	36.0	8.3	19.7	47.1	43.0	9.9	4.1
National Bank of Ukraine	29.1	60.1	10.9	-31.0	48.4	40.1	11.5	8.3	45.8	41.8	12.5	4.0
Ukrainian Parliament Commissioner for Human Rights (Ombudsperson)	31.7	40.1	28.1	-8.4	41.8	34.2	24.0	7.6	44.1	30.6	25.2	13.5
Cabinet of Ministers of Ukraine	21.5	72.0	6.6	-50.5	39.1	52.2	8.7	-13.1	31.9	60.4	7.7	-28.5
National Anti-Corruption Bureau of Ukraine (NABU)	15.2	69.6	15.3	-54.4	28.8	54.5	16.8	-25.7	29.2	53.3	17.5	-24.1
Verkhovna Rada of Ukraine	18.7	75.1	6.1	-56.4	36.2	56.3	7.6	-20.1	29.1	63.6	7.4	-34.5
Specialised Anti-Corruption Prosecutor's Office	13.6	69.3	17.2	-55.7	27.7	54.4	17.9	-26.7	28.5	52.3	19.2	-23.8
National Agency on Corruption Prevention (NAZK)	13.2	69.6	17.2	-56.4	26.1	55.2	18.7	-29.1	27.2	52.1	20.7	-24.9
Prosecutor's Office of Ukraine	17.8	71.1	11.1	-53.3	27.8	60.3	11.8	-32.5	26.5	60.9	12.6	-34.4
Commercial banks	18.2	70.7	11.1	-52.5	30.7	54.1	15.3	-23.4	26.2	58.7	15.0	-32.5
Trade Unions	21.2	54.8	24.0	-33.6	25.3	44.8	29.9	-19.5	25.3	45.7	29.0	-20.4
State apparatus (officials)	14.9	75.7	9.4	-60.8	23.0	67.4	9.7	-44.4	19.1	71.7	9.2	-52.6
Courts (judicial system as a whole)	15.5	74.2	10.4	-58.7	19.0	69.7	11.4	-50.7	17.7	69.8	12.5	-52.1
Political parties	16.1	71.7	12.2	-55.6	17.0	68.2	14.9	-51.2	14.1	73.6	12.3	-59.5

* A total of answers «fully trust» and «rather trust».

** A total of answers «fully distrust» and «rather distrust».

*** The difference between those who trust and those who distrust.

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