



**Razumkov**  
centre

# **UKRAINE 2021-2022: MODEST RESULTS, IMMENSE CHALLENGES**

Ukraine 2021: No Failure, No Breakthrough, Distressing Expectations

Forecasts for 2022

Public Opinion on the Results of the Year 2021

Kyiv

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# 1.

## UKRAINE 2021: NO FAILURE, NO BREAKTHROUGH, DISTRESSING EXPECTATIONS

For Ukraine, 2021 was marked by two main stress factors – the COVID-19 pandemic and Russian armed aggression. But if the impact of the pandemic, despite the spread of a new virus variant, has decreased gradually with the economy and society adapting to it, the factor of Russian aggression, on the contrary, had an upward trend, culminating by the end of the year in Russia's readiness to full-scale invasion.

Under such difficult conditions, Ukraine has worthily celebrated the 30<sup>th</sup> anniversary of its Independence. The country's development in 2021 was quite stable, with no significant crises, but also with no reformist «breakthroughs». The government's actions still lacked system or predictability. The Cabinet worked without an approved programme, while the main economic initiatives originated in the President's Office and were largely focused on public resonance.

Expectations of a quick effect from the launch of land reform did not materialise, privatisation did not yield the expected revenues, and plans to attract investment remained lip service. More intensive infrastructure development and digitalisation have only become possible thanks due to the President's attention and significant public funding.

Maintaining of weak but positive economic dynamics, relative stability of public finances and the increase in export earnings were largely due to favourable external conditions and the assistance from international financial organisations.

The social well-being of Ukrainians has not improved. The average household's food expenditures reached almost 50% of total expenditures. «Containment» of utility tariffs by the government somewhat eased tariff pressure on citizens but produced the crisis in energy markets on the flipside.

2021 was a year of Ukraine's high international activity. The President and other government officials were persistent in creating international platforms to resist Russian aggression, giving new impetus to relations with the United States, and expanding support for Ukraine's strategic foreign policy goals of EU and NATO membership. Although these efforts were weakened by problems in communication with partners, foreign policy is something that Ukraine can take credit for in 2021.

The same applies to national security and defence, albeit with some reservations. In 2021, Ukraine bolstered its defence capabilities, both in making the defence system comprehensive and in ensuring technical re-equipment of security sector structures.

During 2021, everyone could feel the gradual approach of elections. Their signs include the government's attempts to «engage» in election law, build its own media resources, clean the ranks of insufficiently loyal «passengers», and finally put pressure on opponents and those who may support them.

2021 became a turning point in citizen attitudes to the ruling team led by Volodymyr Zelenskyy. Most Ukrainians no longer consider this government «new» in the sense of «qualitatively better» than their predecessors, do not view its actions as directed towards achieving the «public good», and have doubts about its ability to fulfil most of the promises made in 2019.

In 2021, Ukrainian society has repeatedly demonstrated its ability to influence the government and make sure it does not cross the «red lines» without resorting to destructive actions. Ukrainians have also proven their ability to self-organise and defend themselves in the face of the most serious challenges. These qualities can become decisive in 2022.

## Security and Defence

The threat of a massive escalation of the Russia-Ukraine conflict has not only determined the state of Ukraine's national security in 2021, but also dominated the regional and global security agenda. The progressing confrontation culminated in Russia's demands to the United States and NATO for «security guarantees».<sup>1</sup> The cornerstone of the Russian ultimatum is its attempt to limit Ukraine's sovereignty and independence, which confirms the global dimension of the Russia-Ukraine conflict. As of early 2022, further confrontation looks more realistic than the prospects of diplomatic solution.

Despite uncertainties about the true goals of the Kremlin's military manoeuvres – political blackmail or preparation for invasion – Russia's aggressive intentions remain obvious. The blockade of the Normandy Four talks, endless violations of the ceasefire, and mass distribution of Russian passports during the year further weakened the prospects of restoring peace and de-occupying the ORDLO. Russia's «Crimean issue is off the table» position did not change, as further militarisation of the peninsula and the creeping annexation of the Azov and Black Seas is underway.

Against the growing threat of Russian aggression, there have been positive changes in the scale and nature of international support, including aimed at strengthening the capacity of Ukraine's security sector.

The impact of the COVID-19 pandemic on the country's security sector was less significant than in 2020. At the same time, the pandemic significantly worsened the difficult humanitarian situation for those living in the occupied territories, also creating additional restrictions on the activities of the OSCE SMM observers and the Trilateral Contact Group (TCG) negotiations.

**Key achievements and problems of the security sector in 2021 included the following:**

### ACHIEVEMENTS

1. Completion of strategic documents and regulatory framework development; creation of preconditions for the transition to the next stage of reforming the components of the national security system.
2. Adoption of the Law «On the Fundamentals of National Resistance» and regulations on its implementation; the launch of practical creation of the Territorial Defence Forces.

3. Breakthrough in the provision of foreign military-technical assistance to Ukraine

### PROBLEMS

1. Failed implementation of a defence procurement plan.
2. Lack of progress in the adoption of the Law «On the Security Service of Ukraine».
3. Inhibition of the defence industry reform.

## RUSSIA-UKRAINE CONFLICT

The eighth year of the Russia-Ukraine conflict was notable for the lack of any significant steps towards its settlement. It seems that 2021 saw further worsening of the prospects of restoring peace in eastern Ukraine and de-occupying the territory of ORDLO and the Crimean peninsula. By blocking any

negotiation processes, Russia has consistently created the preconditions for moving the conflict into a new active phase by increasing its military presence near Ukraine's borders and consistently de facto integrating the occupied territories of ORDLO.<sup>2</sup> The Kremlin irrefutably rejects any possibility of discussing the «Crimean issue», while Russia's «reclamation» of the peninsula and maritime areas poses

<sup>1</sup> Treaty between the United States of America and the Russian Federation on security guarantees (draft), Agreement on measures to ensure the security of the Russian Federation and member states of the North Atlantic Treaty Organisation (draft) – Ministry of Foreign Affairs of the Russian Federation, 17 December 2021, [https://mid.ru/ru/foreign\\_policy/rso/nato/1790818/](https://mid.ru/ru/foreign_policy/rso/nato/1790818/); [https://mid.ru/ru/foreign\\_policy/rso/nato/1790803/](https://mid.ru/ru/foreign_policy/rso/nato/1790803/).

<sup>2</sup> Distribution of Russian passports, participation in the Russian elections, permission to supply goods to the Russian market from DPR-LPR, introduction of Russian educational programmes, blockade of crossing points. See, for example: More than 720,000 residents of the Donbas republics received Russian citizenship via simplified procedure – DON-24, 27 January 2022, <https://don24.ru>.

increasingly serious security, economic and humanitarian threats.<sup>3</sup>

For two years in a row, the Kremlin has been ignoring initiatives by other Normandy Four members over the higher-level meeting. The «non-alternative» Minsk agreements on conflict resolution have now become a real obstacle to the negotiation process, not only because of dissenting differences in the interpretation of the sequence of the parties' security and political commitments, but also because of Russia's categorical denial of its role as a party to the conflict, and hence of any obligations.

In the absence of an effective political framework, the TCG activity as a tool for coordinating the realisation of previously agreed and already initiated steps (demining, disengagement, opening of crossing points, agreement on lists of prisoners, etc.) has become virtually fruitless. The Russian delegation to the TCG continued to position Russia as a mediator and force Ukraine into a direct dialogue with the «DPR-LPR», sometimes with no adequate response from the OSCE – a moderator and legitimate mediator. After the September rotation of OSCE representatives, when the new team started to act more objectively, Russia resorted to outright blackmail.<sup>4</sup> Russian mercenaries held OSCE SMM representatives hostage for several days in Donetsk and Horlivka,<sup>5</sup> while official Moscow refused to extend the mandate of the OSCE observer mission on the Russian-Ukrainian border.<sup>6</sup>

Establishment of the International Crimea Platform<sup>7</sup> by Ukraine in 2021 was an extraordinary event, as well as an opportunity and a tool to draw world's attention to the problem of illegal annexation. However, this Ukrainian initiative, supported by more than 46 states and international organisations, as well

as invitations to participate received an expected negative response from Moscow.

Official Minsk's shift from relative neutrality towards full support for the Kremlin's policy has significantly increased the threat. Increasingly aggressive, provocative statements and actions by the Belarusian leadership pose additional risks to Ukraine's national security and divert already limited resources to neutralise a potential threat from Russia's ally.

At the end of 2021, Ukraine sustained a heavy and well-planned cyberattack involving Belorussian and Russian special services on the information resources of state bodies and institutions. This attack revealed many shortcomings in Ukraine's cyber defence, pointing at the need not only to strengthen the capacity of relevant public services, but also to significantly improve their interaction between each other and with relevant non-state players.<sup>8</sup>

Numerous squabbles between Ukrainian politicians and their inability to consolidate even in the face of external military invasion, corruption scandals in public authorities not only undermine trust in government, but also negatively affect the quality of governance and national security, reducing the consolidation of society in the fight against Russia's threat. According to the most recent Razumkov Centre's survey, 55.7% of Ukrainians believe that in the event of a full-scale Russian invasion President Zelenskyy will be unable to act effectively as Supreme Commander-in-Chief and organise national defence, and 55.6% believe that the government's diplomatic and defence efforts are insufficient to prevent a full-scale Russian invasion.<sup>9</sup> Moreover, protests organised on various grounds can actually be used by the Russian secret services and their agency to destabilise the situation in individual regions or the country as a whole.<sup>10</sup>

<sup>3</sup> A.Klymenko, T.Huchakova, O.Korbut. Security threats in the Black Sea and the Sea of Azov in 2021. – BlackSeaNews, 7 August 2021, [www.blackseanews.net](http://www.blackseanews.net).

<sup>4</sup> S.Harmash. The Kremlin is tired: everything you need to know about the current situation in the Donbas and Russia's actions. – «Dzerkalo Tyzhnya», 11 November 2021, <https://zn.ua>.

<sup>5</sup> Blocking the work of the OSCE mission in the Donbas: what Ukraine can count on? – DW, 19 October 2021, <https://www.dw.com>.

<sup>6</sup> S. Dorosh. The OSCE mission disappears from the Ukraine-Russia border. What are the threats? – BBC News Ukraine, 30 September 2021, <https://www.bbc.com/ukrainian/features-58732852>.

<sup>7</sup> For more detail, see the official website of the Crimea Platform, <https://crimea-platform.org>.

<sup>8</sup> Ukrainian Cyber Alliance: «We still do not know exactly the level of penetration, i.e. what resources were attacked». – Ukrainian Week, 31 January 2022, <https://tyzhden.ua>.

<sup>9</sup> For more detail, see: Ukrainian citizens' assessment of the threat of Russian aggression (January 2022). – The Razumkov Centre, <https://www.razumkov.org.ua/napriamky/sotsiologichni-doslidzhennia/otsinka-gromadianamy-ukrainy-zagrozy-agresii-z-boku-rosii-cichen-2022r>.

<sup>10</sup> See: Razumkov's woes... – «Slovo i Dilo», 29 October 2021, <https://www.slovoidilo.ua>; Pandora Papers: how this scandal is dangerous for the Ukrainian authorities – Mind, 16 November 2021, <https://mind.ua>; Pulling to the bottom. The main corruption scandals in public finances in 2021. – RBC-Ukraine, 22 December 2021, <https://daily.rbc.ua>; The Shatun plan and Poroshenko's coup: coups that never happened – «Slovo i Dilo», 1 December 2021.

The COVID-19 pandemic became an additional detriment affecting the difficult humanitarian situation. In particular, the occupation authorities abused the quarantine restrictions to almost fully block the crossing points at the contact line.<sup>11</sup> At the same time, security agencies appear to have adapted to the pandemic quite successfully. At present, there are no signs of the pandemic's direct impact on the efficiency of security sector's functions or the course of sector reform. For example, the vaccination rate in the Armed Forces has reached 85%.<sup>12</sup>

## SECURITY SECTOR FUNCTIONING AND REFORM

### *Security and Defence Policy*

During 2021, the development of sectoral strategic documents and regulatory framework envisaged by the National Security Strategy of Ukraine<sup>13</sup> was practically completed creating the preconditions for the transition to the next stage of reforming the components of the national security system.

One of key steps towards more comprehensive defence was the adoption of the Law «On the Fundamentals of National Resistance» and regulations on its implementation.<sup>14</sup> The law grants the Territorial Defence Forces (TDF) the status of a new branch of military (previously TDF were part of the Land Forces) and regulates the entire range of measures on territorial defence, resistance and training of citizens as part of national resistance. The size of TDF in peacetime

is 10 thousand, increasing to more than 130 thousand in the special period at the expense of trained reserves.<sup>15</sup> Measures are being taken to organize TDF at the local level.<sup>16</sup> Innovations in the TDF organisation earned mostly positive responses in society. At the same time, experts note the excessively centralised approaches to the TDF organisation (unwillingness to delegate powers to local authorities, restrictions on access to weapons, etc.).<sup>17</sup>

Oleksiy Reznikov's appointment as a Defence Minister in November 2021 had a positive effect on the Ministry's activities. The quality and effectiveness of the MD's communication with society and foreign countries has improved significantly. Strong efforts were made to prompt many Western partners to review their policies of providing military and technical assistance to Ukraine in the face of Russia's growing aggression. Meanwhile, strategic planning and interaction with the defence industry are remaining MD's weaknesses.

### *The Armed Forces*

The approval of the Strategic Defence Bulletin (SDB)<sup>18</sup> wrapped up the official review of the progress of previous stage of reform, which began in 2016, and marked the transition to the next stage. SDB-2021 confirms that key goals of defence reform in democratic civilian control, command, planning, logistics, etc. were achieved during 2016-2020.<sup>19</sup> Yet the document contains an extensive list of long-term problems identified in the defence review, such as imperfect defence legislation

<sup>11</sup> Restrictions to Civilian Freedom of Movement at Crossing Points along the Contact Line and the Impact on Civilians. – OSCE SMM Thematic Report, November 2021, <https://www.osce.org/files/f/documents/0/2/505966.pdf>.

<sup>12</sup> Almost 85% of servicemen and employees of the Armed Forces received a full course of vaccination. – ArmyInform, 19 October 2021, <https://armyinform.com.ua>.

<sup>13</sup> The National Security Strategy of Ukraine was approved by Presidential Decree No.392 of 14 September 2020. – Official website of the President of Ukraine, [www.president.gov.ua/documents/3922020-35037](http://www.president.gov.ua/documents/3922020-35037).

<sup>14</sup> See: On 17 January 2022, the Doctrine of the use of TDF was approved, marking the beginning of the formation and staffing of four regional departments and 25 brigades of the Territorial Defence Forces of the Armed Forces of Ukraine; 14 government resolutions on the introduction of territorial defence developed. – Ukrainian Military Pages, 24 December 2021, <https://www.ukrmilitary.com>; NSDC held an interagency meeting on the implementation of the national resistance law. – Information Resistance, 19 January 2022, <https://sprotyv.info>.

<sup>15</sup> The formation and staffing of the regional departments and 25 RDF brigades will be completed shortly. – Defence Express, 10 January 2022, <https://defence-ua.com>.

<sup>16</sup> Russia's possible attack: the Association of Cities has discussed the coordination of territorial defence. – «Glavcom», 28 January 2022, <https://glavcom.ua>.

<sup>17</sup> Ministry of Defence: local state administrations do not set up territorial defence staffs on their own. – Radio Svoboda, 27 December 2021, [www.radiosvoboda.org](http://www.radiosvoboda.org).

<sup>18</sup> SDB-2021 was prepared based on the results of the defence review launched in 2019. See: Strategic Defence Bulletin of Ukraine approved by the Decree of the President of Ukraine No.473 of 17 September 2021.

<sup>19</sup> State Programme for the Armed Forces of Ukraine Development until 2020 provided for the achievement of five strategic goals and objectives of the reform: command system, defence planning system, building of necessary capabilities, logistics and medical support systems, professionalisation and the military reserve. See: State Programme for the Armed Forces of Ukraine Development until 2020, [www.mil.gov.ua/content/oboron\\_plans/National-program-2020\\_uk.pdf](http://www.mil.gov.ua/content/oboron_plans/National-program-2020_uk.pdf).



and insufficient equipment, as well as a number of statements on «incompleteness»,<sup>20</sup> which raises reasonable questions about the comprehensiveness and quality of key objectives.

The main feature of the Armed Forces in 2021, as in previous years, was the need for simultaneous implementation of defence tasks in the area of the Joint Forces Operation (JFO) and the implementation of reform measures.

The Armed Forces were involved in multinational military exercises both in Ukraine (eight) and abroad (17), and were involved in eight international peacekeeping missions. The Armed Forces also received assistance in training troops in the framework of training missions: JMTG-U (USA), Orbital (UK), Unifier (Canada) and LMTM-U (Lithuania). The participation of NATO member states in exercises on the territory of Ukraine is not only a significant practical contribution of partners in improving the level of training of the Armed Forces, but also a political manifestation of support for Ukraine's struggle against Russian aggression and a deterrent.

In 2021 measures were taken to equip the Armed Forces and modernize the arms and military equipment park, including due to significant changes in the volume and content of international aid. Planned expenditures for the implementation of the State Defence Order (DOZ) in 2021 amounted to UAH 23.1 billion. The Armed Forces of Ukraine and other military formations received about 3,000 basic samples of weapons and military equipment, including the latest unmanned aerial vehicles Bayraktar TB2, anti-ship coastal complex RK-360MC «Neptune», anti-tank systems, modern communications and electronic warfare. At the same time, independent experts draw attention to significant violations of the nomenclature and cost of procurement, identified during the monitoring of the public

part of the DOZ. Of particular concern is the unjustifiably large secret part of the DOZ, which is not subject to public scrutiny.

As in previous years, the main peculiarity of the Armed Forces' activities in 2021 was the need to simultaneously execute tasks in the zone of Joint Forces Operation (JFO) and undertake reform measures.

The Armed Forces of Ukraine (AFU) have been involved in international military exercises, both in Ukraine (8) and elsewhere (17), and also took part in eight international peacekeeping missions and operations.<sup>21</sup> The AFU also received military training support within training missions JMTG-U (United States), Orbital (United Kingdom), Unifier (Canada) and LMTM-U (Lithuania). NATO members' participation in exercises on the Ukrainian territory means not only a serious partners' contribution in improving the level of training of the AFU, but also a political demonstration of support for Ukraine's struggle against Russian aggression and a deterrent for this aggression.

The process of equipping the AFU and modernising its arms and military equipment continued in 2021, including thanks to significant changes in the volume and content of international aid.<sup>22</sup> Planned expenditures for the realisation of the State Defence Order (SDO) in 2021 amounted to UAH 23.1 billion. The Armed Forces of Ukraine and other military formations received about 3,000 basic pieces of weapons and military equipment, including the latest Bayraktar TB2 UAVs, RK360MC Neptune coastal missile systems, anti-tank systems, modern communications and electronic warfare.<sup>23</sup> At the same time, independent experts point at significant violations of the range of products and cost of procurement, identified during the monitoring of the public part of the SDO.<sup>24</sup> Of particular concern is the unreasonably large secret section of the SDO not subject to public scrutiny.<sup>25</sup>

<sup>20</sup> Strategic Defence Bulletin of Ukraine, [www.president.gov.ua/documents/4732021-40121](http://www.president.gov.ua/documents/4732021-40121).

<sup>21</sup> N.Tkachuk. Ukrainian peacekeepers perform peace-keeping tasks in eight international operations. – *ArmyInform*, 15 July 2021.

<sup>22</sup> What does Ukraine have to fight with? All military aid. – *Radio Svoboda*, 28 January 2022.

<sup>23</sup> The NSDC Office summed up the preliminary results of the State Defence Order implementation in 2021. – The National Security and Defence Council, 6 January 2022, <https://www.rnbo.gov.ua/ua/Dialnist/5213.html>.

<sup>24</sup> Walkie-talkies instead of equipment: that the Ministry of Defence never bought for the Armed Forces. – NAKO, 28 December 2021, <https://nako.org.ua>.

<sup>25</sup> NAKO: UAH 95 billion to be secretly spent by the Ministry of Defence of Ukraine. – *Ibid.*, 20 September 2021.

Gaps in the AFU's technical equipment were partially covered by foreign military and technical assistance. After many years of restrictions on the supply of defence weapons to Ukraine, a real breakthrough was achieved in this area. In 2021, Western partners supplied to Ukraine anti-tank missile systems, boats, drones, weapons and ammunition totalling almost \$450 million,<sup>26</sup> according to MD estimates.

During 2021, the problem of social protection of servicemen became increasingly relevant, particularly their level of pay, which has not increased since 2019.<sup>27</sup> At the end of the year, Ukrainian society was shocked by the news of changes in the military registration of women,<sup>28</sup> causing many rumours, protests and citizen appeals to the military leadership. Most questions concerned not the registration itself but rather the list of professions and specialties for women to be registered in the military. This forced the MD to urgently make some clarifications, which indicates the low quality of the document.

### ***The Ministry of Internal Affairs***

The arrival of the new Minister of Internal Affairs did not seem to affect the processes in the Ministry and the prospects of its reforming. After seven years of leading the Ministry, Arsen Avakov resigned in July 2021 – he was associated with the reform's initial successes and subsequent slowdown, as well as with a number of corruption and political scandals.<sup>29</sup> The initiatives of the new Minister Denys Monastyrskyi are mainly to continue ongoing projects launched within the outdated 2020

Strategy,<sup>30</sup> while some of his innovations are not formalised by proper planning documents.<sup>31</sup> In the meantime, the consequences of the reform's fragmentation in previous years have become increasingly apparent, while the prospects to systemically address key issues (salaries, personnel policy, corruption) did not improve.<sup>32</sup>

### ***The Security Service of Ukraine and Intelligence Agencies***

The SBU's systemic reform has never begun in 2021. The Service's powers did not change, meaning that the SBU continues to perform both its special service functions and those that would have been taken away if the declared reform goals were implemented. The draft law on the Security Service of Ukraine (Reg. No. 193196-d) has not been approved, so the operation and transformation occur within the outdated legislation and sectoral vision of ways to organise the SBU work so that «it is most effective for protecting the safety of citizens and the state».<sup>33</sup> Meanwhile, the SBU demonstrates «impressive results»<sup>34</sup> and «horrific abuses»<sup>35</sup> at the same time.

The absence of SBU reform threatens to become a real problem for the state and society. Delays Backpedalling on this issue raises totally reasonable questions from international partners to the Ukrainian leadership about its willingness to fulfil the commitments.<sup>36</sup> Civil society representatives are concerned about both the lack of changes and the content of the bill passed in the first reading in January 2021, as it «contains provisions that can harm human rights».<sup>37</sup>

<sup>26</sup> Polish «Lightning». What does Ukraine have to fight with? All military aid. – Radio Svoboda, 2 February 2022.

<sup>27</sup> From 2022, the payments to some servicemen will be increased. – Ukrainian Military Centre, 24 November 2021.

<sup>28</sup> Law «On Amendments to Some Legislative Acts of Ukraine concerning the Improvement of Certain Issues of Conscription and Military Registration»; V.Wagner. Updated conditions of military registration for women. – «Novoye Vremya», 31 January 2022, <https://nv.ua>.

<sup>29</sup> Avakov's legacy: what does the head of the Ministry of Internal Affairs leave behind – DW, 14 July 2021.

<sup>30</sup> Cabinet of Ministers Directive «On approval of the action plan for the implementation of the Strategy for the development of the system of the Ministry of Internal Affairs until 2020» No.693 of 21 August 2019.

<sup>31</sup> Monastyrskyi: The five structures of the Ministry of Internal Affairs represent the fist that can guarantee the security of the state – Interfax-Ukraine, 6 September 2021, <https://interfax.com.ua>.

<sup>32</sup> M.Schtekel. «Silent strikes», extortion and low salaries in the police: how does this threaten Ukraine? – Radio Svoboda, 6 January 2022.

<sup>33</sup> SBU reform. – Website of the Security Service of Ukraine, <https://ssu.gov.ua/reforma-ssu>.

<sup>34</sup> Public reports – ibid.

<sup>35</sup> E.Zakharov. «Organs are never wrong»: SBU violates human rights with impunity. At the equator of the new government (2019-2021): achievements, problems, prospects. Analytical Report, Kyiv, 2021, p.96, [https://spa.ukma.edu.ua/wp-content/uploads/2021/12/Na-ekvatori-novoi-vlady-2021.pdf?fbclid=IwAR3amFaxLhSPArHs6hi7otD22IRVABrcLqWwya-b-4x8H-BsYUL\\_FEbDf0o](https://spa.ukma.edu.ua/wp-content/uploads/2021/12/Na-ekvatori-novoi-vlady-2021.pdf?fbclid=IwAR3amFaxLhSPArHs6hi7otD22IRVABrcLqWwya-b-4x8H-BsYUL_FEbDf0o).

<sup>36</sup> Open letter from the heads of EU, NATO, US and EUMC diplomatic missions «A step towards NATO and the EU: why the West is waiting for a new law on the SBU from Ukraine». – European Pravda, 8 November 2021, [www.eurointegration.com.ua](http://www.eurointegration.com.ua).

<sup>37</sup> Human Rights Watch and other international organisations have sent a letter to Zelenskyy on SBU reform. – Radio Svoboda, 3 June 2021.



The actions of Ukrainian intelligence have been the subject of public attention at least twice during 2021. In September, reports on the brilliant evacuation of citizens of Ukraine and other countries from Kabul<sup>38</sup> filled the first pages of the world media, which was a sign of international recognition of professionalism and courage. Much more controversial was the Wagnergate scandal, which demonstrated the capabilities of the intelligence services, but also highlighted serious problems of management and coordination at the state level, as well as weaknesses of parliamentary control over the intelligence's activities.<sup>39</sup>

### **Defence Industry**

In 2021 great expectations were placed on the development of Ukraine's defence industry. With a number of substantial technological developments, the Defence Industry Complex should have become a reliable source for equipping the Armed Forces with the new and modernised weapons. Some progress was achieved in elaborating the legal framework for the defence industry development, such as the adoption of the Presidential Decree No.1630 of 13 July 2021 and the Law «On the Peculiarities of Reforming the State-Owned Enterprises of the Defence Industry Complex». On 20 August 2021, the President finally approved the Strategy for the Development of the Defence Industry of Ukraine.<sup>40</sup>

In reality, however, the defence industry reform was hampered by bureaucratic red tape linked to the transfer of public procurement functions from the Ministry of Economy to the newly created Ministry of Strategic Industries, its staffing and organisation of work, COVID-19 quarantine restrictions, delays in parliamentary committee's approval of core indicators of the State Defence Order for 2021-2023, and the like.

Relevant Ministry of Defence's services still want the defence companies to formally adhere

to the tactical and technical terms (which makes perfect sense in peacetime) instead of taking measures to accelerate the supply of weapons needed to deter Russian aggression.<sup>41</sup> Despite «loud» statistics, the number of new basic weapons delivered to troops is measured in single digits.<sup>42</sup> The terms of development, adoption and transfer of many required aviation, anti-aircraft, missile and naval systems to the Armed Forces of Ukraine are set for 2023-2030.

At the same time, the export potential of Ukraine's defence industry is growing. In 2021, Ukrspetsexport has signed contracts worth \$ 332 million. Such countries as the United Arab Emirates, Pakistan, Poland, Turkey, and the United States are most interested in the products of Ukrainian defence companies.<sup>43</sup> As for arms imports, defence industrial and military technical cooperation with the United Kingdom, the United States, Turkey and France looks very promising.

**The policy and practice of the Ukrainian government in the national security sector equally deserve approval and criticism. Advances in mobilising international support and strengthening defence capabilities only partially compensate for the many failures in other important areas that affect the resilience of the state and society to various threats, especially in the context of hybrid aggression.**<sup>44</sup>

**According to the heads of law enforcement agencies, the Armed Forces, the National Guard, the National Police, the Border Guard Service, the Civil Defence Forces, the Security Service of Ukraine, and intelligence agencies are ready for escalation of Russian aggression. Arranging and ensuring technical support for the Territorial Defence Forces, as well as equipping the Armed Forces with weapons remain problematic. Also, the content and quality of communication between the government and society raises many complaints.**

38 «Few countries were ready for this», the NYT gave a glowing account of Ukraine's latest intelligence operation in Afghanistan. – «Nastoyashcheye Vremya», 26 September 2021.

39 Bellingcat's Wagnergate investigation. What Zelenskyy, Poroshenko and experts say about it. – BBC News Ukraine, 18 November 2021.

40 Law «On the Peculiarities of Reforming the State-Owned Enterprises of the Defence Industry Complex»; Strategy of Development of the Defence Industrial Complex of Ukraine, <https://www.president.gov.ua/documents/3722021-39733>.

41 Under the guise of a fair argument, MD slowed down a number of Ukrainian developments, including MLRS *Vilkha-M*, SPG *Bohdana*, kamikaze drones *Hrim* and *RAM II*, self-propelled mortar *Smereka*, ground-based robotic systems *Myslyvets* and others. See: Self-defence: the most significant achievements of 2021. – CACDS, 9 January 2022, <https://cacds.org.ua>.

42 What to use for defence – Bayraktar, Javelin, weak aircraft and one frigate. How was the army prepared for a possible war with Russia? – «Liga», 20 January 2022, <https://biz.liga.net>.

43 This year, Ukrspetsexport signed contracts worth \$322 million. – Ukrinform, 31 December 2021, <https://www.ukrinform.ua>.

44 See sections *Domestic and Legal Policy*, *Economy* and *Energy* of this publication.

## Foreign policy

Ukraine's strategic positioning on the world stage through the adoption of conceptual documents (strategies) is one of key trends of the country's foreign policy in 2021, as well as efforts to accelerate progress in the European and Euro-Atlantic directions, deepen contacts with neighbours and other priority countries around the world. Meanwhile, being at the epicentre of a new phase of dangerous West-Russia confrontation, strengthening external support to counter Kremlin aggression has become crucial for Ukraine.

### FOREIGN POLICY IN 2021: KEY ACHIEVEMENTS AND PROBLEMS

Ukrainian diplomacy has generally become more active, achieving a number of positive results in some areas. However, promotion

of Ukrainian interests in the world was limited by external threats and adverse global trends, on the one hand, and by internal problems, on the other. Summing up the 2021 results, it is possible to highlight the following key achievements and problems in Ukraine's foreign policy.

#### ACHIEVEMENTS

- 1. Definition of foreign policy strategic foundation, country's systemic positioning on the world stage.** Adoption of the Foreign Policy Strategy and a set of conceptual documents on government actions internationally in various fields.
- 2. Creation of international platforms to counter Russian aggression and promote national interests.** Launch of the Crimean Platform, creation of the Association Trio, Ukrainian-Turkish Quadriga,<sup>1</sup> and activation of the Lublin Triangle.
- 3. Deepening and strengthening the strategic partnership with the United States.** Joint statement of the Presidents on the strategic partnership between Ukraine and the United States, renewal of the Charter on Strategic Partnership, Agreement on Strategic Principles of Defence Partnership, resumption of the Strategic Partnership Commission.
- 4. Formation of a support group for Ukraine's EU membership.** Launch of the process of signing

declarations in support of Ukraine's membership with EU countries (in 2021, relevant statements were signed between Ukraine and seven EU members).

#### PROBLEMS

- 1. Slowness and inconsistency of reforms.** Ukraine's position in the world was weakened by decelerated judicial reform, unsatisfactory fight against corruption, problems with public administration reform, and so on.
- 2. Negative high-profile events, conflicts and harmful trends in the ruling team's actions.** Ukraine has suffered reputational losses from a failed operation to detain Wagner mercenaries, internal conflicts in power and scandals involving government representatives, violations of democratic principles of governance and political competition.
- 3. Lack of government-society communication and conflicting government-media relations.** The information policy of the country's leadership was weak and contradictory, with increasingly complicated relations with the media.

The Razumkov Centre's forecasts from the last year have generally materialised regarding: (a) escalation of the Russian threat and intensification of negative internal processes in Russia; (b) slow progress in the European and Euro-Atlantic directions, with continued «strategic uncertainty» in relations with the EU and NATO; (c) intensified upward dynamics of the partnership with the United

States; and (d) accumulation of problems in relations with Belarus and Hungary, etc.<sup>2</sup>

Some identified problems, such as lack of strategic approaches and some personnel issues, were addressed. However, a number of shortcomings and miscalculations related to the quality of domestic reforms and public administration remain relevant.

<sup>1</sup> Quadriga is a platform for regular policy and security consultations of authorised representatives of Ukrainian and Turkish foreign and defence ministries.

<sup>2</sup> Ukraine 2020-2021: Inflated Expectations, Unexpected Challenges. – The Razumkov Centre, 2020, pp.253-255, <https://razumkov.org.ua/uploads/other/2021-PIDSUMKI-PROGNOZI-UKR-ENG.pdf>.

## UKRAINE'S FOREIGN POLICY POSITION: IMPACT FACTORS

Promotion of Ukraine's national interests on the world stage was challenged by unfavourable geopolitical trends and rising confrontations between the world's leading players.

**US-Russia.** In 2021, the confrontation between Moscow and Washington intensified. The United States has imposed a number of sanctions against Russia;<sup>3</sup> the countries mutually expelled diplomats and issued a number of harsh statements at the high and highest levels. The December talks between the presidents of both countries failed to reduce the intensity of the confrontation and did not lower the threat of Russian military intervention in Ukraine.

**EU-Russia.** The political and diplomatic crisis in Brussels-Moscow relations has deepened. As the visit of the High Representative of the EU Josep Borrell to Russia in February 2021 proved to be a failure,<sup>4</sup> contacts between the EU and Russia have reached their lows. The confrontation was further intensified by mutual political démarches.<sup>5</sup> The EU adopted new tough resolutions on Russia.<sup>6</sup> The Kremlin-inspired energy crisis in Europe and the migration conflict on the EU's borders with the help of the Moscow-controlled Belarusian regime became other fragments of this confrontation.

**West-China.** The political and economic US-China confrontation intensified bilaterally and in various parts of the world, leading to the creation of the military and political alliance of the United States, United Kingdom and Australia (AUKUS) in September 2021 to confront China in the Indo-Pacific region. Meanwhile, relations between Brussels and Beijing also continued to deteriorate due to the imposition of EU sanctions in connection with the violation of the rights of national minorities in China.

**Regional conflicts.** The situation on the Russia-Ukraine border remained particularly

dangerous. Aggression and unpredictability of Alexander Lukashenko's totalitarian regime in Belarus was growing. In Central Asia, the situation became complicated due to the acute internal crisis in Kazakhstan and the entry of CSTO forces. In turn, the «hot phase» of the short-lived Armenia and Azerbaijan war in Nagorno-Karabakh became latent. The situation in the Middle East remains difficult after the armed conflict between Israel and Palestine. The Syrian conflict remains unresolved. At the same time, the Taliban's seizure of power in Afghanistan poses a threat to the region's stability.

**Global pandemic.** The geopolitical situation has been deteriorating against the background of new waves of the COVID-19 global pandemic, which became a destructive factor affecting the world economy. Political and diplomatic relations, interpersonal contacts and cultural ties of Ukraine with partner countries have been limited.

The adverse effect of external factors was exacerbated by internal problems. These generally concerned the disruption of separation of powers principle, substandard efficiency of public administration, questionable progress of reforms in various areas, politicisation of law enforcement activities, the longevity of the corruption problem and other issues.

The situation was further complicated by miscalculations, inconsistent decisions and internal conflicts in the ruling team. In particular, Ukraine suffered reputational losses as a result of the failed special services' operation to detain mercenaries of the Wagner PMC. The scandal over reports about the President Zelenskyy's offshore companies, published by *Pandora Papers*, dealt another reputational blow.

The government's current political and diplomatic activities were mainly concentrated in the President's Office and the National Security and Defence Council of Ukraine, which led to a *de facto* redistribution of powers and some duplication of functions. In

<sup>3</sup> The United States imposed new sanctions against Russia and expel its diplomats. – «Ukrayinska Pravda», 15 April 2021, <https://www.pravda.com.ua/news/2021/04/15/7290330>.

<sup>4</sup> Trap and humiliation: how the European Parliament scolded Borrell for his visit to Moscow. – DW, 10 February 2021, <https://www.dw.com/uk/pastka-i-prynyzhennia-yak-u-yevroparlamentu-svaryly-borrelia-za-vizyt-do-moskvy/a-56517870>.

<sup>5</sup> Russia has declared the Vice President of the European Commission and the President of the European Parliament persona non grata. – «Ukrayinska Pravda», 30 April 2021, <https://www.eurointegration.com.ua/news/2021/04/30/7122781>.

<sup>6</sup> European Parliament adopts resolution urging the EU to be prepared to force Russia to pay high price in case of its invasion to Ukraine. – Interfax-Ukraine, 29 April 2021, <https://interfax.com.ua/news/general/741078.html>.

particular, rather questionable is the expediency of establishing a unit for European and Euro-Atlantic integration with the President's Office, given the existence of relevant structures in the Cabinet and the Ministry of Foreign Affairs. The Presidential Decree on the coordination of the state's foreign policy (No. 671 of 22 December 2021) looks like a contradictory and ambiguous attempt to reinforce the regulation of the state bodies activities in the foreign policy sphere under the total control of the Ministry of Foreign Affairs.

### DEFINITION OF FOREIGN POLICY STRATEGIC FOUNDATION

In 2021, the National Security and Defence Council adopted, and Presidential decrees enacted a number of important conceptual

documents (strategies), which one way or another determine the Ukrainian government's actions on the world stage.<sup>7</sup> In general, these strategies address security issues and follow a single conceptual approach: (a) protecting the country from external and internal threats; (b) moving towards the EU and NATO; (c) countering Russian aggression in various directions (Table «Some strategic documents»).

The Foreign Policy Strategy is the main document that defines the position and interests of Ukraine on the world stage. The most important components of this document can be summarised as follows:

- ✓ The Strategy's cross-cutting theme is the country's course to European and Euro-Atlantic integration;

SOME STRATEGIC DOCUMENTS ADDRESSING FOREIGN POLICY ISSUES OF UKRAINE <sup>8</sup>	
DOCUMENT, DATE OF ENTRY INTO FORCE	BRIEF CONTENT
<b>The Strategy for the De-occupation and Reintegration of the Temporarily Occupied Territory of the Autonomous Republic of Crimea and the City of Sevastopol</b> 24 March 2021	The document outlines the guiding principles of Ukraine's policy towards the occupied Crimean Peninsula, identifies priority areas and preconditions for de-occupation and reintegration.
<b>Military Security Strategy</b> 25 March 2021	The document defines the goals, priorities and objectives of the state policy in the military sphere aimed at protecting national interests from military threats, repelling and deterring armed aggression against Ukraine.
<b>Economic Security Strategy of Ukraine until 2025</b> 11 August 2021	The document outlines the main challenges and threats, identifies tasks, including ensuring resilience to external and internal challenges and threats, maintaining and developing the country's economic strength, and guaranteeing Ukraine's economic independence.
<b>Communication Strategy for Ukraine's Euro-Atlantic Integration until 2025</b> 11 August 2021	The Strategy aims at raising awareness and understanding of the content and practical value of changes in Ukraine related to the implementation of Euro-Atlantic integration strategic course by Ukrainian society and the international community.
<b>Strategy for the Development of the Defence and Industrial Complex of Ukraine</b> 20 August 2021	The goal of the Strategy is to create a competitive and hi-tech defence and industrial complex capable of meeting the current and future needs of the Armed Forces of Ukraine and other military formations in armaments and military equipment.
<b>Cybersecurity Strategy of Ukraine</b> 26 August 2021	The Strategy's priorities include securing cyberspace to protect the sovereignty of the state and the development of society; protecting the rights, freedoms and legitimate interests of the citizens of Ukraine in cyberspace; promoting European and Euro-Atlantic integration in cybersecurity.
<b>Foreign Policy Strategy of Ukraine</b> 26 August 2021	The Strategy analyses the foreign policy environment, outlines the challenges and threats, defines the goals, directions and mechanisms of Ukraine's foreign policy.

<sup>7</sup> In addition to the below strategies, in 2021 the government has also adopted the Strategy for Public Administration Reform of Ukraine until 2025, the Human Development Strategy, the Space Programme, and others.

<sup>8</sup> The table developed based on the documents and materials published on the official website of the Office of the President of Ukraine. – <https://www.president.gov.ua/news/administration>.

- ✓ Countering Russian aggression and restoring Ukraine's territorial integrity are of the highest priority. The document includes a set of measures to resist Russia's expansion;
- ✓ The document outlines the group of strategic partners, specifically focusing on the priority, strategic relations with five countries – the United States, United Kingdom, Canada, Germany and France;<sup>9</sup>
- ✓ The geography of relations covers various regions – from the Indo-Pacific region and Central Asia to the Middle East, Africa and Latin America. Multi-lateral cooperation within international organisations is a separate theme;
- ✓ Priorities also include the economisation of foreign policy, public diplomacy, protection of the rights of Ukrainians abroad, labour migration, etc.

Yet it should be borne in mind that the Strategy is a «medium-term planning document» and the dynamics of global processes will require adjustments and additions. Second, this document is a framework that should include targeted medium-term action plans/policies in the identified priority areas (in 2021, the Ministry of Foreign Affairs approved relevant strategies of action for Asia and Africa).

The adoption of the Strategy requires the development of a new basic foreign policy law to replace the outdated current Law of Ukraine «On the Principles of Domestic and Foreign Policy».

## PRIORITY AREAS OF UKRAINE'S FOREIGN POLICY

### *Russia*

Ongoing Russian hybrid aggression poses the greatest danger for Ukraine. During 2021, Russia concentrated a large group of troops and military equipment along the Ukrainian border, threatening to escalate

hostilities and causing a broad international resonance.

Ukraine is at the centre of a new phase of global confrontation between the collective West and Russia. The Kremlin's forceful black-mail demanding legal guarantees for Ukraine's non-participation in NATO contains both dangers and opportunities for Kyiv. On the one hand, the threat of large-scale military intervention has intensified, with Russia directly stating its imperial claims to Ukraine. On the other hand, this situation: (a) contributed to the consolidation of global support for Ukraine from NATO, the EU, the United States and other countries; (b) dispelled illusions about «business as usual» dialogue with the Kremlin; and (c) has become a «moment of truth» for the West to make strategic decisions regarding Kyiv's Euro-Atlantic and European integration prospects.

In 2021, Russia has stepped up its hostile and aggressive policy toward Ukraine, using all means of «hybrid warfare»:

- ✓ Russia conducted large-scale military exercises and blocked parts of the Azov-Black Sea region, restricting free navigation. The militarisation of Crimea continued;
- ✓ Moscow has intensified the issuance of Russian passports in the occupied territories of the Donbas. Elections to the State Duma of the Russian Federation were illegally held in annexed Crimea on 17-19 September 2021, while ORDLO residents were also forced to vote in those elections. In essence, this was a political annexation of part of the Donbas. Vladimir Putin's Decree on humanitarian support to the ORDLO of 15 November 2021 can be considered an economic annexation, as it established economic contacts with the occupied territories, including the admission of ORDLO goods to the Russian public procurement system;<sup>10</sup>
- ✓ In the summer of 2021, the Russian authorities initiated another wave of

<sup>9</sup> Other strategic partners of Ukraine recognised in the Strategy include Poland, Turkey, Azerbaijan, Georgia, Lithuania, Romania, China and Brazil. It also mentions the global partnership with Japan.

<sup>10</sup> Decree of the President of the Russian Federation «On providing humanitarian assistance to the population of some areas of the Donetsk and Luhansk oblasts», 15 November 2021, <http://publication.pravo.gov.ru/Document/View/0001202111150030?index=0&rangeSize=1>.



detentions, searches and arrests of Crimean Tatar activists in Crimea in response to the Crimean Platform summit in Kyiv;

- ✓ The Kremlin has blocked negotiations on the Donbas situation in both Normandy Four and Minsk formats. The Russian side consistently hindered the work in the TCG subgroups, stopped the prisoner swap process, and refused to open checkpoints in the conflict zone;
- ✓ Conclusion of the gas agreement between Moscow and Budapest bypassing Ukraine in September 2021 was an attempt to reinforce Ukraine's «energy blockade» and drive a wedge between Kyiv and its European neighbour;
- ✓ Russian special services continued its espionage, sabotage and subversive activities on the territory of Ukraine by inspiring protests, disseminating anti-Ukrainian information, spreading misinformation about the pandemic, and recruiting Ukrainian citizens. In 2021, the SBU blocked activities of 12 pro-Russian «bot farms» with a total of more than 65 thousand fake accounts.<sup>11</sup>

Ukraine has taken a number of countermeasures in the Russian direction. These included active resistance to Russia's influence on international platforms, attempts to expand the circle of allies, efforts to strengthen support from international organisations and promote Ukrainian interests in international courts, to name a few. In February 2021, Ukraine shut down three TV channels (112 Ukraine, NewsOne and ZiK) that were broadcasting pro-Russian narratives.

As noted, a number of important conceptual documents have been adopted to coordinate and strengthen resistance to Russian aggression. On 23 August 2021, the Ukrainian authorities held the inaugural summit of the Crimean Platform in Kyiv, at which representatives of 46 countries and international organisations adopted the Declaration and established an international coordination mechanism to counter the occupation of Crimea and restore Ukraine's territorial integrity.<sup>12</sup>

The Crimean Platform can be considered Ukraine's successful and productive initiative, as long as it continues to develop and present specific international action.

When assessing the nature and prospects of Russian policy towards Ukraine, it should be borne in mind that the Kremlin's aggression is due to the character of Russia's political regime. The ever-strengthening totalitarianism and militarisation of the Russian Federation is a long-term threat and challenge to Ukraine. Unfortunately, the very nature of Russia's internal processes makes it impossible to end the «hybrid war» against our country.

### **European and Euro-Atlantic Integration**

In general, statements about positive dynamics in the European direction are quite reasonable. An active EU-Ukraine dialogue continued during the year, with organisation of a number of joint events and conclusion of a package of important agreements, which deepened contacts between Kyiv and Brussels.

The 23<sup>rd</sup> EU-Ukraine summit on 12 October 2021 was the central event, as several important documents were adopted at the meeting. In particular, the parties signed agreements on a common aviation area, on Ukraine's participation in large-scale EU programmes *Horizon Europe* and *Creative Europe*, designed for 2021-2027.

#### **SOME OUTCOMES OF THE 23<sup>RD</sup> EU-UKRAINE SUMMIT**

- ✓ Recognition of mutual commitments under the Association Agreement;
- ✓ Support for the «Association Trio» initiative;
- ✓ Planned enhanced cooperation in the area of Common Security and Defence Policy, with the support of Ukraine's participation in PESCO programmes;
- ✓ Initiation of the process of expanding the scope of elimination of customs duties;
- ✓ Introduction of a large-scale update of 10 annexes to the Association Agreement, covering a number of important areas (finance, transport, telecommunications, climate, consumer protection, etc.);
- ✓ Reiteration of support to continue gas transit via Ukraine beyond 2024;
- ✓ Declared support for the Crimean Platform;
- ✓ Recognition of Russia's responsibility as a party to the conflict, and clear support for Ukraine's territorial integrity.

<sup>11</sup> Since the beginning of 2021, the SBU cybersecurity department has liquidated a 65,000-strong «army of bots» on social media. — SBU, 27 October 2021, <https://ssu.gov.ua/novyny/z-pochatku-roku-kiberdepartament-sbu-likviduvav-65tysiachnu-armiiu-botiv-u-sotsialnykh-merezhakh>.

<sup>12</sup> The Crimean Platform summit was attended by delegations from the United States, all EU member states, Georgia, Moldova, Turkey, Northern Macedonia, Australia, New Zealand, Japan, Canada and Iceland. These countries were represented, in particular, by nine presidents, four prime ministers, 14 foreign ministers, as well as other politicians and ambassadors.



In 2021, the Ukrainian authorities have stepped up the official promotion of the issue of Ukraine's EU membership prospects, including by introducing the practice of concluding declarations in support of the prospect of Ukraine's accession to the EU with individual EU members (Poland, Lithuania, Latvia, Estonia, Slovakia, Croatia, Slovenia).<sup>13</sup>

In order to promote the idea of defining the prospects of European integration, Ukraine, Georgia and Moldova created an «Association Trio» within the Eastern Partnership framework. On 19 July 2021, the summit of the Association Trio's presidents adopted the Batumi Declaration, which states that «granting the European perspective to the three Associated Partners will be a strong incentive and provide an impetus for even deeper and more comprehensive reforms».<sup>14</sup> At the same time, this idea was supported within the Lublin Triangle of Ukraine, Lithuania and Poland.

On 8 October 2021, the Verkhovna Rada adopted a statement «On priority issues of Ukraine's integration into the EU», in which it called on the EU to recognise the prospect of Ukraine's EU membership.<sup>15</sup>

Official Kyiv's efforts to set up and gradually expand the «bridgehead of support» among EU members to provide Ukraine with a clear European perspective deserve attention. Unfortunately, so far this initiative has been hampered by both internal and external factors. These include the traditional Western European scepticism about giving Ukraine clear membership prospects, the Kremlin's hostile influence seeking to discredit and block Ukraine's European integration, the

current situation in Ukraine and the lack of progress in implementing internal reforms that are important for the EU-Ukraine agenda.<sup>16</sup>

Therefore, it is safe to say about some tactical achievements in the European direction, but the strategic uncertainty in Kyiv-Brussels relations persists.

There has been moderate progress in **NATO-Ukraine relations**. On the global arena, the Alliance has demonstrated clear and consistent support and solidarity with Ukraine in countering Russian aggression. In turn, Ukraine has taken a number of important steps in the Euro-Atlantic direction.

The decision of the National Security and Defence Council of Ukraine «On urgent measures to deepen Ukraine's integration into the North Atlantic Treaty Organisation» entered into force on 23 July 2021,<sup>17</sup> setting forth the government's plan of action to intensify the relevant reforms. The Communication Strategy for Ukraine's Euro-Atlantic Integration for the period until 2025 has been approved.<sup>18</sup>

Ukraine has submitted a formal request to join the NATO Cooperative Cyber Defence Centre of Excellence in Tallinn. At the level of foreign ministries, Ukraine and Georgia agreed to cooperate and coordinate their actions to bring countries closer to joining NATO.

At the same time, the Ukrainian side conducted an active political and diplomatic campaign with partner countries to promote the idea of defining Euro-Atlantic prospects and providing Ukraine with a MAP. However, in a statement following the NATO summit

<sup>13</sup> The signing of the Declaration on the European Prospects of Ukraine approximates its full integration into the European Union – Volodymyr Zelenskyy. – Official website of the President of Ukraine, 4 May 2021, <https://www.president.gov.ua/news/pidpisannya-deklaraciyi-pro-yevropejsku-perspektivu-ukrayini-68257>.

<sup>14</sup> Batumi Summit Declaration issued by the heads of state of the Association Trio – Georgia, Republic of Moldova and Ukraine. 19 July 2021. – Official website of the President of Ukraine, <https://www.president.gov.ua/en/news/deklaraciya-batumskogo-samitushvalena-glavami-derzhav-asoci-69609>.

<sup>15</sup> Rada urged the EU to recognise the prospect of Ukraine's membership – Radio Svoboda, 8 October 2021, <https://www.radiosvoboda.org/a/news-rada-eu/31499355.html>.

<sup>16</sup> European Parliament resolution of 11 February 2021 on the implementation of the EU Association Agreement with Ukraine (2019/2202(INI)), [https://www.europarl.europa.eu/doceo/document/TA-9-2021-0050\\_EN.html?fbclid=IwARInceZXmqcv0fe8nj9aKn3lrApuFlq-24trD7objDEPO4-aKldO2Ma3CBI](https://www.europarl.europa.eu/doceo/document/TA-9-2021-0050_EN.html?fbclid=IwARInceZXmqcv0fe8nj9aKn3lrApuFlq-24trD7objDEPO4-aKldO2Ma3CBI).

<sup>17</sup> Decree of the President of Ukraine «On the decision of the National Security and Defence Council of Ukraine of 4 June 2021 'On urgent measures to deepen Ukraine's integration into the North Atlantic Treaty Organisation'» No. 307 of 23 July 2021.

<sup>18</sup> Decree of the President of Ukraine «On the Communication Strategy for Ukraine's Euro-Atlantic Integration for the period until 2025» No. 348 of 11 August 2021.

of 14 July 2021, the Allies limited themselves to traditional declarations on Ukraine's Euro-Atlantic future.<sup>19</sup> Then on 15 November, NATO Secretary General Jens Stoltenberg said in an interview that «we currently have no consensus on inviting Ukraine to become a full member».<sup>20</sup> Therefore, similar to its European perspectives, Ukraine is in «strategic uncertainty» in the Euro-Atlantic direction as well, with no clear prospects for joining the Alliance.

### **Cooperation with the United States**

Development of relations with the United States can be considered a victory of Ukrainian diplomacy. The end of the controversial Donald Trump's presidency marked the beginning of dynamic deepening of the US-Ukraine strategic partnership.

At the beginning of his term in February 2021, the US President Joe Biden made a statement, emphasising that «we will stand with Ukraine against Russia's aggressive acts. We will continue to work to hold Russia accountable for its abuses and aggression in Ukraine».<sup>21</sup> In March, the US president extended sanctions against Russia imposed for its occupation of Crimea and parts of the Donbas for another year.

During 2021, the US-Ukraine dialogue at the governmental and parliamentary levels has intensified, along with deepening of security cooperation. In addition to several joint military exercises, Ukrainian crews of the US-supplied Island patrol boats underwent training in the United States. In November 2021, *Cyber Flag 21* joint cyber exercises took place for the first time. In total, the Ukrainian army received more than \$275 million in aid from the United States in 2021.<sup>22</sup>

The higher-level meeting on 1 September 2021 was an important milestone in

Kyiv-Washington relations, with the presidents of both countries presenting a substantial Joint Statement on the US-Ukraine Strategic Partnership. The parties have also signed a number of agreements, including the Agreement on Strategic Principles of Defence Partnership aimed at strengthening Ukraine's military potential and accelerating defence reforms.<sup>23</sup>

The resumption of the US-Ukraine Strategic Partnership Commission and the adoption of the updated US-Ukraine Charter on Strategic Partnership also deserve special attention,<sup>24</sup> as the Charter marks a new level of cooperation between countries and contains important conceptual principles:

- ✓ US supporting Ukraine's sovereignty, independence, territorial integrity and inviolability of borders;
- ✓ deepening strategic partnerships in key spheres – political, security, defence, energy, scientific, cultural and others;
- ✓ supporting Ukraine's integration into European and Euro-Atlantic structures;
- ✓ preventing external direct and hybrid aggression against Ukraine and holding Russia accountable for such aggression.

### **Relations with Other Countries and International Organisations**

In 2021, Ukraine has initiated and/or supported the establishment of new bilateral and multilateral cooperation formats and platforms. Along with activities of the Lublin Triangle, 2021 saw the launch of the Association Trio, the Crimean Platform, and the political and security quadriga (Ukraine-Turkey).

The trends of cooperation development with neighbours – **Poland, Slovakia, Moldova,**

<sup>19</sup> Brussels Summit Communiqué, 14 June 2021. – NATO, [https://www.nato.int/cps/en/natohq/news\\_185000.htm?selectedLocale=en](https://www.nato.int/cps/en/natohq/news_185000.htm?selectedLocale=en).

<sup>20</sup> NATO has no consensus on Ukraine's membership – Stoltenberg. – Radio Svoboda, 15 November 2021, <https://www.radiosvoboda.org/a/news-ukraine-nato/31561905.html>.

<sup>21</sup> The United States will never recognise Russia's purported annexation of Crimea – Biden. – Interfax, 26 February 2021, <https://ua.interfax.com.ua/news/political/726691.html>.

<sup>22</sup> US military assistance to Ukraine: from batteries to anti-tank missiles. – DW, 19 October 2021, <https://www.dw.com/uk/viiskova-dopomoha-ssha-ukraini-vid-batareiok-do-protytankovykh-raket/a-59546227>.

<sup>23</sup> Ukraine and the United States signed an agreement on strategic principles of defence partnership. – Interfax, 31 August 2021, <https://ua.interfax.com.ua/news/general/765180.html>.

<sup>24</sup> US-Ukraine Charter on Strategic Partnership. 10 November 2021. – MFA, <https://mfa.gov.ua/news/hartiya-strategichnogo-partnerstva-ukrayina-ssha>.

**Georgia** and others — have been generally favourable. However, historical issues in relations with Poland have not been conclusively removed from the agenda. Moreover, the political atmosphere of Kyiv-Tbilisi contacts was negatively affected by the situation around Mikheil Saakashvili's trial in Georgia.

Political and diplomatic dialogue continued with the Baltic states — **Lithuania, Latvia** and **Estonia**, which demonstrated consistent solidarity with Ukraine on resisting Russian aggression, and actively promoted Ukraine's interests in European integration.

There has been progress in relations with **Turkey**, including a series of productive high and higher-level meetings, sessions of the Strategic Council and a Joint Strategic Planning Group, the establishment of the Ukrainian-Turkish Chamber of Commerce and Industry. As already noted, the quadriga started its operations in 2021.

Contacts with the **United Kingdom** focused on the implementation of the UK-Ukraine political, free trade and strategic partnership agreement signed in 2020. Within active political and security dialogue, the two countries concluded a large-scale (£1.7 billion) Ukrainian-British framework agreement on official credit support for the development of the capabilities of the Ukrainian navy.

Ukraine's relations with the Normandy Four participants — **Germany** and **France** — were rather ambiguous. On the one hand, Paris and Berlin support the sovereignty and territorial integrity of Ukraine, condemn Russian aggression and provide financial and economic support to Kyiv, including within the EU. On the other hand, both France and Germany are sceptical about giving Ukraine a European and Euro-Atlantic perspective.

The situation in **Belarus** presents a threat and a challenge for Ukraine, as the regime of self-proclaimed President Alexander Lukashenko is escalating its hostile course towards Ukraine. Official contacts with Minsk have been frozen, and Ukraine has joined EU sanctions against the Belarusian authorities. Russia is accelerating its «integrational absorption» of Belarus, *de facto* transforming it into a satellite

state — a political and military bridgehead of Russia's expansion in Europe.

Unfortunately, Ukraine could not reboot its relations with **Hungary**. During 2021, there were signs of intensified dialogue and improved relations. However, on 27 September, a long-term contract was signed in Budapest between the Hungarian government and Russia's *Gazprom* for the supply of gas bypassing Ukraine. Such an unfriendly step by the Hungarian side led to another crisis in relations, creating a «cold pause» in the dialogue between Kiev and Budapest.

On international platforms, Ukraine and its partners tried to resist Russian influence, deliver objective information about the aggressor's actions to the world community, and keep the issue of occupation of Crimea and the Donbass on the global agenda.

Thanks to Ukraine and its allies' active position, the Committee of Ministers of the Council of Europe has adopted a decision in May 2021 demanding from Russia to restore Ukraine's territorial integrity, release hostages, and lift the ban on the Majlis. In June, a similar pro-Ukrainian resolution was adopted by the Parliamentary Assembly of the Council of Europe. The Ukrainian delegation to the PACE tried to actively oppose the launch of Nord Stream 2 and the strengthening of Russian influence in Europe. Despite Russia's opposition, in June 2021, the OSCE PA adopted an urgent Ukraine-initiated Resolution condemning the annexation of Crimea and parts of the Donbas, demanding to liberate the occupied Ukrainian territories and end the blockade of the Kerch Strait.

In parallel, there was an ongoing resistance to Russian aggression within the UN. Positives include the publication of the UN Secretary-General's report «The Situation of Human Rights in the Autonomous Republic of Crimea and Sevastopol, Ukraine», prepared in pursuance of a previous UN General Assembly resolution. The President of Ukraine addressed the general debate of the 76<sup>th</sup> session of the UN General Assembly. In December 2021, the UN General Assembly adopted updated and strengthened resolutions «Situation of human rights in the temporarily occupied Autonomous Republic

of Crimea and the city of Sevastopol, Ukraine» and «Problem of the militarisation of the Autonomous Republic of Crimea and the city of Sevastopol, Ukraine, as well as parts of the Black Sea and the Sea of Azov».

The lawsuits initiated by Ukraine against Russia in international courts continued. An important legal precedent in favour of Ukraine was the decision of the Amsterdam Court of Appeal (October 2021) that the «Scythian Gold» artefacts collection belonged to Ukraine and should be returned to the Ukrainian state.

### INFORMATION COMPONENT OF FOREIGN POLICY

In 2021, a number of steps have been taken to **strengthen the information component of Ukrainian diplomacy**. In particular, the Ministry of Foreign Affairs' Public Diplomacy Strategy for 2021-2025, as well as the Communication Strategy entered into force in March 2021.

During the year, foreign diplomatic missions of Ukraine, supported by the Ministry, have implemented more than 60 image events<sup>25</sup> and conducted nine public information campaigns aimed at improving Ukraine's positive image abroad (including *Visit Ukraine*, *Start up with Ukraine NOW*, *Discover Ukraine*, *UA Cuisine*, the campaign to the 30<sup>th</sup> Anniversary of Independence, etc.), with total coverage of almost 25 million people. Ukraine's international campaign «*Start up with Ukraine NOW*» has been launched on the BBC. In 2021, Ukraine launched its official website *Ukraine.ua* in seven languages, collecting 601,242 views from 198 countries.<sup>26</sup>

**Countering Russian media influence.** 12 public awareness campaigns were conducted in 2012 on the release of Ukrainian political prisoners and closure of «Isolation» and other illegal prisons, on the protection of human rights in the temporarily occupied territories, on combating misinformation and

raising awareness of Ukraine's cooperation with NATO, and more. A mechanism for ongoing monitoring of international media space and prompt response to misinformation has been launched. At the same time, the problems outlined in previous Razumkov Centre studies remain relevant in foreign information policy.<sup>27</sup>

In general, the official Kyiv's policy on the world stage during the period under study became more dynamic. The Ukrainian diplomats can take credit for defining the strategic principles of foreign policy, intensifying and deepening cooperation with top partner countries, advancing European and Euro-Atlantic integration, as well as intensifying bilateral and multilateral contacts within international platforms.

In the meantime, the country's external positions were significantly weakened by both unfavourable geopolitical trends and a complex of unresolved internal problems, shortcomings and contradictory government decisions.

Russia's protracted hybrid aggression remains the main external threat, as it continues to seek establishing military and political control over Ukraine and destroying its independence and sovereignty altogether.

The Kremlin's blackmail and the growing threat of military invasion put Ukraine at the centre of an acute Russia-West geopolitical confrontation. This situation poses an extremely dangerous threat to Ukrainian statehood, but also presents an opportunity to accelerate its westward progress.

Ukraine's geopolitical position of Ukraine is largely influenced by two circumstances – chronic strategic uncertainty about the prospects of EU and NATO integration, and Russia's continued hybrid aggression with the threat of escalation. These areas have been and will remain the top priorities of Ukrainian diplomacy, at least in the near future.

<sup>25</sup> Hereinafter the data provided by the Ministry of Foreign Affairs of Ukraine.

<sup>26</sup> The website has English, French, German, Spanish, Arabic, Chinese language versions, as well as a Hebrew version. Its official Facebook page has more than 54,000 subscribers; 2021 coverage – 7.5 million users. Ukraine's official Instagram page has more than 114,000 followers and more than 20 million views.

<sup>27</sup> Ukraine 2020-2021: Inflated Expectations, Unexpected Challenges, p.17.

## Domestic and Legal Policy

As in the previous period, Ukraine's domestic political situation and government activities in 2021 stemmed from the following domestic factors such as weakness of state institution, lack of competence and professionalism in the actions of the government team and its focus on political self-preservation, growing mismatch between government actions and public needs, deteriorating public expectations. External factors included Russian hybrid aggression, the positions of leaders of key foreign partners on Ukraine, as well as the COVID-19 pandemic.

### ACHIEVEMENTS

1. Maintaining a relatively stable socio-political situation in the country.
2. Putting an end to most conflicts between the central and local governments (excluding Kyiv and Chernihiv).
3. Setting the «frozen» judicial reform in motion.

### PROBLEMS

1. A tendency towards further concentration of power in the President, violation of the separation of powers principle, interference in other authorities' spheres of competence.
2. Increased President's influence on the judiciary and most law enforcement agencies, the use of these institutions to put pressure on political opponents.
3. Reputational losses due to public scandals involving various government officials (Wagnergate, Pandoragate, Oleksandr Trukhin's case, etc.), resulting in the decreased confidence in the government by both Ukrainian citizens and foreign partners.
4. Attempted renewal of state influence on the media space, efforts to create a pool of loyal media.
5. Poor professionalism and competence of the ruling team as a whole, lack of adequate communication with society both in content and form.

reduced subjectivity of Parliament and the Cabinet both influenced by the President.

Previously unreasonably conflictual relations between the central authorities and local self-governments have generally become more constructive (with a few exceptions). In the meantime, the government's domestic actions and initiatives continued to be situational and lacked strategic vision.

An important feature of 2021 was the increasing use of government institutions, the judiciary and law enforcement agencies by the presidential team to «clear» the political field, discredit or weaken political opponents. The deterring role in these processes was played by the parliamentary opposition (primarily European Solidarity) and non-parliamentary factors, such as positions of the active part of society, the media, local elites, etc.

Indicators of public support for and trust in the government tended to decline. At the same time, none of the existing political forces, both parliamentary and non-parliamentary, could prove themselves as an alternative to the current government. Public support for pro-Russian forces have also declined markedly. The state's image sustained heavy blows from scandals involving President Zelenskyy himself and his entourage – Wagnergate, Pandoragate, other scandals with MPs and officials from the ruling team.

### ACTIVITIES OF STATE INSTITUTIONS AND GOVERNMENT AGENCIES, PECULIARITIES OF THEIR INTERACTION

In 2021, the government managed to preserve relative socio-political stability in the country, which can be considered its greatest achievement. During the year, no significant conflicts were observed between the branches of government and its individual institutions, which was largely due to the

### THE PRESIDENT OF UKRAINE

During 2021, President's transformation into a single decision-making centre without amending the Constitution appropriately has intensified. Having replaced the Verkhovna Rada Speaker Dmytro Razumkov, who started to demonstrate excessive independence,



by openly loyal Ruslan Stefanchuk, the President received the opportunity to almost singlehandedly shape the agenda of the entire system of government. This could have a positive effect by avoiding conflict and competition between the leaders of different branches of government, but the government activities were not always aimed at strengthening the state's resilience in the face of aggression.

As no success has been achieved in most areas that affect society's perception of the situation (protection of territorial integrity, security, economic development, income and prices comparison, combating the pandemic, etc.), this affected public confidence not only in President Zelenskyy, but also in the state institutions in general. According to the Committee of Voters of Ukraine, Volodymyr Zelenskyy in 2021 fulfilled only three of his election promises made during the 2019 campaign, with two-thirds of the promises remaining unkept. According to the CVU experts, their implementation may require another 5-7 years.<sup>1</sup>

At the end of the year, President Zelenskyy crossed the halfway point of his five-year term. So far, he did not openly state about his plans to run for a second term contrary to election promises, but his entourage's actions indicate that the choice to create opportunities for his re-election has already been made. As of the end of 2021, the President-led system of government has failed to present any clear conceptual document or action plan with defined goals and policy sets to society and partners.<sup>2</sup>

From the beginning of 2021, Ukraine's public policy featured several innovations initiated by President Zelenskyy. Above all, these concerned the National Security and

Defence Council of Ukraine, chaired by the President. In February 2021, the NSDC for the first time ever acted as a repressive body, imposing sanctions on MP Viktor Medvedchuk from the Opposition Platform For Life and his TV channels. Afterwards, the NSDC continued to impose sanctions on the alleged smugglers and crime lords. And since the NSDC is the coordinating body, all decisions, as required by the procedure, were formalised by Presidential Decrees. This set two precedents – the use of the National Security and Defence Council as a repressive body, which goes beyond its sphere of competence, and the imposition of sanctions against citizens of Ukraine, although sanctions, according to legislation, apply to foreign legal entities and individuals.

As this approach was supported by society, public confidence in President Zelenskyy and his electoral support (according to public opinion polls by various sociological companies) grew higher for some time, but their gradual decline resumed since mid-2021. Having sensed the public demand, the President declared his task «to return justice to Ukraine» in early 2021, announcing an attack on the «oligarchic class».<sup>3</sup> The President has secured an accelerated adoption of the Law «On Prevention of Threats to National Security Due to Excessive Influence of Persons with Significant Economic and Political Weight in Public Life (Oligarchs)».<sup>4</sup> The new law has identified the National Security and Defence Council as the main policy instrument in this area.

The first targets of this attack included Rinat Akhmetov, whose TV channels provided platforms for government critics and whom President Zelenskyy linked to the organisation of the «announced» coup,<sup>5</sup> and Petro Poroshenko, who was dubiously

<sup>1</sup> During the year, V. Zelenskyy fulfilled only 3 promises from his election programme. – Committee of Voters of Ukraine, <http://www.cvu.org.ua/nodes/view/type:news/slug:za-rik-v-zelenskyi-vykonav-lyshe-3-obitsianky-z-vyborchoi-prohramy>.

<sup>2</sup> During Volodymyr Zelenskyy's visit to the United States on 31 August – 2 September 2021, it was reported on the presentation of Ukraine's transformation plan (implementation of 80 projects worth \$277 billion) to American partners. See: We have a clear vision of what the country should become in five to ten years – the President presented the Transformation Plan of Ukraine in Washington. – Official website of the President of Ukraine, <https://www.president.gov.ua/en/news/u-nas-ye-chitkebachennya-yakoyu-maye-stati-krayina-cherez-p-70473>. However, as of November 2021, this plan still remained a mystery for Ukrainian society.

<sup>3</sup> See Address of the President of Ukraine on the latest decisions of the National Security and Defence Council. – Official website of the President of Ukraine, 12 March 2021, <https://www.president.gov.ua/en/news/zvernennya-prezidenta-ukrayini-shodo-ostannih-rishen-rnbo-67109>.

<sup>4</sup> The bill was adopted on 23 September and signed into law by the President on 5 November 2021. Speaker Razumkov, who did not support the adoption of this law, was dismissed.

<sup>5</sup> Zelenskyy said Akhmetov was involved in a coup with participation of Russia. – BBC Ukrainian Service, <https://www.bbc.com/ukrainian/news-59429543>.



suspected of treason.<sup>6</sup> Meanwhile, Mr Zelenskyy himself was considered an «oligarch» by more than half of Ukrainians.<sup>7</sup> So, the President decided to significantly step up the repressive component in the next period of his term. In addition, selective use of the «anti-oligarchic» law may be aimed at cleaning up the political and information space from opponents and potential competitors of the incumbent President. Having replaced the Minister of Internal Affairs Arsen Avakov, who was not a member of the President's team, by a totally loyal Denys Monastyrskiy, the President added this ministry and the National Guard to the «collection» of law enforcement agencies under his control, which already included the Security Service of Ukraine (SBU), the State Bureau of Investigation and the prosecution bodies.

Another innovation that confirmed Volodymyr Zelenskyy's focus on re-election was the formation of a media pool focusing on propaganda and receiving funding from the state budget.<sup>8</sup>

The role of such informal structures as the President's Office headed by Andriy Yermak remained exceptionally high. Despite having no legal powers, this institution owns the levers of influence not only on the Verkhovna Rada and the Cabinet, but also on local self-governments through the Congress of Local and Regional Authorities. The narrow circle of people around the President that influences all spheres of state policy, also

includes Serhiy Shefir, the first aide to the President and his long-term business partner. Mr Shefir, who is reportedly responsible for contacting «oligarchs» on behalf of the President, has never been officially in the civil service.<sup>9</sup> In September 2021, there was an assassination attempt on Mr Shefir, in which his driver was injured. As of the end of 2021, the results of the investigation were still unknown to the public.

If early in the President Zelenskyy's cadence various scandals involving his entourage and members of his political force were perceived as exceptions, then by the end of 2021 they became almost a norm. One of them concerned the Deputy Minister of Internal Affairs and his wife, Zelenskyy's secretary.<sup>10</sup> Another scandal involved a traffic accident with MP Oleksandr Trukhin, whom the President defended.<sup>11</sup>

Two other «media bombs» affecting Mr Zelenskyy and his people included the so-called Pandoragate, an investigation into the offshore accounts of various world politicians and statesmen by an international group of journalists,<sup>12</sup> and the *Bellingcat*'s investigation of Wagnergate, a failed operation of Ukraine's special services to detain mercenaries of Russian PMC «Wagner» in 2020.<sup>13</sup> The first case concerns Volodymyr Zelenskyy's relation to offshore accounts receiving \$40 million, allegedly linked to «oligarch» Ihor Kolomoisky (but at that time Mr Zelenskyy held no public office). The

<sup>6</sup> Suspicions of treason and aiding terrorism signed against Poroshenko. – Ukrainian Pravda, 20 December 2021, <https://www.pravda.com.ua/news/2021/12/20/7318025>.

<sup>7</sup> Study «Citizen assessment of the situation and processes in the country. Attitude towards accession to the European Union and NATO (November-December 2021)» conducted by the Razumkov Centre's sociological service from 24 November to 1 December 2021, commissioned by the Espresso TV channel. See: <https://razumkov.org.ua/napriamky/sotsiologichni-doslidzhennia/otsinka-gromadianamy-sytuatsii-ta-protseviv-shcho-vidbuvaiutsia-v-kraini-stavlennia-do-vstupu-do-yevropeiskogo-soiuzu-ta-nato-lystopad-gruden-2021r>.

<sup>8</sup> See, for example, Big «House» for the President: how the TV channel for the occupied territories can become the all-Ukrainian. – Ukrainian Pravda, 22 November 2021, <https://www.pravda.com.ua/articles/2021/11/22/7314778>.

<sup>9</sup> See, for example, Shefir does not work in the President's Office? Relevant document published. – Glavcom, 24 September 2021, <https://glavcom.ua/country/politics/zhurnalist-visunuv-novu-versiyu-zamahu-na-shefira-785699.html>.

<sup>10</sup> Who is Maria Levchenko? A dossier of Zelenskyy's mysterious secretary. – Glavcom, <https://glavcom.ua/country/politics/hto-taka-mariya-levchenko-dosje-na-zagadkovu-sekretarku-zelenskogo-806299.html>.

<sup>11</sup> «Nobody died there»: Zelenskyy claimed he was unaware of details of the accident involving MP Trukhin. – Suspilne Media, <https://suspilne.media/168755-tam-niht-ne-zaginu-v-zelenskij-zaaviv-so-ne-znae-detalej-dtp-z-nardepom-truhinim>.

<sup>12</sup> See Offshore havens and hidden riches of world leaders and billionaires exposed in unprecedented leak, <https://www.icij.org/investigations/pandora-papers/global-investigation-tax-havens-offshore>.

<sup>13</sup> See Inside Wagnergate: Ukraine's Brazen Sting Operation to Snare Russian Mercenaries. – ICIJ, <https://www.bellingcat.com/news/uk-and-europe/2021/11/17/inside-wagnergate-ukraines-brazen-sting-operation-to-snare-russian-mercenaries>.

Bellingcat investigation does not directly confirm the President's involvement in the disruption of the operation but points at the engagement of his immediate entourage, namely Andriy Yermak. It is possible that President Zelenskyy's statement about the coup preparation during his «press marathon»<sup>14</sup> was aimed at retaking the initiative in the information space and avoiding further Wagnergate discussions – after all, neither «coup» information nor the investigation into the attempted assassination of Serhiy Shefir received logical continuation.

Generally speaking, President Zelenskyy's rhetoric became more «patriotic» during 2021, which may also point at his preparation for re-election. The celebration of the 30<sup>th</sup> anniversary of Ukraine's independence culminated in a large-scale military parade and a patriotic «show» in Kyiv, while previously both the President and his entourage clearly opposed any patriotic (or nationalist) events. President Zelenskyy's sensitivity to changes in public sentiment, continued downfall in public confidence, possible changes in the plans and attitudes of various stakeholders and influence groups, as well as propensity to relying on personal authority rather than strengthening of institutions, prompted the President to come up with openly populist decisions, such as payments of UAH 1,000 to all vaccinated Ukrainians,<sup>15</sup> or the introduction of the «Ukrainian' economic passport».<sup>16</sup>

The public perceives Volodymyr Zelenskyy's figure with increasing scepticism. There is not much hope that he will restore peace and return the occupied territories – only 14% of respondents believe that the President is doing everything possible for that, while 79% doubt his ability to do whatever it takes. Moreover, only 18% believe that he will keep all or most of his campaign promises, while

more than 67% feel that he should not run for a second term.<sup>17</sup>

The trends in public opinion suggest that the bet on the monopolisation of power and subordination of the entire system of public administration only meets tactical interests at best, whereas poor preparedness to run the country, questionable system of priorities in terms of the state and society interests, and ensuing personnel policy weaken political positions of both Volodymyr Zelenskyy and the state as a whole.

## THE VERKHOVNA RADA OF UKRAINE

Since its election in the 2019 early elections, the Verkhovna Rada of Ukraine of the 9<sup>th</sup> convocation did not play a noteworthy independent role and, in fact, ceased to be an independent branch of government. The attempts of the Chairman Dmytro Razumkov, one of key figures in the 2019 election campaign, to act as a «neutral» speaker, caused dissatisfaction with the President's Office, leading to his replacement with an openly loyal first Deputy Speaker Ruslan Stefanchuk on 7 October 2021. His place was taken by Oleksandr Korniyenko, ex-leader of the «Servant of the People» party.

The President and his entourage's influence on the parliament was mainly carried out through the Servant of the People faction headed by David Arakhmiya. As of the end of November 2021, the faction held 243 seats, which in theory allowed it to act as a parliamentary coalition in line with the Constitution and pass decisions independently. In practice, however, the faction often did not meet the criteria of «mono-majority». According to the Committee of Voters of Ukraine study, in autumn 2021 the Servant of the People faction became increasingly dependent on the «Trust» and «For the Future» parliamentary

<sup>14</sup> Akhmetov is being dragged into coup – Zelenskyy. – Ukrinform, <https://www.ukrinform.ua/rubric-polytics/3357931-ahmetova-vtaguut-u-derzavni-perevorot-zelenskij.html>.

<sup>15</sup> Ukrainians completely vaccinated against COVID-19 will soon be able to receive a thousand hryvnias from the state – Volodymyr Zelenskyy – Official website of the President of Ukraine, <https://www.president.gov.ua/en/news/povnistyu-shepleni-vid-covid-19-ukrayinci-nezabarom-zmozhut-71569>.

<sup>16</sup> Economic passport of a Ukrainian. Whose example does Zelenskyy want to follow? – BBC Ukrainian Service, <https://www.bbc.com/ukrainian/features-59552170>.

<sup>17</sup> Study «Citizen assessment of the situation and processes in the country. Attitude towards accession to the European Union and NATO (November-December 2021)», <https://razumkov.org.ua/napriamky/sotsiologichni-doslidzhennia/otsinka-gromadianamy-sytuatsii-ta-protsesiv-shcho-vidbuvaiutsia-v-kraini-stavlennia-do-vstupu-do-yevropeiskogo-soiuzu-ta-nato-lystopad-gruden-2021r>.

groups in voting.<sup>18</sup> In the second half of 2021, the Batkivshchyna faction's support for government initiatives also became more apparent. In particular, MPs from this faction voted for Dmytro Razumkov's removal from the post of the Chairman of the Verkhovna Rada.

Since the «Servant of the People» has no independent political positions and is completely guided by the President's policy, its political prospects totally depend on Volodymyr Zelenskyy's prospects. The party lacks leaders capable of acting effectively in the context of, for example, opposition, or within a parliamentary coalition, when it becomes necessary to coordinate positions with colleagues from other political forces.

Mostly made of majority MPs, the parliamentary groups «For the Future» (which is believed to pursue the interests of Ihor Kolomoisky and Ihor Palytsia) and «Trust» (which focuses on protecting the interests of large agrarian businesses, represented, for example, by Andriy Verevskyi) became particularly active. Both of these «oligarch-backed» groups often, yet not always, supported the ruling party's faction in voting.

The parliamentary opposition continued to be ideologically heterogeneous and did not show any intention to join forces.

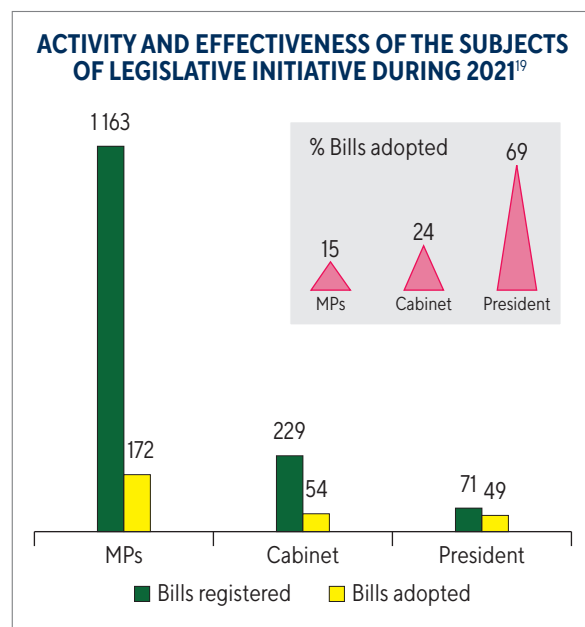
The «pro-European» vector in the opposition is represented by the factions of the European Solidarity (former President Petro Poroshenko, 27 seats), which is perceived as a centre-right and conservative political force; the Voice (Kira Rudyk, 20 seats), which declared its support for liberal ideology but is in the process of a de facto split; and Batkivshchyna (Yuliya Tymoshenko, 25 seats), which often tilts towards the populist rhetoric with elements of left-centrism.

Some changes have taken place in the **pro-Russian camp**. The faction of the Opposition Platform – For Life party (44 seats) was

undergoing an increasingly noticeable split into two wings, led by Yuriy Boyko and Viktor Medvedchuk, respectively. The latter was prosecuted on charges of treason and put under house arrest, which prevented him from active participation in public policy.

According to the civil network OPORA, 1,463 bills were registered in the Verkhovna Rada in 2021 – 388 less than in 2020. MPs were the most active subjects of the legislative initiative, submitting 1,163 bills, or 79.5% of the total. The Cabinet and the President came up with 229 and 71 legislative proposals, respectively (Figure «Activity and effectiveness...»). During 2021, the parliament passed 275 laws.

Legislative initiatives of the President were much more likely supported by the parliament compared to those of the Cabinet or MPs themselves, as the ratio of approved to initiated presidential bills was 49/71, or 69%. These figures for the Cabinet and MPs were much lower, at 24% and 15%.



Meanwhile, the current Speaker claims that not a single law in this convocation was

<sup>18</sup> See: Dependence of the Servant of the People from Trust and For the Future has increased significantly. – The Committee of Voters of Ukraine, <http://www.cvu.org.ua/nodes/view/type:news/slug:zalezhnist-sluhy-narodu-vid-doviry-i-za-maibutnie-rizko-zrosla-kvu>.

<sup>19</sup> Work of the parliament in 2021. – OPORA, 22 December 2021, [https://www.oporaua.org/report/parliament/rada\\_9/23803-robota-parlamentu-v-2021-rotsi-dovira-lider-u-golosuvanniakh-za-opzzh-naibilshe-proguliuiie-sluga-narodu-naidistsiplinovanisha-batkivshchina-naidovshe-vistupaie](https://www.oporaua.org/report/parliament/rada_9/23803-robota-parlamentu-v-2021-rotsi-dovira-lider-u-golosuvanniakh-za-opzzh-naibilshe-proguliuiie-sluga-narodu-naidistsiplinovanisha-batkivshchina-naidovshe-vistupaie).

adopted in accordance with the established procedure.<sup>20</sup> Specifically, many decisions necessary for the ruling team were passed disregarding the conclusions of the Main Scientific and Expert Department of the Verkhovna Rada Apparatus. One of such negative conclusions that has been ignored concerns the notorious «anti-oligarch» bill.<sup>21</sup>

## THE CABINET OF MINISTERS OF UKRAINE

Just like almost the entire executive branch, the Cabinet has been under the influence of the President – from staffing to accountability – through the parliamentary faction of the Servant of the People party and unconstitutional influence from the President's Office.

As expected, the current composition of the Cabinet of Ministers, chaired by Denys Shmyhal since 4 March 2020, has undergone several notable rotations. In May 2021, changes occurred in the ministries of infrastructure (Oleksandr Kubrakov replaced Vladyslav Krykliy), of economy, trade and agriculture (Oleksiy Lyubchenko, also appointed the First Vice-Prime-Minister, replaced Ihor Petrashko), and of health (Viktor Liashko replaced Maksym Stepanov). The agricultural sector received a separate ministry (Roman Leshchenko).

In November 2021, some large-scale government reshuffles took place, as Yuliya Svyrydenko was appointed the First Vice-Prime-Minister – the Minister of Economy (instead of Oleksiy Lyubchenko); Iryna Vereshchuk became the Vice-Prime-Minister – the Minister for Reintegration of the Temporarily Occupied Territories, replacing Oleksiy Reznikov, who, in turn, became the Minister of Defence instead of Andriy Taran. Pavlo Ryabikin (formerly the Head of the State Customs Service) became the Minister for Strategic Industries, replacing Oleh Urusky without the status of

Vice-Prime-Minister. As noted above, Denys Monastyrskyi replaced Arsen Avakov as the Minister of Internal Affairs.

Interestingly, most of the dismissed ministers wrote their letters of resignation after a conversation with the President or people from his entourage. None of these dismissed officials presented a public report on their activities in the Verkhovna Rada, which is the only body authorised to appoint members of the Cabinet of Ministers.

The constitutional norm requiring the new Cabinet to submit its programme of activities for the Verkhovna Rada approval has been consistently ignored since March 2020. Since this provision gives the Cabinet of Ministers a one-year immunity from dismissal, the reasons for its non-compliance are clear. This demotivates the ministers, who feel unprotected from the next unmotivated presidential decision and deprived of opportunities to arrange proper activities in their respective ministries. This equally demotivates potential candidates for appointment to the government. Most of the appointed ministers were virtually unknown to the public.

The absence of guidelines, clearly defined goals and benchmarks for the Cabinet's work in the public space opens the door for various assumptions, contributing to low public assessment of the Cabinet of Ministers' activities. In turn, significant public distrust in the government<sup>22</sup> narrows the space for systemic decision-making and the implementation of any major reforms and transformations.

## THE CONSTITUTIONAL COURT OF UKRAINE

In 2021, the Constitutional Court of Ukraine (CCU) adopted three decisions within its Grand Chamber,<sup>23</sup> and seven decisions by one of its senates on constitutional complaints.<sup>24</sup>

<sup>20</sup> See Ruslan Stefanchuk: «No law has been passed by this Verkhovna Rada in full compliance with the Rules of Procedure. Not a single one». – Left Bank, 30 September 2021, [https://lb.ua/news/2021/09/30/495181\\_ruslan\\_stefanchuk\\_v\\_tsiy\\_vr\\_ni.html](https://lb.ua/news/2021/09/30/495181_ruslan_stefanchuk_v_tsiy_vr_ni.html).

<sup>21</sup> See the Draft Law «On Prevention of Threats to National Security Due to Excessive Influence of Persons with Significant Economic and Political Weight in Public Life (Oligarchs)». – Web portal of the Verkhovna Rada of Ukraine, [http://w1.c1.rada.gov.ua/pls/zweb2/webproc4\\_1?pf3511=72105](http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=72105).

<sup>22</sup> For more detail see *Public Opinion on the Results of 2021* section in this publication.

<sup>23</sup> CCU Decisions (Grand Chamber), 2021. – Website of the Constitutional Court of Ukraine, <http://www.ccu.gov.ua>.

CCU decisions in 2021 were traditionally accompanied by numerous «dissenting opinions» of CCU judges. Interestingly, the number of «dissenting opinions» in these cases often exceeded 50% of the number of judges who took part in making these decisions.<sup>25</sup>

Unlike the previous year, none of CCU decisions in 2021 stirred serious concern in the professional community and among members of specific government institutions, as, in particular, the court's decision on the so-called cancellation of e-declarations in October 2020.<sup>26</sup> Acts of the CCU of 2021 were generally in line with the functional purpose of the Constitutional Court as a body of constitutional jurisdiction, designed to ensure the rule of the Basic Law and decide on the compliance of laws of Ukraine with the Constitution.<sup>27</sup>

By its Decision No. 1 of 14 July 2021, the CCU recognized the Law «On Ensuring the Functioning of the Ukrainian Language as the State Language» as conforming with the Constitution of Ukraine.<sup>28</sup> In another decision, the CCU concluded that «the minimum amount of benefits that everyone should receive as the main source of livelihood to guarantee the exercise of the constitutional right to a sufficient standard of living is the subsistence level, the amount of which, taking into account its nature and purpose, is determined by the Verkhovna Rada of Ukraine in the relevant law», while the Cabinet of Ministers «is obliged to set such a minimum salary (tariff rate) that its use in the wage system not only provided a sufficient standard of living for those who work, but also encouraged an employee to

improve living conditions for him/herself and his or her family».<sup>29</sup>

The CCU Decision No. 3 of 21 December 2021 was important for ensuring the national security of Ukraine, finding a reasonable balance between respect for human and civil rights and freedoms and countering Russian armed aggression. This decision confirmed the constitutionality of a number of provisions of the laws «On Television and Radio Broadcasting» and «On Cinematography», in particular concerning the ban on «the distribution of audio-visual works..., with participation of persons included in List of persons who pose a threat to national security», as well as the ban on «broadcasting (demonstrating via broadcast channels) of films produced by individuals and legal entities of the aggressor state».<sup>30</sup>

In 2021, the Constitutional Court adopted the fewest decisions over the 25-year span of its existence.<sup>31</sup> The reasons for that were not limited to the complexity of cases under consideration. Other factors that prevented the CCU from proper realisation of its powers included the artificial conflict between the CCU judges and the President's Office, which sometimes resembled a personal «war» between the President of Ukraine and the Chairman of the Constitutional Court.

In February 2021, the presidential decree «relieved» Oleksandr Tupytskyi of duty of a judge of the Constitutional Court.<sup>32</sup> Notable in this situation was the fact that the latter *de jure* remained the Chairman of the CCU, as the Constitution did not provide for the possibility of such actions by the head of state.

<sup>24</sup> CCU Second Senate Decisions, 2021. – Ibid.

<sup>25</sup> This is the evidence of incomplete legislative regulation of a «dissenting opinion» of a CCU judge. See: Ukraine 2020-2021: Inflated Expectations, Unexpected Challenges (Assessments). – The Razumkov Centre, 2021, p.27.

<sup>26</sup> CCU Decision No.13 of 27 October 2020. – CCU, [http://www.ccu.gov.ua/sites/default/files/docs/13\\_p\\_2020.pdf](http://www.ccu.gov.ua/sites/default/files/docs/13_p_2020.pdf).

<sup>27</sup> Law of Ukraine «On the Constitutional Court of Ukraine»

<sup>28</sup> CCU Decision No.1 of 14 July 2021. – CCU, [https://ccu.gov.ua/sites/default/files/docs/1\\_p2021.pdf](https://ccu.gov.ua/sites/default/files/docs/1_p2021.pdf).

<sup>29</sup> CCU Decision No. 2 of 14 July 2021 (the case on minimum salary (tariff rate). – CCU, [https://ccu.gov.ua/sites/default/files/docs/2\\_p\\_2021.pdf](https://ccu.gov.ua/sites/default/files/docs/2_p_2021.pdf).

<sup>30</sup> CCU Decision No. 3 of 21 December 2021. – CCU, [https://ccu.gov.ua/sites/default/files/docs/3\\_p\\_2021\\_2.pdf](https://ccu.gov.ua/sites/default/files/docs/3_p_2021_2.pdf).

<sup>31</sup> For reference: during the 25 years of the CCU's operation (regardless of its so-called «cadences»), the Court made on average 12-13 decisions; during the best years of the country's democratic development, the number of such acts reached 25. See CCU decisions in 2008; CCU decisions in 2009. – CCU, <http://www.ccu.gov.ua>.

<sup>32</sup> Decree of the President of Ukraine «On removal from office of a judge of the Constitutional Court of Ukraine» No. 79 of 26 February 2021.



Then, still having no appropriate powers, the President «cancelled» the 8-year-old decrees of the President Viktor Yanukovich on the appointment of Oleksandr Tupytskyi and Oleksandr Kasminin judges of the Constitutional Court of Ukraine.<sup>33</sup>

In order to fill the vacancies (which, as claimed by the President's Office, appeared in the CCU under the so-called «presidential quota» in connection with the «cancellation» of decrees appointing judges Tupitskyi and Kasminin), the presidential decree established a relevant commission,<sup>34</sup> with foreign experts making more than half of its composition. Out of 23 applications, the commission «recommended» 7 candidates for further consideration by the President; two of them were appointed the CCU judges.<sup>35</sup> However, the CCU refused to take their oath of office due to «lack of vacant positions of judges in the Constitutional Court».<sup>36</sup>

Meanwhile, parallel events may have pointed at the President's willingness to extend his influence on the CCU. On 18 February 2021, the parliament appointed a new CCU judge<sup>37</sup> close to the presidential entourage<sup>38</sup> with virtually no competition. This prompted negative responses both in the expert community and among a number of human rights NGOs.<sup>39</sup>

To «clear the path» to the second CCU vacancy under the so-called «parliamentary quota» for one of the members of «mono-majority» (that is, the incumbent MP), the

parliamentary faction of the Servant of the People tried to lift the statutory ban on a person «with a representative mandate» to be appointed judge of the CCU (Article 11 of the Law «On the Constitutional Court of Ukraine»)<sup>40</sup>. Broad publicity forced the President to give up on the relevant bill,<sup>41</sup> but other legislative initiatives of the pro-presidential faction confirm that it never abandoned the idea of appointing «their own» CCU judge.<sup>42</sup> At the same time, the Venice Commission strongly recommended to observe the ban on the appointment of «active members of parliament as judges of the Constitutional Court».<sup>43</sup>

As a result of all these actions, which often bore signs of unconstitutionality and systematic abuse of law, the only body of constitutional jurisdiction is still forced to work shorthanded, with no full-fledged Chairman, and in an atmosphere of undisguised political pressure.

## PROCESSES IN THE PARTY SYSTEM

During 2021, Ukraine's party system remained pluralistic and polarised by socio-cultural division, with the «patriotic» and «pro-Russian» oppositions located on the opposite poles. However, the government's increasing patriotic rhetoric and growing pressure on the opposition observed during the year gradually moved the party system away from the classical model of polarised pluralism, in which the government is in the middle of the ideological spectrum, balancing between opposition flanks.

<sup>33</sup> Decree of the President of Ukraine «On some issues of national security of Ukraine» No. 124 of 27 March 2021.

<sup>34</sup> Decree of the President of Ukraine «Issues of the competition for the selection of candidates for the position of a judge of the Constitutional Court of Ukraine in respect of persons appointed by the President of Ukraine» No. 365 of 17 August 2021.

<sup>35</sup> Decrees of the President of Ukraine of 26 November 2021 «On the appointment of O. Hryshchuk a judge of the Constitutional Court of Ukraine» No. 596 and «On the appointment of O. Petryshyn a judge of the Constitutional Court of Ukraine» No. 597.

<sup>36</sup> Resolution of the CCU «On taking the oath by judges of the Constitutional Court of Ukraine, appointed by the President of Ukraine by decrees of 26 November 2021 No. 596 / 2021, No. 597 / 2021» No. 11 of 30 November 2021.

<sup>37</sup> Resolution of the Verkhovna Rada «On the appointment of V. Kychun a judge of the Constitutional Court of Ukraine» No. 1250 of 18 February 2021.

<sup>38</sup> Fedor Venislavsky admitted having «his» candidate for the CCU. – Judicial and Legal Newspaper, 6 November 2021, <https://sud.ua/ru/news>.

<sup>39</sup> At the equator of the new government (2019-2021): achievements, problems, prospects. Analytical report. School of Political Analysis of NaUKMA, 2021, p. 14, <https://spa.ukma.edu.ua>.

<sup>40</sup> The Verkhovna Rada «pushed through» a norm allowing Olha Sovhira to become a judge of the CCU without losing her parliamentary mandate – in the bill «on elders». – Judicial and Legal Newspaper, 15 April 2021.

<sup>41</sup> President Volodymyr Zelenskyy signed a law on the development of the institution of elders in Ukraine. – Ukrinform, 12 January 2022, <https://www.ukrinform.ua/rubric-politics>.

<sup>42</sup> Text of the bill for the second reading, with amendments, [http://w1.c1.rada.gov.ua/pls/zweb2/webproc4\\_1?pf3511=70729](http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=70729).

<sup>43</sup> CDL-AD (2021)006-e. Ukraine – Opinion on the draft law on Constitutional Procedure (draft law no. 4533) and alternative draft law on the procedure for consideration of cases and execution of judgements of the Constitutional Court (draft law no. 4533-1) adopted by the Venice Commission at its 126th Plenary Session (online, 19-20 March 2021), [https://www.venice.coe.int/webforms/documents/?pdf=CDL-AD\(2021\)006-e](https://www.venice.coe.int/webforms/documents/?pdf=CDL-AD(2021)006-e).



The ruling Servant of the People party and its informal leader, President Zelensky, became increasingly «patriotic and pro-Western» in their rhetoric. The government's drift in the cultural policy was less pronounced, but it actually abandoned the idea of revising the reforms of 2014-2019, as declared in 2019. Moreover, the above-mentioned actions in countering threats to national security have weakened the influence of pro-Russian political forces (this primarily applies to OPFL party and its leader Viktor Medvedchuk). As a result, the overtly pro-Russian position has become increasingly marginalised and fragmented.

Therefore, observance of the law and democracy principles, competence of government actions and decisions in socio-economic, foreign policy and defence sectors, corruption, as well as assessment of personal actions of key politicians (including President Zelensky

and ex-President Poroshenko) became the key themes of inter-party competition.

The fragmentation of the electoral field has intensified. As a result, the gap between the «frontrunners» and «underdogs» has become less clear, with more parties capable of reaching the 5% electoral threshold in the next parliamentary elections.

**The Servant of the People.** During the year, the positions of the «Servants» did not change significantly; some growth early in the year was offset closer to the end of 2021, while the gap with other political forces reduced notably. In November 2021, Olena Shulyak, previously the deputy head of the party's parliamentary faction, headed the party, while President Zelenskyy remained its de facto leader. According to the ex-leader of the party Oleksandr Korniyenko, in November 2021, it had about a thousand members.<sup>44</sup> The

**IF THE ELECTIONS TO THE VERKHOVNA RADA OCCURRED NEXT SUNDAY,  
WHICH POLITICAL PARTY WOULD YOU VOTE FOR?**

\* % of respondent

	December 2020	February 2021	March 2021	April 2021	May 2021	June 2021	August 2021	October 2021	November 2021	December 2021
The Servant of the People	17.5	14.9	17.9	18.7	18.1	17.6	17.1	14.0	15.4	<b>14.9</b>
European Solidarity	12.8	11.6	13.2	12.4	12.4	12.3	10.7	10.0	12.2	<b>12.2</b>
Batkivshchyna	6.2	7.5	7.3	8.1	8.5	7.2	8.2	7.4	6.6	<b>8.2</b>
OPFL	13.1	14.1	12.7	10.8	9.9	10.3	10.7	8.1	9.3	<b>8.1</b>
Dmytro Razumkov's Party	–	–	–	–	–	–	–	–	5.3	<b>8.0</b>
Strength and Honour	3.8	2.9	3.9	4.4	4.2	4.0	4.2	3.9	3.9	<b>4.8</b>
Nashi	–	–	–	–	–	–	–	3.9	3.2	<b>4.6</b>
Groysman's Ukrainian Strategy	2.8	1.6	2.0	1.9	1.8	2.4	2.1	2.4	3.3	<b>3.2</b>
Svoboda	1.8	1.8	2.5	1.8	2.1	1.7	2.2	1.3	2.3	<b>2.3</b>
Serhiy Prytula's Party	–	–	–	–	–	–	–	1.6	1.9	<b>1.7</b>
Radical Party of Oleh Lyashko	1.5	2.1	1.6	2.1	2.0	1.8	2.2	1.9	2.5	<b>1.7</b>
Voice	1.4	2.1	2.7	1.9	1.1	0.7	0.7	0.3	0.1	<b>0.8</b>
Shariy's Party	2.2	1.6	1.3	1.6	0.8	0.8	1.4	1.3	1.0	<b>0.8</b>
The Opposition Bloc	0.7	0.9	0.8	0.8	0.8	0.8	0.5	0.3	0.2	<b>0.5</b>
Other	7.2	7.2	5.2	7.1	6.6	7.7	8.5	8.9	5.7	<b>4.9</b>
Hard to say	13.3	15.4	13.4	13.6	15.0	15.3	15.7	16.8	14.6	<b>11.7</b>
Would not vote	15.7	16.1	15.5	14.8	16.7	17.4	15.8	17.5	12.6	<b>11.6</b>

« – » no such option in the questionnaire.

<sup>44</sup> The Servant of the People party has only one thousand members – Korniyenko. – Left Bank, 22 November 2021, [https://lb.ua/news/2021/11/22/499208\\_partiya\\_sluga\\_narodu\\_maie\\_vsogo.html](https://lb.ua/news/2021/11/22/499208_partiya_sluga_narodu_maie_vsogo.html).

party is represented by more than 6,000 local council deputies, most of whom are not its members. The party had 24 regional and two city branches, but some of them existed only «on paper». Ms Shulyak announced the introduction of an imperative mandate (a recall mechanism) to local council deputies elected from the party who «do not keep their promises».<sup>45</sup>

**European Solidarity.** Ex-president Petro Poroshenko's party secured the second place by voter support. The party remains a leader in the «patriotic opposition» segment and given the dominance of patriotic and pro-Western discourse, it has become more difficult to offer an original ideological product. Meanwhile, the trial of Poroshenko has temporarily returned him and his European Solidarity to the epicentre of political life. Personal confrontation between Poroshenko and Zelenskyy makes the party the main antagonist of the current government.

**«Batkivshchyna».** No significant changes were observed in the positioning of this political force and its public support. During 2021, «Batkivshchyna» acted rather flexibly in cooperating with the current government – at the beginning of 2021, Yuliya Tymoshenko publicly proposed the «Servants» to form a coalition in the parliament, but on condition of «revision of the vector of Ukraine's development».<sup>46</sup> In October 2021, the «Batkivshchyna» faction supported the resignation of Dmytro Razumkov from the post of the Chairman of the Verkhovna Rada – a principled vote for Mr Zelenskyy and his party. At the same time, «Batkivshchyna» members continue to criticise the government for mistakes and lack of professionalism. In its rhetoric, the party continues to prioritise socio-economic issues. During the year, the party did not resort to previously demonstrated mobilisation capacities.

**The Opposition Platform for Life (OPFL).** During 2021, the largest pro-Russian party sustained a considerable loss in electoral support (from 13% to 7.5% of all respondents). Perhaps, this was instigated by sanctions against the TV channels linked to Viktor

Medvedchuk (co-chair of the OPFL), depriving them of the opportunity to broadcast on cable television. The sanctions also affected Medvedchuk's business, thus weakening the party's resource potential and shifting the balance in favour of its other wing, led by Yuriy Boyko and Serhiy Lyovochkin.

**«Nashi».** Following the imposition of sanctions on Medvedchuk-linked TV channels, their audience (and thus the active pro-Russian electorate) turned to «Nash» (Ours) channel, owned by Yevhen Murayev, who also runs a party project called «Nashi» (Our People). The party has significantly built up its support and received a hypothetical chance of reaching the electoral threshold. Therefore, competition between pro-Russian political forces intensified with the gradual narrowing of this electoral segment.

Other parties with substantial electoral support include Ihor Smeshko's **«Strength and Honour»**. Although the activity of this political force is largely limited to the periodic appearance of Mr Smeshko on various TV channels, the party's electoral support has slightly increased during the year to reach 4-5% of all respondents. Ideologically, the party positions itself as conservative democratic. For voters, the main «point of interest» is the personality of Ihor Smeshko – an experienced security officer, who, among other things, headed the SBU in 2003-2005.

**Groysman's Ukrainian Strategy**, a personal party project of the former prime minister (2016-2019), has shown some positive dynamics and can bank on support of about 3% of voters. The party's electorate is mainly concentrated in Vinnytsia oblast and its capital city, where Volodymyr Groysman served a long-time mayor.

**Svoboda**, one of Ukraine's oldest nationalist parties, also enjoys a stable support of about 2% of voters and is based in several cities where the party is represented by popular mayors (Ternopil, Ivano-Frankivsk).

**During the year, plans to create two more parties were announced.**

<sup>45</sup> Olena Shulyak: «As of today, the Servant of the People has about one thousand members». – Left Bank, 29 November 2021, [https://lb.ua/news/2021/11/29/499649\\_olena\\_shulyak\\_na\\_sogodni\\_skladi.html](https://lb.ua/news/2021/11/29/499649_olena_shulyak_na_sogodni_skladi.html).

<sup>46</sup> See: Tymoshenko confirmed Batkivshchyna's readiness to form a coalition with the Servant of the People. – DW, 16 March 2021, <https://www.dw.com/uk/tymoshenko-pidtvverdyla-hotovnist-batkivshchyny-do-koalitsii-zi-sluhoiu-narodu/a-56883391>; Tymoshenko: the parliamentary coalition is impossible until the state policy is revised – Interfax-Ukraine, 17 March 2021, <https://interfax.com.ua/news/political/730796.html>.

### **Future party of Dmytro Razumkov.**

Following his conflict with Volodymyr Zelensky and subsequent resignation from the post of Speaker, Mr Razumkov stepped up his public activity as an independent politician and declared own parliamentary and presidential ambitions, announcing the intention to create a party.<sup>47</sup> In November 2021, an inter-factional association of MPs focused on Dmytro Razumkov («Smart Politics») was created in the parliament, bringing together mostly majority deputies from the Servant of the People faction; in December, the NGO «Razumkov Team» was registered.<sup>48</sup> The future party's ideological platform is still unclear. Mr Razumkov describes it as «centrism or left-wing centrism».<sup>49</sup> In opinion polls at the end of 2021, Razumkov's hypothetical party already gained support of 5-8% of respondents, which allows it to potentially reach the electoral threshold.

**Serhiy Prytula**, a popular TV personality, actor and volunteer, has announced a party in September 2021.<sup>50</sup> A year before, Mr Prytula ran for mayor of Kyiv representing the Voice, but later distanced himself from this party amid growing internal contradictions that eventually led to the split and de facto decline of this parliamentary force. The registration of Prytula's party is scheduled for 2022.<sup>51</sup> So far, it is gaining about 1.5% of voter support.

**The vast majority of party brands with significant electoral support are built on the recognition and (relative) popularity of their leaders.** In this sense, the Servant of the People, European Solidarity, «Batkivshchyna» are identical; moreover, they are little different

from the non-parliamentary parties Strength and Honour and «Nashi», as well as from the not yet created parties of Dmytro Razumkov and Serhiy Prytula.

**During 2021, the Ministry of Justice registered 12 new parties. At the same time, the ministry sued to cancel the registration of 56 parties through legal action** (according to current law, grounds for that may include false information in the documents submitted for registration or party's non-participation in the presidential and parliamentary elections over the past 10 years).<sup>52</sup>

**Public financing** of political parties continued to grow, whereas mandatory financial reporting of the parties was never restored. In 2021, parties received 697 million hryvnias, while the State Budget for 2022 already pledged 886 million for these purposes.<sup>53</sup> Only parliamentary parties remain eligible to receive these funds. After the parties were relieved in 2020 of the obligation to report to the National Agency on Corruption Prevention (NAZK) on the receipt and use of funds from the state, the parliamentary parties stopped doing so (for example, the Servant of the People submitted a report to the NAZK for Q3 2020 only in September 2021).<sup>54</sup> The NAZK has found grounds to stop funding of the parties Voice, «Batkivshchyna» (late 2020) and the Servant of the People (2021). Funding for the latter two was resumed on the basis of updated reports, and the court dispute between the Voice and the NAZK continued throughout the year.<sup>55</sup>

In June 2021, The Verkhovna Rada has simplified the reporting procedure, but so far

<sup>47</sup> Razumkov announced his plans to create a political party. – Ukrinform, 17 November 2021, <https://www.ukrinform.ua/rubric-politics/3352473-razumkov-zaaviv-so-stvorit-politichnu-partiu.html>.

<sup>48</sup> Razumkov's associates established an NGO «Razumkov Team». – Left Bank, 20 January 2022, [https://lb.ua/news/2022/01/20/503518\\_soratniki\\_razumkova\\_stvorili\\_go.html](https://lb.ua/news/2022/01/20/503518_soratniki_razumkova_stvorili_go.html).

<sup>49</sup> Dmytro Razumkov: «I will run for president. And I will go to parliamentary elections». – Left Bank, 24 December 2021, [https://lb.ua/news/2021/12/24/501673\\_dmitro\\_razumkov\\_na\\_vibori.html](https://lb.ua/news/2021/12/24/501673_dmitro_razumkov_na_vibori.html).

<sup>50</sup> Prytula creates his own party – BBC Ukraine, 28 September 2021, <https://www.bbc.com/ukrainian/news-58727449>.

<sup>51</sup> Prytula to register a new party in 2022 – it will not be personal. – Radio Svoboda, 9 January 2022, <https://www.radiosvoboda.org/a/news-prytula-nova-partiia-2022/31646233.html>.

<sup>52</sup> See: 18 lawsuits of the Ministry of Justice regarding annulment of parties have already been satisfied, 35 are still being considered by courts – OPORA, 2 July 2021, <https://www.oporua.org/news/vybory/partii/23226-opora-18-sudovikh-pozoviv-miniustushchodo-anuluvannia-partii-vzhe-zadovoleno-35-shche-rozgliadaiutsia-sudami>; The Kyiv District Administrative Court revoked the registration certificate of yet another party. – Liga Zakon, 11 November 2021, [https://jurliga.ligazakon.net/news/207419\\_oask-anulyuvav-restratsyne-svdotsvo-shche-odn-part](https://jurliga.ligazakon.net/news/207419_oask-anulyuvav-restratsyne-svdotsvo-shche-odn-part).

<sup>53</sup> Almost 900 million will be allocated for party financing in 2022. – «Chesno», 17 September 2021, <https://www.chesno.org/post/4894>.

<sup>54</sup> 40 times fewer donors than candidates: the Servant of the People submitted a financial report. – «Chesno», 15 September 2021, <https://www.chesno.org/post/4887>.

<sup>55</sup> The Voice is once again left without state funding: the NAZK has won the cassation case. – «Chesno», 15 December 2021, <https://www.chesno.org/post/5048>.

this has not encouraged the parties to report voluntarily. The bill aiming to restore mandatory reporting (No.5253-1 of 30 March 2021) was adopted in the version that did not allow this; it was vetoed by the President and was never put to a second vote.

## REFORMS IN SPECIFIC AREAS

### Constitutional reform

The reform did not intensify in 2021. However, given the legal position of the CCU, according to which the provision «at the succeeding regular session of the Verkhovna Rada of Ukraine» in Article 155 of the Constitution, it should be understood that the succeeding regular session is a regular (*in fact, any later*) session of parliament,<sup>56</sup> in 2021 the Verkhovna Rada could consider at least three bills amending the Constitution already in the so-called «second constitutional reading».

These three bills are «On Amendments to Article 85 of the Constitution (concerning Consultative, Advisory and Other Subsidiary Bodies of the Verkhovna Rada)», «On Amendments to the Constitution (concerning the Abolition of the Bar Monopoly)» and «On Amendments to Articles 76 and 77 of the Constitution of Ukraine (concerning Reduction of the Constitutional Composition of the Verkhovna Rada of Ukraine and Consolidation of the Proportional Electoral System). Initiated by the head of state, all bills received positive decisions of the CCU and were previously approved by the majority of MPs. **However, none of them was submitted to parliament for consideration.**

In early 2021, 237 MPs (mostly from the Servant of the People faction) submitted the

bill «On Amendments to Articles 85 and 106 of the Constitution of Ukraine concerning the Procedure for Appointment and Dismissal of the Director of the National Anti-Corruption Bureau of Ukraine and the Director of the State Bureau of Investigation», which was immediately sent to the CCU for an opinion on its compliance with Articles 157 and 158 of the Constitution.<sup>57</sup> This bill once again proposed to give the President of Ukraine the power to appoint and dismiss the directors of NABU and SBI. Unlike similar bills initiated by the President in 2019, which did not receive positive CCU conclusions, this document proposed to make such appointments «upon consent of the Verkhovna Rada of Ukraine» and «subject to selection of candidates in competition».<sup>58</sup> The CCU has not yet made public its opinion on the bill.

To invigorate the constitutional reform, an inter-factional parliamentary association «For Constitutional Reform and Effective Government» was established, bringing together 283 MPs.<sup>59</sup> However, it showed no signs of active work in 2021.

In the second half of 2021, the President's Office representatives once again spoke about the need to step up work on constitutional changes in decentralisation.<sup>60</sup> A joint communiqué and the text of draft amendments to the Constitution were published on the website of the Parliamentary Committee on State Building, Local Governance, Regional and Urban Development, but the bill has not yet been submitted to parliament.

### Judicial Reform

In 2021, one could observe some renaissance in the implementation of judicial reform suspended after the 2019 elections. The change

<sup>56</sup> CCU Decision No. 1 of 15 March 2016 in the case of the constitutional petition of 51 People's Deputies of Ukraine on the official interpretation of the provision «at the succeeding regular session of the Verkhovna Rada of Ukraine» contained in Article 155 of the Constitution of Ukraine.

<sup>57</sup> Resolution of the Verkhovna Rada of Ukraine «On Inclusion of the Bill on Amendments to Articles 85 and 106 of the Constitution of Ukraine concerning the Procedure for Appointment and Dismissal of the Director of the National Anti-Corruption Bureau of Ukraine and the Director of the State Bureau of Investigation and its referral to the Constitutional Court of Ukraine in the Agenda of the 5<sup>th</sup> Session of the Verkhovna Rada of Ukraine of the Ninth Convocation» No.1341 of 16 March 2021.

<sup>58</sup> Ibid.

<sup>59</sup> The largest MP association created in the Ukrainian parliament. – Press service of the Verkhovna Rada Apparatus, 21 July 2021, <https://www.rada.gov.ua/news/Novyny/212818.html>.

<sup>60</sup> Joint communiqué of the Office of the President of Ukraine, Parliamentary Committee on State Building, Local Governance, Regional and Urban Development, the Ministry for Communities and Territories Development, Association of Ukrainian Cities, Ukrainian Association of Rayon and Regional Councils, All-Ukrainian Association of Communities, All-Ukrainian Association of United Territorial Communities. – Decentralisation gives opportunities, <https://decentralization.gov.ua/news/14306>.

in the political regime has led to artificially created long-term exclusion of key High Qualifications Commission of Judges (HQCJ)<sup>61</sup> from the mechanism of Ukraine's judicial branch.

The adoption of the Law «On Amendments to the Law of Ukraine 'On the Judiciary and the Status of Judges' and Some Laws of Ukraine to Resume the Work of the High Qualifications Commission of Judges of Ukraine» on 13 July 2021<sup>62</sup> was expected to fix the situation. Legislative changes provided for the appointment of the HCJ members by the High Council of Justice (HCJ) based on the results of competitive selection to be carried out with the effective participation of international organizations, and with the change of the procedure of establishing the competition commission two years after the appointment of the authorised HQCJ composition. 8 out of 16 HCJC members should be incumbent or retired judges.<sup>63</sup> According to authors, this was the best way to consolidate «one of the key European standards of judicial independence». <sup>64</sup> However, the HQCJ was never formed during 2021.

Some hopes for the judicial reform's revival were linked to the adoption of the Law «On Amendments to Some Laws of Ukraine on the Procedure for Election (Appointment) of Members of the High Council of Justice and on Activities of Disciplinary Inspectors of the High Council of Justice». <sup>65</sup> Specifically, the law established competitive principles of selecting the candidates for HCJ members. An important role was given to the newly created Ethics Council tasked to determine whether a candidate for the HCJ member met the criteria of professional ethics and integrity, provide a list of candidates

recommended as HCJ members, and perform one-time assessments of HCJ members (except for the President of the Supreme Court) against the professional ethics and integrity criteria.

The Ethics Council started in the second half of 2021 with some internal organisational measures,<sup>66</sup> but it did not proceed directly to the competitive selection of candidates for the appointment to the HCJ or the assessment of compliance of current HCJ members with the professional ethics and integrity criteria.

2021 marked the completion of the first term of the President of the Supreme Court, elected after the start of judicial reform in 2016. According to the current legislation, the Plenum of the Supreme Court elected its new President on 22 October 2021 – for the first time in Ukraine's recent history, it was a representative of administrative courts Vsevolod Knyazev. New heads of cassation courts of the administrative, commercial, criminal and civil courts were also elected/re-elected in connection with the expiration of the terms of their previous chairmen.

Much of the problems in the judiciary remain unaddressed. The composition of the High Court on Intellectual Property has traditionally not been formed; proper staffing of local and appellate courts remains extremely problematic;<sup>67</sup> and the problem of underfunding of the judiciary has become chronic.<sup>68</sup> All this continues to pose a serious threat to the exercise by Ukrainian citizens of their constitutional right to court protection (Article 55 of the Constitution).

The infamous Kyiv District Administrative Court continued to be at the epicentre of various scandals. On 13 April, the President

<sup>61</sup> Ukraine 2020-2021: Inflated Expectations, Unexpected Challenges (Assessments), p.27.

<sup>62</sup> «Vidomosti Verkhovnoyi Rady Ukrayiny», 2021, No.40, p. 326.

<sup>63</sup> Ibid.

<sup>64</sup> Volodymyr Zelenskyy signed a law resuming the work of the High Qualifications Commission of Judges, which is an important component of judicial reform in Ukraine. – Official website of the President of Ukraine, <https://www.president.gov.ua/news/volodimir-zelenskij-pidpisav-zakon-shodo-vidnovlennya-roboti-69933>.

<sup>65</sup> «Vidomosti Verkhovnoyi Rady Ukrayiny», 2021, No.38, p. 320.

<sup>66</sup> Ethics Council officially launched. – Legal Gazette online, 2 December 2021, <https://yur-gazeta.com/golovna/etichna-rada-oficiyno-zapracyuvala.html>.

<sup>67</sup> Independence of the judiciary is the key to the rule of law: the results of 2021. – Judiciary of Ukraine, <https://court.gov.ua/press/news/1243587>.

<sup>68</sup> Decision of the 18<sup>th</sup> regular Congress of Judges of Ukraine on the critical state of the courts, strengthening the independence of judges and protecting their professional interests of 11 March 2021. – Council of Judges of Ukraine, <http://rsu.gov.ua/ua/documents/124>.



of Ukraine submitted to the Verkhovna Rada an urgent draft law «On the Liquidation of the Kyiv District Administrative Court»,<sup>69</sup> and on 1 June the bill was included in the Verkhovna Rada's agenda,<sup>70</sup> but it was never considered.

### **Law Enforcement Reform**

The reform of the prosecution bodies, their organisation and activities has slowed down. Following the dismissal of Nazar Kholodnytskiy in August 2020, the position of the head of the Specialised Anti-Corruption Prosecutor's Office (SAP) remained vacant, while the work the competition commission for electing an SAP's chief was accompanied by scandals and confusion.<sup>71</sup>

Efforts on staffing the Office of the Prosecutor General, regional and other prosecutor's offices continued throughout the year. In March 2021, 181 new district and 30 specialised military and defence prosecutor's offices were «launched», replacing local and military garrison prosecution bodies.<sup>72</sup> Unlike the previous year, in 2021 the prosecution bodies managed to successfully complete some high-profile criminal proceedings.<sup>73</sup> At the same time, the work of the Office of the Prosecutor General in 2021 was not free from

political motives, as evidenced by the thriller with the «declaration of suspicion» of treason against the fifth President of Ukraine Petro Poroshenko, current MP.<sup>74</sup>

The end of 2020 and the first half of 2021 saw a number of legislative changes concerning the State Bureau of Investigation (SBI).<sup>75</sup> However, the Bureau has been operating without a legally appointed head throughout the year, with the deputy director of the SBI acting as its chief. In 2021, pursuant to the legislative requirements on the appointment of the SBI director, adopted by parliament back in 2019,<sup>76</sup> the commission for conducting relevant competition was formed that eventually announced and held such a competition.<sup>77</sup> Based on its results, on 31 December 2021 the President appointed the SBI director<sup>78</sup> by signing relevant decree. Interestingly, at the time of issuing this decree, the head of state did not have the constitutional authority to appoint this official.

During 2021, the SBI activities were generally in line with its legislative purpose, but many facts indicate attempts by the top leadership to use this agency for political purposes (the case of Poroshenko, Wagnergate, a traffic accident involving MP Trukhin, the case of journalist Butusov, and some others).<sup>79</sup>

<sup>69</sup> Draft Law on Liquidation of the District Administrative Court of Kyiv and Establishment of the Kyiv City District Administrative Court, <https://www.kmu.gov.ua/bills/proekt-zakonu-pro-likvidatsiyu-okruzhnogo-administrativnogo-sudu-mista-kiyeva-ta-utvorennia-kiivskogo-miskogo-okruzhnogo-administrativnogo-sudu>.

<sup>70</sup> Rada may consider the liquidation of the KDAC next plenary week – Venislavsky. – Ukrinform, <https://www.ukrinform.ua/rubric-politics/3227149-rada-moze-rozglasnuti-likvidatsiu-oask-nastupnogo-plenarnogo-tizna-venislavskij.html>.

<sup>71</sup> See: The SAP selection commission refused to approve the winner of the competition. – Radio Svoboda, <https://www.radiosvoboda.org/a/news-komisija-ne-zatverdyla-peremozhcia-konkursu-na-holovu-sap/31619915.html>; The commission eventually disrupted the election of the SAP head. – Ukrainian Pravda, 21 December 2021, <https://www.pravda.com.ua/news/2021/12/21/7318188>.

<sup>72</sup> Iryna Venediktova, 2021: The prosecution stopped showing off and started working for people. – Ukrainian Pravda, 30 December 2021, <https://www.pravda.com.ua/columns/2021/12/30/7319038>.

<sup>73</sup> Ibid.

<sup>74</sup> See: E. Zakharov. On the futility of suspicion of Petro Poroshenko. – Interfax-Ukraine, <https://interfax.com.ua/news/blog/788553.html>; Experts, intellectuals and dissidents have signed a statement against Poroshenko's persecution. – «Novynarnia», 16 January 2022, <https://novynarnia.com/2022/01/16/zajava-for-poroshenko>.

<sup>75</sup> Laws of Ukraine No.1052 of 3 December 2020, No.1089 of 16 December 2020, No.1150 of 28 January 2021, No.1587 of 30 June 2021.

<sup>76</sup> Law of Ukraine «On Amendments to Some Laws of Ukraine on Improving the Activities of the State Bureau of Investigation».

<sup>77</sup> Announcement of the conditions and terms of the competition for the position of Director of the State Bureau of Investigation. – Official website of the President of Ukraine, <https://www.president.gov.ua/administration/ogoloshennya-pro-umovi-ta-stroki-provedennya-konkursu-na-zaj-709>.

<sup>78</sup> Decree of the President of Ukraine «On the appointment of O. Sukhachev Director of the State Bureau of Investigation» No.69 of 31 December 2021.

<sup>79</sup> Loudest scandals of 2021: #Bukvy's summary. – «Bukvy», 30 December 2021, <https://bykvu.com/ua/mysli/naihuchnishi-fakapy-2021-roku-bukvy-pidbyvaiut-pidsumky>.



## Anti-Corruption Reform

The situation around the leadership of the National Anti-Corruption Bureau of Ukraine (NABU) wasn't problem-free either. The NABU Director Artem Sytnyk directly acknowledged the existence of political pressure.<sup>80</sup> Instead, according to the President, legislative changes of late 2021 regarding the legal status of the NABU eliminate contradictions between the Constitution and the Law «On the National Anti-Corruption Bureau of Ukraine».<sup>81</sup>

Somewhat different was the situation of the National Agency on Corruption Prevention (NAZK), whose leadership, unlike the chiefs the SAP and NABU, was appointed after the presidential and parliamentary elections in 2019. Perhaps this was due to the active role of the NAZK's director, who actively backed the President's Office in its confrontation with the CCU, or the agency's demonstration of «special» attitude towards top officials and other leading government figures.

## Civil service and public administration reform

Personnel policy remained the most problematic aspect of the public administration system. Negative trends continued due to amendments to the Law «On Civil Service», such as the introduction of the mechanism of unmotivated political dismissal from higher positions or «cleaning» of the appointment procedure, thus offsetting most of previous achievements. Almost total dependence of the executive branch on the will of the President and the «manual» personnel policy have made it virtually impossible to professionalise the civil service, let alone its political neutrality.

**In early 2021, some formal steps have been taken to weaken manual control over appointments.** In February, a number of amendments were introduced to the Law

«On Civil Service», including the removal of Article 87-1, which allowed the appointing authority to dismiss category A civil servants without specific grounds, as well as resumption of competitions for civil service positions previously abolished at a pretext of quarantine (Law No.1285). In practice, however, **the appointing authority often ignores the decisions of competition commissions, or the competitions are delayed** until the deadline, and then get re-announced. This is how they disrupted the appointment of members of the NERC's tariff commission twice in a row, while the competition in the SAP continues for more than a year.<sup>82</sup> In general, the pace of filling vacancies has slowed down significantly compared to 2020, and if successful, top officials were mostly «legalised» as appointed temporarily out of competition on a contractual basis.<sup>83</sup>

The so-called «anti-oligarchic» law (No. 1780) adopted in September 2021 provides **additional grounds for dismissal of high-ranking civil servants**, such as non-declaration of contacts with persons included in the NSDC register of «oligarchs» or their representatives. This mechanism can be considered anti-corruption and aimed at addressing the real problem of excessive influence of financial and industrial groups on the executive branch but given the current concentration of power in the state and the peculiarities of internal political struggle, one cannot rule out the risks of abuse to increase the civil service's political loyalty to state leadership.

Limited progress has been made in reforming the pay system and informatising human resource management. During the year, Ukraine continued to develop a **new remuneration model for civil servants**. It is planned to differentiate wages on the basis of a single classification of positions, with a constant share of 70%. However, the practical implementation of these changes is scheduled for 2023.<sup>84</sup>

<sup>80</sup> Record compensation and unprecedented pressure – the results of the NABU and SAP work in the first half of 2021. – NABU, <https://nabu.gov.ua/novyny/rekordni-vidshkoduvannya-ta-bezprecedentnyy-tysk-pidsumky-roboty-nabu-i-sap-u-i-pivrichchi>.

<sup>81</sup> Volodymyr Zelenskyy signed a law on harmonisation of the NABU status with the requirements of the Constitution of Ukraine. – Official website of the President of Ukraine, <https://www.president.gov.ua/news/volodimir-zelenskij-pidpisav-zakon-shodo-uzgodzhennya-status-71481>.

<sup>82</sup> The Cabinet systematically ignores the winners of civil service competitions. – Ukrainian Pravda, 2 November 2021, <https://www.pravda.com.ua/news/2021/11/2/7312506>.

<sup>83</sup> At the equator of the new government (2019-2021): achievements, problems, prospects. Analytical report.

Provision of administrative services and e-government have been somewhat more active, in particular in the **implementation of the Human Resources Information Management System (HRIMS)**. By the end of the year, data on 11% of employees of all government agencies had been entered into the system, while by this time it was planned to connect 25% of employees to HRMIS.<sup>85</sup>

In May 2021, the parliament registered the Cabinet's draft law No. 5469 aimed at improving the organisation and functioning of the Cabinet of Ministers and central executive bodies, increasing their efficiency, strengthening role of ministries in shaping the state policy. The bill was not yet submitted to the session hall.

**The system of providing administrative services has developed relatively successfully**, primarily due to the expansion of the range of online services and the increasingly active use of «Diia» portal and mobile application (for more detail see «Successes of digitisation» in the *Economy* Section). In July 2021, the parliament passed the Law «On Peculiarities of Provision of Public (Electronic Public) Services», adding some more changes. In November 2021, the draft Law «On Administrative Procedure» (No.3475), which had previously received *SIGMA* Programme's positive opinion, was adopted in the second reading. In December, however, the President returned the law to the Verkhovna Rada with his proposals, and its finalising is underway.<sup>86</sup> During the year, Centres for Administrative Services (CNAP) of rayon state administrations continued to transform into CNAPs under local self-governments.

Moreover, their number has doubled from 486 in November 2020 to 1,030 in January 2021.<sup>87</sup> Next year it is planned to increase their number to 1,438, matching the number of territorial communities in Ukraine.

In July 2021, the government approved the **Strategy for Public Administration Reform of Ukraine for 2022-2025** and relevant action plan for its implementation. The Strategy's declared goals include developing a system of professional and politically neutral public service, building effective and accountable state institutions that shape public policy and successfully implement it, and providing high quality administrative services to citizens and businesses. While there is indeed some progress in the service sector through the introduction of digital technologies, building a «foundation» in the form of a professional civil service and effective institutions still looks declarative and unrealistic.

## LEGISLATION ON ELECTIONS AND REFERENDUMS

No expected improvements in election legislation occurred in 2021. Quite the contrary, there have been attempts to bring back the majority component in the parliamentary elections. During 2021, comments of the expert community on the Electoral Code were still ignored, although they were repeatedly articulated since the Code's adoption in 2019, particularly on the lack «openness» of party lists (they are de facto semi-open due to the existence of nine closed positions and statutory conditions for promotion of

<sup>84</sup> N. Alyushina: Reform of remuneration of civil servants is inevitable. – Buhgalter, 19 January 2022, <https://buhgalter.com.ua/news/derzhavna-sluzhba/nataliya-alyushina-reforma-oplati-pratsi-derzhsluzhbovtiv>.

<sup>85</sup> See: N. Alyushina: The start of remuneration reform, the introduction of HRMIS, the adaptation of the civil service to modern challenges – the key activities of the NADS in 2020. – The Government portal, 5 March 2021, <https://www.kmu.gov.ua/news/nataliya-alyushina-start-reformi-oplati-praci-vprovadzheniya-hrmis-adaptaciya-derzhavnoyi-sluzhbi-do-suchasnih-viklikiv-klyuchovi-napryami-diyalnosti-nads-u-2020-roci>; Quantitative and qualitative composition of civil servants in public authorities. – NADS, 31 December 2021, <https://nads.gov.ua/storage/app/sites/5/DIYALNIST/KSDS/statistichni-dani-za-iv-kvartal.pdf>. By 1 June 2022, it is planned to complete the classification of all civil service positions. – Buhgalter, 15 December 2021, <https://buhgalter.com.ua/news/derzhavna-sluzhba/do-1-chervnya-2022-roku-zaplanovano-zavershiti-klasifikatsiyu-usih>.

<sup>86</sup> About 300 legislative acts will have to be revised to bring them in line with the law on administrative procedure – Nemchinov. – Ukrinform, 5 January 2022, <https://www.ukrinform.ua/rubric-politics/3380212-pid-zakon-pro-adminproceduru-trebabude-pereglanuti-blizko-300-zakonodavcih-aktiv-nemcinov.html>.

<sup>87</sup> 19 oblasts completed CNAP transformation. – The Government portal, 8 July 2021, <https://www.kmu.gov.ua/news/19-oblastej-zavershili-transformaciyu-cnapiv>; 1,030 communities already support CNAP activities. – Monitoring data of the Ministry for regional Development. Decentralisation, 13 January 2022, <https://decentralization.gov.ua/news/14454>.

candidates to the top part of regional party lists).<sup>88</sup>

Similarly, the Electoral Code was never updated based on the results of the most recent local elections. It was decided to keep the proportional system for local communities with 10,000+ voters, that is, the vast majority of communities enlarged as a result of administrative reform. The experience of the last local elections shows that the candidates' «party affiliation» at the community level is rather fictitious, as the parties lack real regional networks that would allow them to nominate their own candidates locally. Therefore, potential candidates cannot run as self-nominated candidates and are forced to choose one or another party «franchise» immediately before the election to be able to participate. And this artificially complicates the election process and fuels political corruption.<sup>89</sup>

In December 2021, MPs from the For the Future parliamentary group consisting of majority deputies registered a bill «On Amendments to the Electoral Code of Ukraine to Restore the Mixed (Proportional Majority) System of Elections of People's Deputies of Ukraine» (No. 6444). The head of the Servant of the People faction David Arakhamiya assumed that such a decision could be supported by the majority of MPs.<sup>90</sup> The return of the majority component would mean the de facto cancellation of electoral reform. Multiple NGOs, experts and some political parties condemned such intentions in a joint manifesto.<sup>91</sup>

Adopted in early 2021, the Law «On the All-Ukrainian Referendum» was signed by the President and entered into force in April, highlighting the fulfilment of one of Volodymyr Zelenskyy's election promises. The law contains some ambiguous provisions, including the possibility of revoking laws or their certain

provisions by referendum. Since the Constitution designates the Verkhovna Rada as the only legislative body, this can lead to imbalances in legislation and legal collisions. The complexity of the procedure for collecting signatures and other stages of a referendum on the people's initiative makes this tool accessible only to well-organised and well-resourced political groups, especially those already having significant influence in the government. In general, the referendum mechanism can be used by the authorities to implement state and political decisions bypassing the parliament. However, it was the «Batkivshchyna» representatives who first tried to initiate a referendum on land market issues. Their attempt was unsuccessful.

## DECENTRALISATION AND LOCAL GOVERNMENTS

Contrary to previously announced plans, **local government reform was not completed.** The relevant draft amendments to the Constitution were not registered in the Verkhovna Rada by the end of the year. Similarly, amendments to the Law «On Local State Administrations» designed to regulate the administrations' supervision over the legality of decisions of local self-governments, never passed the second reading. The Law «On the Procedure for Resolving Issues of Administrative and Territorial Arrangements» was not adopted either.

The process of transferring property from rayon state administrations to communities is almost complete.<sup>92</sup> Also, as of the beginning of 2022, 1,030 out of 1,438 communities (72%) ensured the functioning of CNAPs on their territories.<sup>93</sup> The Law «On Amendments to Certain Legislative Acts of Ukraine on the Development of the Institution of Elders» entered into force in August 2021. At the same time, these «elders» are not elected

<sup>88</sup> For more detail, see: Year of President Volodymyr Zelenskyy: Achievements and Miscalculations. – The Razumkov Centre, 2020, pp.25-27.

<sup>89</sup> For more detail, see: Ukraine 2020-2021: Inflated Expectations, Unexpected Challenges (Assessments), pp.36-38.

<sup>90</sup> Arakhamia: It is necessary to accurately delineate the territory where the oligarchs can enter, and where they should not. – Interfax-Ukraine, 20 December 2021, <https://interfax.com.ua/news/interview/787139.html>.

<sup>91</sup> We demand the elections only be held based on open lists. Statement of NGOs and parties. – «Chesno», 21 December 2021, <https://www.chesno.org/post/5058>.

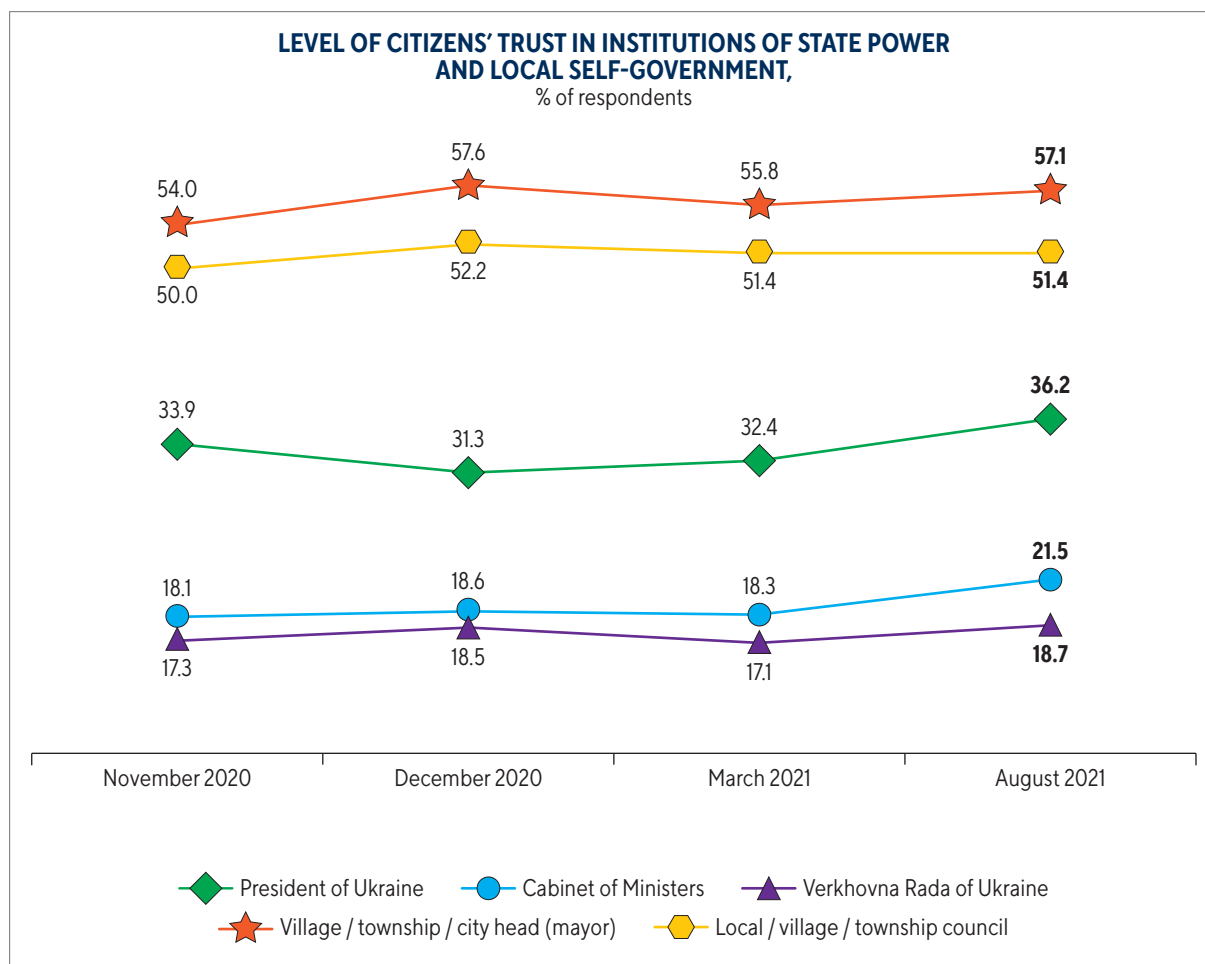
<sup>92</sup> Monitoring the reform of local self-government and territorial organization of power (as of 16 July 2021). – Decentralisation, <https://decentralization.gov.ua/mainmonitoring>.

<sup>93</sup> 1,030 communities already support CNAP activities. – Monitoring data of the Ministry for Regional Development.

positions, which contradicts the principles of democratic governance.

**Local self-governments enjoy a fairly high level of public trust**, which is significantly higher than people's confidence in the central government. In the summer of

2021, the average level of trust in the heads of local communities and local councils across the country exceeded 50%, while trust in the President and the Verkhovna Rada were at 36% and below 20%, respectively.<sup>94</sup>



During 2021, there have been periodic tensions between the country leadership and local self-government leaders, primarily mayors of large cities. The central government has shifted the responsibility on local governments

for introducing enhanced quarantine measures<sup>96</sup> and setting heat and hot water tariffs in the face of rising energy prices.<sup>97</sup> However, no compensation from the State Budget was established for the difference in tariffs.<sup>98</sup>

<sup>94</sup> Survey data on the level of trust in public institutions are available on the Razumkov Centre's website, <https://razumkov.org.ua/sotsiologiya/pres-relizy>.

<sup>95</sup> The total of answers «trust» and «rather trust» to the question «To what extent do you trust these social institutions?»

<sup>96</sup> Prime Minister: Local authorities have all powers to tighten quarantine restrictions. – The Government portal, 17 March 2021, <https://www.kmu.gov.ua/news/premyer-ministr-misceva-vlada-maye-vsi-povnovazhennya-dlya-posilennya-karantinnih-obmezhen>.

<sup>97</sup> Cities are preparing new heat tariffs. Will the heating be affordable? – Ukrainian Energy, 26 August 2021, <https://ua-energy.org/uk/posts/mista-hotuiut-novi-taryfy-na-teplo-chy-bude-opalennia-po-kyszeni>.

<sup>98</sup> High gas prices and tariffs transferred to local self-governments bring the heating situation closer to critical – Klitschko. – Interfax-Ukraine, 30 September 2021, <https://ua.interfax.com.ua/news/general/770764.html>.

Transfers from the central budget and activities of local state administrations are those **important tools that the central government still has at its disposal to influence on the local level**. Also important is the presidential team's control over law enforcement agencies that were repeatedly used during the conflicts between the central government and the heads of local self-governments.

For example, there was an ongoing conflict between the central government and Volodymyr Klitschko, the Kyiv mayor and also the head of the Kyiv City State Administration (KCSA). Facing searches in various KCSA departments and Kyiv's communal enterprises as part of the investigation of open criminal cases, Klitschko responded with political statements.<sup>99</sup> The mayor of Chernihiv Vladyslav Atroshchenko also called searches of the city's communal enterprises, initiated by the SBU and police in October 2021 «political pressure and blackmail by the central government». In December 2021, the SBI also conducted numerous searches to investigate the theft of budget funds through firms «affiliated with the Chernihiv mayor».<sup>100</sup>

The presidential team does not give up its attempts to establish control over the capital city by separating the functions of the Kyiv mayor and the head of KCSA (contrary to the CCU decision of 25 December 2003). The relevant draft of a new Law on the Capital City (No.2143-3) was adopted in the first reading

back in October 2019. After the last local elections, in which Klitschko was re-elected mayor, work on this bill intensified, and the relevant parliamentary committee recommended it for adoption, but this has not yet happened.

Attempts by the central government to make their influence on local self-governments more systemic resulted in the creation of the Congress of Local and Regional Authorities under the President of Ukraine in June 2021. Note that this body already existed at times of Leonid Kuchma's presidency. It is a peculiar alternative to the Association of Ukrainian Cities headed by Mr Klitschko. The Presidium of the Congress is chaired by Andriy Yermak, the head of the President's Office, while the Chamber of Local Authorities includes several influential mayors loyal to the President, such as Lviv's Andriy Sadovyi<sup>101</sup> and Dnipro's Borys Filatov. Back in 2019, the latter also had some strained relations with the President, but later he changed his position. In fact, this advisory body to the President is a platform for distributing «aid» to mayors, including subventions, in exchange for their political loyalty.<sup>102</sup>

In general, the last year's events confirm that the decentralisation reform has strengthened the political role of local self-governments. Having no leverage to directly influence mayors of large cities, the central government uses the «carrot and stick» method to encourage loyalty.

<sup>99</sup> Tensions between central and local authorities: what is behind numerous searches of Klitschko? – Slovo i Dilo, 18 August 2021, <https://www.slovoidilo.ua/2021/08/17/stattja/polityka/napruzhenist-mizh-centralnoyu-ta-miscevoyu-vladoyu-stoyit-chyslennymy-obshukamy-klychka>.

<sup>100</sup> Atroshenko predicts receiving suspicion based on the results of searches in Chernihiv. – Suspilne, 13 January 2022, <https://suspilne.media/201839-oleksandra-selivona-priznaci-golovou-vernigivskoi-rda>.

<sup>101</sup> See: Sadovyi told how his relationship with Zelenskyy changed. – Radio Svoboda, 27 November 2020, <https://www.radiosvoboda.org/a/news-sadovyi-zelenskyi/30971742.html>; M. Hlukhovsky. Control or assistance: why does Zelenskyy need a «pocket» regional Congress? – «Glavkom», 4 June 2021, <https://glavkom.ua/publications/kontrol-chi-dopomoga-navisho-zelenskomu-kishenkoviyy-regionalniy-kongres-760647.html>.

<sup>102</sup> M. Hlukhovsky. Control or assistance: why does Zelenskyy need a «pocket» regional Congress? – Glavkom, 4 June 2021.



## Economy

**In 2021, Ukraine's economic environment was mainly characterised by a combination of global challenges posed by the coronavirus crisis, and the continuing dominance of internal economic contradictions. This significantly weakened economic dynamics and limited opportunities for accelerated economic recovery.**

Despite the ongoing COVID-19 pandemic and the growing risks of Russian aggression, Ukraine still managed to demonstrate **some positive systemic results**, although the **problems remained significant**.

### ACHIEVEMENTS

1. **Maintaining positive, albeit weak, economic dynamics** that allowed to raise wages and improve the wellbeing of households.
2. **Ensuring the stability and even strengthening of the national currency**, including by obtaining resources from international financial institutions, which, at the same time, maintained a sufficient balance of public finances.
3. **Strengthening of foreign economic positions** through the use of favourable conditions in the global metallurgical markets and heavy harvested and exported crops that allowed to «painlessly» pay off external obligations and increase foreign exchange reserves to safe levels.

### LOSSES AND PROBLEMS

1. **Low efficiency of public administration.** The government operated without an approved programme of action, and «last minute» measures could not ensure structural transformation and sustainable positive dynamics.
2. **Ongoing losses in industry**, deceleration of investment and innovation in the country's economy, continued erosion of economic, human and intellectual potential of the country.
3. **Preservation of the consumer nature of the economy structure** and its high dependence on external conditions that increases the risk of unexpected imbalances.

### FEATURES OF GOVERNMENT APPROACHES TO THE ECONOMY

2021 confirmed the government's contradictory approaches to the development and implementation of economic policy. On the one hand, government produced a significant number of documents aimed at shaping the strategic foundations of economic development of the country as a whole and its individual sectors and regions.

In particular, in March 2021, the Cabinet adopted the National Economic Strategy until 2030.<sup>1</sup> In early September, during President Zelenskyy's visit to the United States, the so-called Ukraine transformation plan called *A Greater Justice and Opportunity – Building Prosperous and Resilient Ukraine* was presented, announcing plans to implement more than 80 infrastructure, technological and innovative projects worth \$277 billion. During the year, the government approved strategies and programmes for defence and industrial complex, aviation, forests, transport and many others. The adopted documents, however, suffered from mutual inconsistency, and in some cases – from competing priorities and the gaps between the goals and resources available for their implementation. As it turned out, some of them were completely absent as one piece. For example, none of the state institutions<sup>2</sup> that should be involved in the President's proposals, had information about the above-mentioned Transformation Plan.<sup>3</sup>

As a result, economic policy was mainly managed «manually», making the processes poorly predictable. During 2021, the Cabinet of Ministers programme envisaged by the Constitution was never approved. Instead, the government largely focused on the realisation of the so-called «presidential initiatives» – projects in various areas where the Head of State has no direct authority (such as the «Big Construction» programme, establishment of the Presidential University, planting of 1 billion trees a year, creation of a new state airline, revival of Ukraine's research fleet, and the like). The very nature of these initiatives and the way they were announced (various thematic «forums»

<sup>1</sup> Cabinet of Ministers of Ukraine Resolution «On approval of the National Economic Strategy until 2030» No. 179 of 3 March 2021.

<sup>2</sup> Including the Ministry of Foreign Affairs, the Ministry of Economy, National Security and Defence Council and others.

<sup>3</sup> No Ukraine Transformation Plan from Zelenskyy worth \$277 billion was found in the President's Office and the Cabinet. – Business Censor, <https://biz.censor.net>.

dedicated to the 30<sup>th</sup> anniversary of independence), their main goal was rather to reinforce the President's positive image against further accumulation of real economic problems, such as growing prices and tariffs. The «presidential initiatives», however, had no decisive impact on the efficiency of formation of current socio-economic policy and the results of its implementation,<sup>4</sup> but rather triggered new imbalances in the work of the government, requiring increased managerial attention and financial resources (including budget «adjustments») in those areas and activities that has not even been discussed «the day before».

The main reasons for this inconsistency included the absence of a centre for economic policymaking (which could coordinate urgent and strategic objectives); weakness and instability of public administration (also due to loss of professional and intellectual potential); and poor communication capacity of the current government (which provoked non-acceptance of many government initiatives by civil society). The coherence of economic policy was also undermined by ill-considered administrative decisions on mergers, amalgamations and liquidations of central executive bodies, which have traditionally dealt with the country's economic policy, such as the ministries of economy and trade, infrastructure, industry and agriculture. Periodic transformations and renaming of these institutions, changes of leaders and dismissal of leading sectoral specialists rendered their full and effective activity impossible. This, in turn, negatively affected the quality of decisions and the effectiveness of their implementation.

## ECONOMIC ENVIRONMENT

**Economic growth.** Ukraine entered 2021 in a weakened condition,<sup>5</sup> which, however, did not prevent the government from declaring positive outlooks. Although the quarterly GDP of 2021 record positive growth (5.7% in Q2 and 2.4% in Q3), but one should

bear in mind some previous indicators (-11.2% in Q2 and -3.5% in Q3 of 2020).<sup>6</sup> Therefore, this **growth can only be viewed in the context of a «rebound» from the landslide**, and current real GDP remains below the level of 2019.

Ukraine continues to lose its production potential, primarily in industries – the share of mining and processing industry in recent years has been at 16-18% with no tendency to improve (Table «Components of Ukraine's GDP by production method»).

<b>COMPONENTS OF UKRAINE'S GDP BY PRODUCTION METHOD,</b> % total (Q3 of relevant year)			
	2019, Q1-3	2019, yearly	2021, Q1-3
<b>GDP, UAH trillion</b> <i>Including</i>	<b>2.87</b>	<b>3.98</b>	<b>3.68</b>
Mining industry	6.0	5.6	7.2
Processing industry	11.0	10.8	10.6
Agriculture, forestry and fisheries	7.9	9.0	7.6
Wholesale and retail trade; repair of motor vehicles and motorcycles	13.3	13.2	14.5
Transport, warehousing, postal and courier services	6.8	6.7	5.8
Real estate transactions	6.2	6.1	6.1
Public administration and defence; compulsory social insurance	6.7	6.7	6.4
Taxes on products	14.3	14.2	15.0

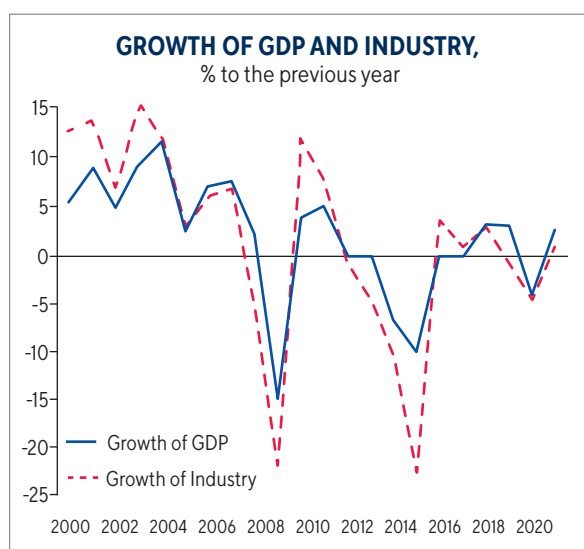
Note that wholesale trade and repair of motor vehicles (13-15% of GDP) generates more value added than processing industry (10%). Therefore, instead of creating truly new industrial value added, there is rather additional value formed through trade and repair. **Such an «economy of intermediation» can hardly claim the status of innovative and competitive.**

<sup>4</sup> See, for example, Two years of presidency in figures: Zelenskyy, Poroshenko, Yanukovych and Yushchenko, <https://www.oporua.org/report/parliament>.

<sup>5</sup> For reference, Ukraine's GDP in 2020 fell by about 4% compared to 2019.

<sup>6</sup> Hereinafter, this section uses statistical data available at the date of this publication (January 2022) on the websites of the State Statistics Committee of Ukraine (<http://ukrstat.gov.ua>) and the National Bank of Ukraine (<https://www.bank.gov.ua>).

**Continued stagnation in industry.** For many years, Ukraine was viewed as having significant industrial potential, which pushed the need for industrial renovation to the sidelines. In 2021, the situation did not improve. Although today the share of industry in GDP has notably decreased compared to the mid-2000s, but **it is industry** that systematically influences economic dynamics in general (Figure «*Growth of GDP and Industry*»). Unfortunately, negative trends in industry have intensified over the past two years, resulting from the **lack of industrial policy in the state** and extremely severe resource constraints in money and financial markets.



Curtailement of production potential is accompanied by a further deepening of the

economy's consumer nature, as the share of final consumption expenditure in 2021 reached 90% of GDP (Table «*GDP composition by end use*»). The emerging economy that functions by «eating away» the created added value and reserves, has **unreliable and dubious prospects** for recovery, even in the medium term.

Thanks to the favourable situation, many businesses have managed to maintain the pace of recovery, while enterprises improved their balance sheets. After three quarters of 2021, the pre-tax **financial results** of large and medium-sized enterprises reached UAH 587 billion in profit, which significantly exceeds the corresponding figure of the previous year (UAH 93 billion), and even better than the «successful» 2019 (Table «*Pre-tax financial performance...*», p. 41).

On the one hand, such a significant growth may be questionable, because it also means a significant increase in tax withdrawal. On the other hand, the situation can be explained by the nature of relations between businesses and tax authorities, when it is easier for business owners to show at least a small (accounting) income than to be subject to tax control.

**Investment.** The levels of gross capital formation have remained extremely low in recent years, pointing at the leakage of investment from the real sector (Table above «*GDP composition...*»). Moreover, scattering of

GDP BY EXPENDITURE (quarterly)											
	Q1, 2019	Q2, 2019	Q3, 2019	Q4, 2019	Q1, 2020	Q2, 2020	Q3, 2020	Q4, 2020	Q1, 2021	Q2, 2021	Q3, 2021
<b>GDP, UAH billion</b>	<b>815.1</b>	<b>932.7</b>	<b>1111.9</b>	<b>1114.9</b>	<b>853.7</b>	<b>874.6</b>	<b>1162.4</b>	<b>1301.2</b>	<b>1008.6</b>	<b>1169.4</b>	<b>1498.4</b>
...including % total											
Final consumption	103.4	98.6	85.8	95.9	105.3	96.9	84.1	92.3	102.0	96.4	78.7
Gross capital formation	2.8	9.5	23.4	11.5	-2.5	0.4	18.6	9.0	0.3	2.3	22.8
Exports of goods and services	50.5	44.2	37.0	36.0	44.8	40.7	35.3	37.6	45.1	45.3	39.4
Imports of goods and services	-56.7	-52.3	-46.2	-43.4	-47.6	-38.0	-37.9	-38.9	-47.4	-44.0	-40.9
Savings	-3.4	1.4	14.2	4.1	-5.3	3.1	15.9	7.7	-2.0	3.6	21.3

PRE-TAX FINANCIAL RESULTS OF LARGE AND MEDIUM-SIZED ENTERPRISES IN Q1-3, UAH billion						
	Financial results (balance)	Profit-making enterprises		Loss-making enterprises		Profit GDP, %
		% in the total number of enterprises	Financial results	% in the total number of enterprises	Financial results	
2019	342.8	77.3	455.0	22.7	112.2	11.4
2020	93.3	65.2	411.8	34.8	318.5	9.8
2021	587.0	77.1	702.0	22.9	115.0	14.6

investment resources not only have a negative impact on current economic activity, but also fuel negative expectations. Investment climate in Ukraine in 2021 **did not improve**. According to the European Business Association (EBA) study, Ukraine's Investment Attractiveness Index in the second half of 2021 dropped to 2.73 points out of 5 (from 2.84 in the first half of 2021).<sup>7</sup>

Predictions that the government's initiatives to attract investors **based on promises will fail** have materialised. Widely advertised «investment nannies» – a mechanism offering exceptional conditions to individual investors – did not and could not interest any serious investor. Ultimately, at the end of 2021, the government was even forced to «mitigate» the requirements to legal entities (CMU Resolution No.1311 of 13 December 2021), including on the presence of funds for large investment projects,<sup>8</sup> for investors that may receive benefits. And only after this step did Ukraine receive two applications. However, this did not mean the successful launch of the project – quite the contrary, it highlighted the problem of risks of investing resources with potentially non-transparent sources.

Neither there were improvements with foreign investment, especially FDI. For example, enterprises with foreign capital significantly increased their dividend payments – for 11 months of 2021, the repatriation of dividends

amounted to \$7.5 billion, and according to the NBU, the annual figure will exceed \$8 billion. \$6.5 billion has been reinvested in their activities in Ukraine. The volume of new investment brought to Ukraine in the first three quarters amounted to only \$0.5 billion.

The main source of increasing value added in 2021 was the **growth in exports** thanks to favourable external conditions for metallurgical and agricultural products. The global **price situation** in the first half of 2021 was quite attractive for Ukraine, allowing the country to improve its foreign trade balance and replenish foreign exchange reserves. However, later the situation on the stock markets has undergone (and will undergo) significant «adjustments» not in favour of Ukrainian exports. This will happen against the background of steady growth in the cost of energy resources imported by Ukraine.

This is why the **\$1.2 trillion infrastructure development bill passed by the US Congress** may be particularly useful for Ukraine.<sup>9</sup> Its significance is due to the fact that infrastructure projects (buildings, bridges, roads) consume huge amounts of metallurgical products. And as the US-China trade war continues, supplies from China will become increasingly more expensive and reduce, giving other metal-exporting countries (including Ukraine) an opportunity to occupy a vacated niche in American imports.

<sup>7</sup> Business more sceptical about Ukraine's investment climate – EBA survey. – Liga Finance, 15 December 2021, <https://finance.liga.net/ua/ekonomika/novosti/biznes-uhudshil-otsenku-investitsionnogo-klimata-ukrainy-opros-eba>.

<sup>8</sup> The Cabinet eased requirements for privileges under the «Investment Nanny» programme. – Business Censor, <https://biz.censor.net/news/3305924>.

<sup>9</sup> Congress passes \$1.2 trillion bipartisan infrastructure bill, delivering major win for Biden. – CNN, <https://edition.cnn.com/2021/11/05/politics>.

However, these prospects may be thwarted by a populist temptation in the form of **protectionism**. In the summer of 2020, the Ukrainian parliament passed a bill in the first reading, proposing restrictions on the purchase and use of foreign products and technologies for the needs of domestic industrial production (so-called **localisation of production**).<sup>10</sup> Despite significant criticism, relevant law has been adopted at the end of 2021.<sup>11</sup> Unfortunately, there are reasons to believe that **the Ukrainian leadership has once again ignored its own assurances of European partners**, while full implementation of this legislation will **make it impossible to create modern competitive industries**.<sup>12</sup> Problems with the **localisation** are further exacerbated by the fact that the degree of such localisation must be confirmed by a government-authorized body, which obviously increases the corruption risks.

**Agricultural sector.** The sector has improved considerably in recent years, now having a significant impact on economic dynamics in general. If it accounts for only 8-9% in the GDP structure, then its share in exports reaches 20%. Although changes in the sector continue, these are only the first steps, as confirmed by the fact that Ukraine ranks 58<sup>th</sup> in the Global Food Security Index (GFSI)<sup>13</sup> of 113 countries, remaining penultimate in the ranking of European countries.

Agrarian reform was expected to become one of the most important events of 2021,

specifically opening of the market for the purchase and sale of agricultural land. Although it is too early to draw any conclusions about its consequences, there is currently no clear evidence of its positive impact on agricultural production, infrastructure, and so on. The anticipation of **significant investment immediately after the opening of the land market remains unjustified**. Problems in the sector are partially due to the fact that the Ministry of Agriculture could not even become fully functional in the first half of 2021.<sup>14</sup> As a result, having no adequate government support, some important legal acts could not become a priority for adoption and serve as a support for agricultural producers.

Subsequently, the Verkhovna Rada managed to pass a number of important decisions necessary for the development of land reform. First of all, these include:

- ✓ law that approves the procedure for selling land plots at electronic auctions;<sup>15</sup>
- ✓ law on the Partial Loan Guarantee Fund for Agriculture;<sup>16</sup>
- ✓ Law on land decentralisation that ensures the transfer of state-owned lands to communal ownership by territorial communities.<sup>17</sup>

However, one cannot ignore the openly risky provisions of decentralisation, in particular:

<sup>10</sup> The law establishes a 10-year period of obligation for customers to purchase products with a certain level of localisation of production during public procurement if the value of the subject of procurement is equal to or exceeds UAH 200 thousand.

<sup>11</sup> Law «On Amendments to the Law of Ukraine 'On Public Procurement' to Create Preconditions for Sustainable Development and Modernisation of Domestic Industry» was adopted on 16 December 2021. The EU's response to the **passing of the draft law** in the first reading was frankly negative. And soon the Ukrainian authorities assured the EU leadership that there would be no further consideration of the law in terms of localisation. See: Brussels has received assurances from Kyiv that Ukrainian localisation legislation will comply with the Association Agreement. – Interfax-Ukraine, <https://interfax.com.ua/news/political/676553.html>.

<sup>12</sup> For example, Ukraine does not produce chips, computers and their components, peripherals. Therefore, it will be practically impossible for domestic companies to create modern computerised complexes that increasingly penetrate into various spheres of industrial and humanitarian environments.

<sup>13</sup> Global Food Safety Initiative, <https://partners.impacter.com>.

<sup>14</sup> In 2019, during the formation of the first government, the new ruling team abolished the independent Ministry of Agriculture; the process of its restoration began only at the end of 2020. See: The Ministry of Agrarian Policy will become fully operational. – Agribusiness Today, <http://agro-business.com.ua/agrobusiness/item>.

<sup>15</sup> Law «On Amendments to the Land Code of Ukraine and the Law of Ukraine 'On Land Lease' concerning the Sale of Land Plots in State and Communal Ownership, or Rights to Them, at Electronic Auctions» (18 May 2021).

<sup>16</sup> Law «On the Fund for Partial Loan Guarantee for Agriculture» (4 November 2021).

<sup>17</sup> Law «On Amendments to the Land Code of Ukraine and other Legislative Acts on Improving the System of Management and Deregulation in Land Relations» (May 24, 2021).



- ✓ abolition of the powers of the Verkhovna Rada to coordinate changes in the purpose of **especially valuable lands**;
- ✓ abolition of the need to coordinate the sale of non-agricultural land plots of state and communal property to foreign legal entities with the Cabinet of Ministers;
- ✓ exclusion of the Land Code norm that limits the opportunity of foreign nationals and foreign legal entities to buy non-agricultural land plots free of development outside settlements.

Significant risks are associated with the **hidden possibility of free change in the status of land** and subsequent sale of such land to foreign economic agents.

There is another agricultural area sector that needs urgent rational solution – it is the matter of **finding a compromise between grain exports and meeting domestic needs in grain**. Traditionally, the volume of grain exports from Ukraine is regulated by a memorandum signed by the Ministry of Agrarian Policy and industry associations representing both domestic players and exporters – all parties together determine the maximum allowable limit on strategic crops. But in 2021 no consensus was reached for the first time in 10 years.<sup>18</sup>

Under such conditions, there is an **increasing risk of favouring grain exports and ignoring the interests of the domestic market**. In any case, the country's food security should not depend on external conditions and should be addressed in a timely and complete manner by the relevant state institutions. This hasn't been done in 2021.

**Infrastructure.** 2021 was the year of certain gains in infrastructure development. One evidence of this is the improvement of

Ukraine's fulfilment of its obligations under the Association Agreement on this component from 19% in 2019 to 44% in 2021.<sup>19</sup>

#### **Key achievements in infrastructure sectors include:**

- ✓ **signing of the European Common Aviation Area (ECAA) Agreement** that allows Ukraine to enter common EU airspace;
- ✓ joining from 1 November 2021 of the Eurocontrol's **uniform route charges system** that allows Ukrainian air navigation to fully integrate into the pan-European system;<sup>20</sup>
- ✓ adopting of the Law «On Multimodal Transportation» that launched **multi-modal transportation in Ukraine**, allowing to reduce the cost of logistics in the country and reorient part of freight transportation to other modes of transport;
- ✓ ensuring further deployment of the **weighing control system on the roads**. On 1 October 2021, the system of automatic fixation of dimensional and weight control violations became fully operational with the help of Weight in Motion (WiM) platforms.<sup>21</sup> **Liability for refusal or evasion of dimensional and weight control** has been introduced.

The following missteps are worth noting:

- ✓ **shortage of permits for international road transport with Poland remains unaddressed**. As a result, not only the Polish, but also the Western European market is blocked, as it is usually reached by carriers through Poland;
- ✓ **slowing down of the railway transport development**. According to the Association Agreement, a competitive market

<sup>18</sup> Ukrainian paradox: why the record-breaking harvest created problems inherent in the deficit, <https://mind.ua/publications>.

<sup>19</sup> See the Pulse of the Agreement; monitoring of the implementation of the Association Agreement action plan, <https://pulse.kmu.gov.ua/ua/streams/transport>.

<sup>20</sup> See: Ukraine has joined the European system of cooperation in air navigation. – The Ministry of Infrastructure of Ukraine, 1 November 2021, <https://mtu.gov.ua/news/33188.html>.

<sup>21</sup> WiM system ensures round-the-clock monitoring of vehicles' load on the road. Special equipment is mounted on the road surface and above the road. Sensors record the parameters of the vehicle (weight, dimensions, speed, license plates). As the system completely covers the carriageway, it is impossible to bypass it.

for rail freight was to start on 1 November 2022. However, the necessary Law «On Railway Transport» has not been adopted. Currently, the traffic management system of PJSC Ukrzaliznytsia does not provide access of other entities to the railway infrastructure;

- ✓ due to inefficient management, 54% of 174 thousand freight cars available to Ukrzaliznytsia **operated over the service life**. Separate contracts for the supply of new cars do not solve the problem;<sup>22</sup>
- ✓ **depreciation of fixed assets of river transport**, including port infrastructure, remained high, while current capital investments and necessary state funding are insufficient. **The State Fund for the Development of Inland Waterways**, designed to maintain the proper condition of navigable locks on the Dnipro and increase its capacity, **has not been established**. **The Strategy for the Development of Inland Water Transport until 2031**, which would launch innovative energy-efficient and environmentally friendly technologies on inland waterways, it yet to be approved.

It is clear that if the government expects accelerated economic development in the coming years, the priority attention (and funding) should be given to areas that determine the sustainability and reliability of modern infrastructure.

**Environmental protection and achieving climate neutrality.** Ensuring the so-called climate neutrality is an important prerequisite for the country's development and its economic integration with the most developed countries in Europe and the world, as well as achieving the Sustainable Development Goals. Environmental protection and decarbonisation of the economy were present on the Ukrainian government's political agenda in 2021, which contributed to better imple-

mentation of the EU-Ukraine Association Agreement in terms of environmental protection (an increase from 47% in 2020 to 60% in 2021), and also allowed Ukraine to reach 36<sup>th</sup> (out of 165 countries) in the sustainable development ranking.

**Key achievements in this area are the following:**

- ✓ on 30 July 2021, the government has approved an updated **Nationally Determined Contribution to the Paris Agreement**: it is expected to reduce GHG emissions by 65% by 2030, compared to 1990 and achieve carbon neutrality no later than 2060;
- ✓ the government approved the **Environmental Security and Climate Adaptation Strategy** (Directive of the Cabinet of Ministers of Ukraine No.1363 of 20 October 2021);
- ✓ in order to effectively manage forests, Ukraine adopted the **State Forest Management Strategy until 2035** on 29 December 2021.<sup>23</sup> The bills on forest conservation (No. 5650) and on the wood market (No.4197-d) defining clear precautionary measures against uncontrolled felling and wood exports have passed the first reading;
- ✓ the government has adopted the **National Action Plan for Environmental Protection until 2025** and started working on the **Strategy of Low-Carbon Development of Ukraine until 2050**, which envisages decarbonisation of the economy and achievement of climate neutrality;
- ✓ the law introducing **«green» bonds** entered into force on 1 July 2021. This allowed NEC Ukrenergo to issue five-year «green» Eurobonds worth \$825 million with a yield of 6.875%<sup>24</sup>;

<sup>22</sup> For more detail, see: By 2024, Ukrzaliznytsia will receive 192 passenger trains and 650 sleeping cars. – Ministry of Infrastructure of Ukraine, 9 November 2021, <https://mtu.gov.ua/news/33221.html>.

<sup>23</sup> The expected results include increase of the total forest stock of Ukraine not less than 2.5 bcm; increase of level of greenhouse gas absorption by Ukraine's forests to 75.6 million tons of CO<sub>2</sub>; increase of the number of tourists to 10 million.

<sup>24</sup> See: Ukrenergo has successfully issued green Eurobonds worth \$825 million. – Ukrenergo, 3 November 2021.

- ✓ **digitalisation of the ecology sphere** has started. In May 2021, Ukraine launched the *EcoSystem*<sup>25</sup> web portal with nine online services and 90 open «green» registers; it allows users to generate a QR-extract from seven registers with official data, submit waste declarations, and so on.

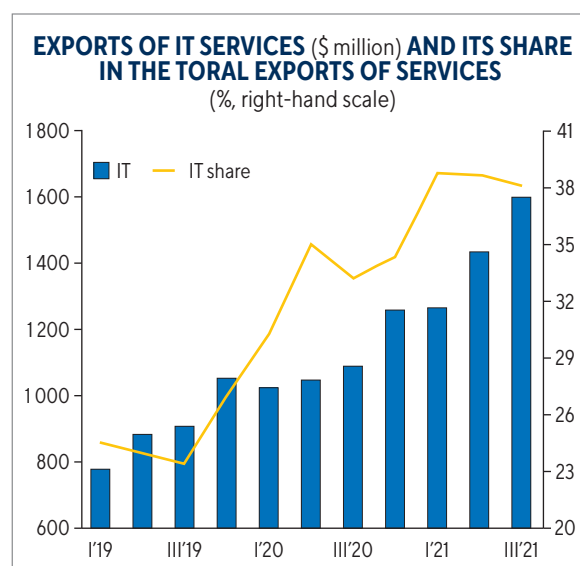
**Key missteps include the following:**

- ✓ **no progress has been made towards better waste management**, in particular, relevant bill on waste management (No.2207-1-d) is yet to pass the second reading;
- ✓ despite the increased rate of environmental tax on CO<sub>2</sub> emissions, the **procedure for using the funds**<sup>26</sup> and designation of the budget holder remains unaddressed. Even after its increase, the above-mentioned rate is still one of the lowest in Europe;
- ✓ climate policy **did not receive adequate support through public funding**. Once again, environmental issues were «pushed» back, as the State Budget expenditure on environmental protection in 2022 was determined at less than 1% of the total budget expenditure (UAH 11.6 billion), just like in 2021. Therefore, the goals of achieving carbon neutrality are still rather declarative.

**Foreign economic activity and economy's orientation on integration.** Ukraine economy's trademark feature of the last

two years is the steady recovery of exports and imports of both goods and services. At the same time, the country in most cases has a **deficit in trade in goods**, which is largely **covered by the surplus in trade in services** (Table «*Balance of Trade*»).

This is important because **Ukraine's IT services sector is demonstrating positive results and has good prospects**. More Ukrainian IT companies are either already part of global networks or are increasingly completing orders from renowned international companies. As a result, the volume of exports of IT services (telecommunications, computer and information) provided by Ukrainian companies is growing rapidly (Figure «*Exports of IT services*» below). (For more detail, see the subsection «*Successes of digitalisation*»).



BALANCE OF TRADE, \$ billion (quarterly)								
	Q4, 2019	Q1, 2020	Q2, 2020	Q3, 2020	Q4, 2020	Q1, 2021	Q2, 2021	Q3, 2021
Exports of goods	12.0	11.3	9.8	11.0	13.0	12.5	15.0	17.1
Imports of goods	16.3	13.0	10.4	13.1	15.4	14.3	15.3	18.6
Exports of goods and services	16.6	15.3	13.2	14.9	17.3	16.3	19.2	21.9
Imports of goods and services	20.2	16.4	12.4	16.0	18.3	17.2	18.8	22.9
Balance of goods and services	-3.6	-1.1	0.8	-1.1	-0.9	-0.9	0.4	-1.0

<sup>25</sup> State-run platform that generates administrative environmental services for businesses and provides environmental information for citizens.

<sup>26</sup> It is planned to direct payments to measures aimed at reducing CO<sub>2</sub> emissions in the processing industry in the amount of not less than 70% of the tax paid.

The development of foreign economic relations along with the expansion and diversification of domestic exports were rightly associated with the creation of institutions tasked to support exporting producers. In particular, the expansion of exports was to be facilitated by the **Export Credit Agency (ECA)**, which underwent several reorganisations in recent years and therefore could not fulfil its obligations to stimulate Ukrainian exporters and thus increase exports.<sup>27</sup> Although ECA was formally established in back 2018, but only in the summer of 2021 did the Ministry of Economy announced the first contract of insurance of supplies to African countries. In nine months of 2021, ECA has concluded only four insurance contracts and received income of only UAH 116 thousand. Instead, the agency's expenditures have so far reached UAH 19.5 million.

Meanwhile, the positive results in the foreign economic sphere may be overshadowed by the **excessive «enthusiasm» of fiscal authorities** that impose additional financial requirements and fines on successful companies. Unfortunately, examples of «specific» and selective interpretation of fiscal requirements for successful companies are not uncommon.<sup>28</sup>

Inconsistencies and contradictions in investment and integration policy would probably be smaller if Ukraine's National Investment Council really worked in the country. However, after the first meeting of the solemnly formed council, which took place in January 2020 at the World Economic Forum in Davos, all Council activities stalled. 20 months after its formation, the President renewed its members,<sup>29</sup> but its practical work is still out of the question.

Note that despite external and internal troubles, Ukraine in 2021 managed **to advance in economic integration with the EU**. First of all, it is about signing of the long-awaited Common Aviation Area Agreement (also known as Open Skies Agreement)<sup>30</sup> between the EU and Ukraine in early October 2021, which allows Ukraine to expand air travel not only within the EU, but also virtually worldwide.

Of course, this agreement **needs to be ratified by 29 parliaments**, including the Verkhovna Rada of Ukraine, the European Parliament and parliaments of 27 EU member states. Although this is a long procedure, the ECAA provisions provide for the so-called **«temporary application»**, allowing the agreement to take effect almost immediately after signing and in parallel with ratification.

Another important legal process was the preparation and adoption of documents on the introduction of the **common transit regime (NCTS)** in Ukraine – one of key components of the process of **Ukraine's European integration** in the economic sphere. It is expected that in the summer of 2022 relevant missions will complete their assessments of Ukraine's readiness to conclude an agreement, thus allowing the government to initiate formal negotiations on joining this system. However, it should be acknowledged that it is unlikely before 2023.

**Successes of digitalisation.** As in the previous two years, *digitalisation of the economy* was a priority of innovation processes in Ukraine. Progress in this area was primarily associated with the spread of digitalisation in the regulation of labour relations<sup>31</sup>, further development of electronic public services<sup>32</sup> and the expansion and improvement of public electronic registers,<sup>33</sup> to name a few.

<sup>27</sup> The government updated the charter of the Export Credit Agency for capital increase by UAH 1.8 billion. – Economic Pravda, 18 August 2021, <https://www.epravda.com.ua/news/2021/08/18/677017>.

<sup>28</sup> For example, the Antimonopoly Committee fined seven Ukrainian companies and branches of foreign companies in Ukraine for anti-competitive concerted actions during public procurement of SAP software (Germany) totalling almost UAH 500 million and imposed a fine of UAH 105 million on the Ukrainian branch of SAP for abuse of market position. At the same time, there are doubts as to the existence of proper grounds for such a decision. See: AMCU fines SAP software developer dealers for 105 million. – Business Censor, <https://biz.censor.net/news/3305381>.

<sup>29</sup> Zelenskyy changed the composition of the National Investment Council. – Ukrinform, <https://www.ukrinform.ua/rubric-economy>.

<sup>30</sup> EU and Ukraine signed the long-awaited «Open Skies Agreement». – European Pravda, 12 October 2021, <https://www.eurointegration.com.ua/news/2021/10/12/7128917>.

<sup>31</sup> Law «On Amendments to Certain Legislative Acts of Ukraine concerning the Accounting of Employment Records in Electronic Form» (5 February 2021).

<sup>32</sup> Law «On Peculiarities of the Provision of Public (Electronic Public) Services» (15 July 2021).

<sup>33</sup> Law «On Public Electronic Registers» (18 November 2021).

2021 marked certain progress in the field of digitalisation, which is becoming increasingly important for economic development. Ukraine managed to surge to 6<sup>th</sup> place in the **open data** ranking according to the *Open Data Maturity Report*, demonstrating a significant progress from its 17<sup>th</sup> spot in 2020.<sup>34</sup> Open data was widely used during the formation of various policies and served the basis for the «Diia.Business» portal, where one can get information about the state of Ukrainian business, as well as learn about government support programmes, loan and leasing programmes, and the like.

The number of users of the «Diia» portal has increased from 2.5 million in 2020 to more than 12 million in 2021.<sup>35</sup> Ukrainians have access to more than **70 online government services**, including *e-Baby* services; obtaining passports, subsidies, pensions, and extracts from the Unified State Register and the register of single taxpayers; starting individual business; applying for unemployment benefits, and many others. The Law «On Electronic State Registers» of 18 November 2021 introduced automation and optimisation of more than 350 registers. Thanks to the adoption of the Law «On Provision of Public (Electronic Public) Services for the Declaration and Registration of Residence in Ukraine» of 5 November 2021, Kyiv and several other cities started the transition to **electronic change of citizen registration** since 1 December 2021. According to a poll conducted by KIIS in September 2021,<sup>36</sup> the number of Ukrainians who used state electronic services increased from 53% in 2020 to 60% in 2021.

Following the adoption of the Law «On Amendments to the Law of Ukraine 'On the Unified State Demographic Register and Documents Confirming Citizenship of Ukraine, Identity or Special Status of a Person» of

30 March 2021, Ukraine became the first country in the world, where **digital passports** have the same legal force as a paper-based ones. Also, Ukraine became one of the first non-EU countries to receive mutual recognition of digital COVID vaccination certificates. Also, having introduced the *eSignature* **digital signature standards** that guarantee its authenticity for the EU companies and institutions, Ukraine has a chance to be the first to harmonise the compatibility of national electronic signature identification systems with the European ones.

Thanks to the Internet Subvention project launched in September 2021, by the end of 2021 as many as 2,500 villages in Zhytomyr, Chernihiv, Vinnytsia and Khmelnytskyi oblast were connected to the *optical Internet* for the first time, including 840 schools, 500 kindergartens, 1,800 houses of culture, 780 libraries, 395 health facilities, 46 administrative services centres, 48 village councils, etc.

2021 was also noted for achievements in raising the level of people's digital literacy. On 3 March 2021, the Cabinet of Ministers approved the **Concept for Digital Competences Development until 2025**. The Ministry of Education has drafted a Concept of Digital Transformation of Education and Science until 2026<sup>37</sup> aiming to improve the level of digital competences and the quality of digital educational content. For 10 months of 2021, more than 580 thousand people joined the project «Diia. Digital Education» (420 thousand in 2020). The share of Ukrainians whose digital skills are below the «base level» decreased by 5.2% in 2021 to 47.8%.

Another important step was the adoption of the Law «On Stimulating the Development of the Digital Economy in Ukraine» defining the organisational, legal and financial framework for the operation of the «Diia.City» legal regime.<sup>38</sup>

<sup>34</sup> For more detail, see Open Data Maturity Report 2021, Publications Office of the European Union, 2021, [https://data.europa.eu/sites/default/files/landscaping\\_insight\\_report\\_n7\\_2021.pdf](https://data.europa.eu/sites/default/files/landscaping_insight_report_n7_2021.pdf).

<sup>35</sup> M. Fedorov, 27 December 2021. Paperless, e-passport and digital services: 5 digital achievements of Ukraine in 2021, <https://focus.ua/uk>.

<sup>36</sup> See the Ministry of Digital Transformation: 60% of Ukrainians used e-services in 2021. – The Government Portal, 15 December 2021, <https://www.kmu.gov.ua>.

<sup>37</sup> For more detail, see the Concept of Digital Transformation of Education and Science: MoES invites to participate in public discussion, 25 May 2021. – MoES, <https://mon.gov.ua>.

<sup>38</sup> Diia.City activity areas include software development and testing, computer game publishing, software publishing and distribution (including SaaS), computer literacy training, coding, software testing and support, digital marketing and Ads using software, R&D in IT, e-sports, provision of services related to the circulation of virtual assets, cybersecurity and robotics.



Without a doubt, digitalisation has already become a sign of today, bringing significant benefits. However, apart from its undeniable advantages (speed of processes, convenience, accessibility, cost-effectiveness), it also poses risks associated with unfair and/or uncontrolled use, which can lead to material losses and/or jeopardise human safety. It is primarily about ensuring access to and use of personal, business and public data, confidentiality of information. The significance of this policy area will increase with the intensification of hybrid Russian aggression.

## FINANCIAL ENVIRONMENT

A specific feature of 2021 – both in Ukraine and elsewhere – was a marked acceleration of inflation that affected the «behaviour» of finance. High inflation risks will continue in 2022. However, it should be recalled that high inflation in 2021 around the world was only partly due to the stimulation of post-crisis recovery. Above all, it was politically provoked by extremely high energy prices. In October-November 2021, gas price hit its historical highs at almost \$2,000 per 1,000 m<sup>3</sup>. As possible duration of current energy crisis is unclear, producers not only include the current value of the energy component in their products, but also prolong such values for future periods.<sup>39</sup>

**Factors of inflation.** In Ukraine, inflation dynamics – the change in the Consumer Price Index (CPI) – is mainly determined by changes in the food price index, as well as changes in housing and utility tariffs that are «regulated» by government decisions.<sup>40</sup> Unfortunately, regulation of «painful» tariffs most often means a significant increase in such tariffs, which are poorly reflected in the Statistics Service estimates but lead to significant losses in household wellbeing. In particular, administrative decisions helped

to contain price shocks at the beginning of winter, but the government no longer has resources for such restraints in the future. As a result, Ukrainians can expect a real tariff «avalanche» in the first months of 2022.

In the meantime, food prices also rocketed at the end of 2021, giving the government reasons to discuss the reintroduction of the so-called **state regulation** of consumer food.<sup>41</sup> Although **domestic practice has already shown the low effectiveness** of this type of «regulation», the government seems to be inclined to take such measures, further expanding pricing interventions, **which may result in a deficit** of «regulated» products.

It should be added that the favourable world situation has also contributed to inflation in Ukraine. Ongoing significant external demand in the industrial (metallurgy) and agricultural sectors coupled with the increasing energy risks led to a sharp rise in industrial domestic prices, creating a high **«monetary overhang»** and even the strengthening of hryvnia could not restrain its rise (Figure «*Producer and consumer price indices and the hryvnia exchange rate*», p.49). Of course, this «overhang» will further put pressure on consumer markets, and there are reasons to believe that consumer inflation in 2022 will remain at the level of 2021 (See also the *Economy* section in Forecasts).

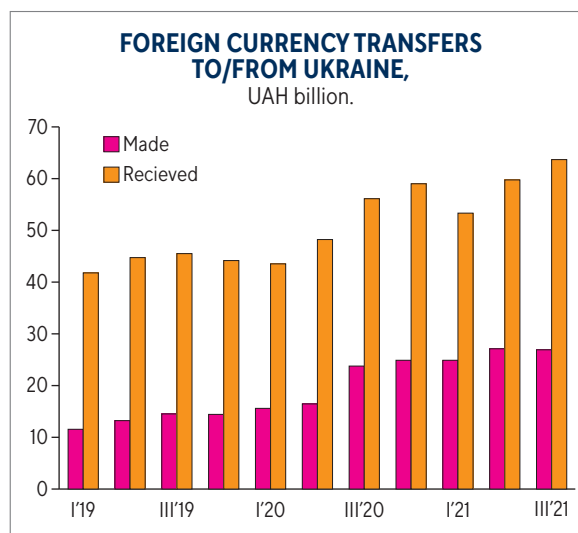
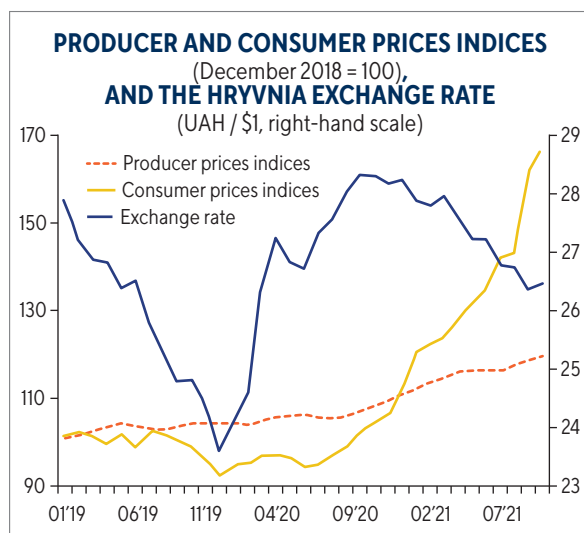
**«Unexpected» hryvnia.** Strengthening of Ukraine's national currency from January to October 2021 was somewhat unexpected, as most institutions predicted a moderate devaluation of the hryvnia, caused by continued coronavirus attacks, deficit of public finances and the country's limited access to international financial markets. However, the improvement in foreign trade positions, as well as the inflow of resources

<sup>39</sup> The situation in Ukraine is further complicated by the fact that the inflation rate often acts as a political «argument» that prevents its proper definition.

According to multiple observations, the official level of inflation (in most cases, it is a change in the Consumer Price Index, CPI) in Ukraine remains significantly lower than the actual rise in prices for goods and services.

<sup>40</sup> See also Y. Yakymenko. Ukraine 2020-2021: Inflated Expectations, Unexpected Challenges (Assessments). – The Razumkov Centre, 2021.

<sup>41</sup> Pursuant to the Cabinet of Ministers Resolution «On amendments to the resolutions of the Cabinet of Ministers of Ukraine No.341 of 22 April 2020 and No.1236 of 9 December 2020» No.1432 of 30 December 2021, sellers must notify about the rise in price of loaves and sunflower oil in advance. It is also forbidden to set a markup on these two products over 10%. See: The Cabinet has introduced state regulation of prices for loaves and sunflower oil. – Censor.net, 31 December 2021, <https://censor.net/ua/news/3308081>.



from international financial institutions (which was highly questionable at the beginning of the year, given the extremely poor implementation of the IMF Memorandum) encouraged strengthening of the hryvnia, also allowing the NBU to replenish its international reserves by buying foreign currency on the interbank market.

Despite the COVID-19 crisis, another important factor in supporting the hryvnia in 2021 was the **continuation of the NBU's currency liberalisation**, including by scaling up people's opportunities to save and accumulate financial resources, including obtained from abroad, as well as their free use.

A new trend in the currency sphere is the consistent growth of transfers from Ukraine to foreign countries (Figure «Foreign currency transfers to/from Ukraine»). The growth of mutual transfers accelerated significantly during the coronavirus crisis, when it seemed that such transfers should reduce, especially in the context of labour market restrictions imposed in the EU.

Moreover, the **resources received** from transfers are not only significant but also quite **constant**, which adds to currency stability. In fact, the volume of net transfers is catching up

with the volume of **foreign direct investment**, the dynamics of which remains extremely **volatile**.

One should also give credit to the NBU, which during the difficult 2021 took **further steps towards the free movement of capital**. Apart from expanding the opportunities for households and businesses to conduct foreign exchange transactions, it is one of the important conditions for Ukraine's European integration. The following measures<sup>42</sup> that are important for facilitating operational management of own savings, as well as for increasing the reliability of saving funds with the use of foreign financial institutions<sup>43</sup> are worthy of attention:

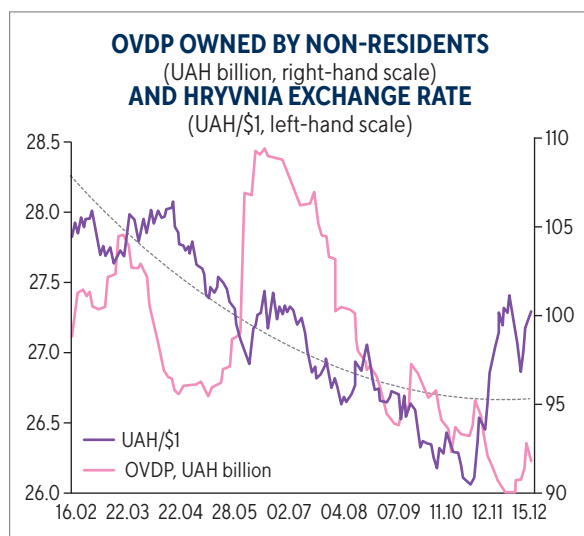
- ✓ authorized institutions can sell foreign currency cash to individuals for non-cash payments in hryvnia through payment devices using electronic means of payment (cards);
- ✓ citizens have expanded opportunities invest abroad;
- ✓ businesses are allowed to buy currency without obligations,<sup>44</sup> which is particularly important for small and medium-sized enterprises.

<sup>42</sup> Approved by the Resolution of the NBU Board «On amendments to certain legal acts of the National Bank of Ukraine» No.62 of 29 June 2021; entered into force on 30 June 2021.

<sup>43</sup> Currency liberalisation of the NBU: what is allowed? – M.E.Doc, 2 July 2021, <https://medoc.ua/blog/valjutna-liberalizacija-nbu-shho-dozvoleno>.

<sup>44</sup> This step implies potential risks associated with a possible rapid increase in demand for currency. However, with proper central bank oversight, such risks are minimised. See: Currency liberalisation continues: what to expect next? – Visnyk. Officially about taxes, <http://www.visnyk.com.ua/uk/news/100026489-valjutna-liberalizatsiya-trivaye-chogo-chekati-dali>.

And even the accelerated devaluation of the hryvnia from mid-November to mid-December caused **no significant or noticeable imbalances in foreign exchange markets**, probably because this devaluation was largely expected. It was partly due to deteriorating foreign trade conditions for Ukraine, along with weakening trade balances, higher costs of expensive imports, and accelerated exit of non-residents with OVDP (Figure «OVDP owned by non-residents and hryvnia exchange rate»), as well as conversion of income into US dollars.



**Public finance.** The transition to medium-term budget planning could become a positive feature of the public finance system, but the practice is yet to confirm the government's readiness to apply not only urgent short-term measures, but also medium-term assessments. Moreover, frequent budget adjustments impair the clarity and transparency of public finances.

However, some components of the budget process showed a marked improvement in 2021 compared to the previous year. This includes the **presentation of the Budget Declaration** for 2022-2024,<sup>45</sup> which outlined the potential directions of the budget and fiscal reform.

Another factor that played a crucial role in strengthening public finances in 2021 was

that Ukraine's key partner countries and international financial institutions (IFIs) did not curtail but **rather expanded financial support** for Ukraine, although the country poorly performed in meeting its commitments to improve public administration, and especially to fight corruption. Of course, the government's main efforts and attention focused on replenishing the budgets, while the expenditure part, primarily in supporting anti-COVID measures or stimulating economic activity, remained secondary.

Therefore, the peculiarity of 2021 in the budget sphere was that the **execution of the revenue part exceeded the planned (and revised) revenue indicators**. In particular, the revenues of the State Budget of Ukraine in 2021 reached UAH 1.3 trillion, exceeding the revised targets by 1.8% (and by almost 21% of revenues in 2020). Meanwhile, the expenditures amounted to UAH 1.26 trillion (by 1.6% less than planned). Deficit of the general fund of the State Budget in 2021 amounted to UAH 167 billion.<sup>46</sup>

The inflation component was one of key factors of **successful filling of budgets**, first of all, due to a significant increase in industrial producer prices (by 62% during the year), a roughly 30% growth of both exports and imports (and increase in VAT on foreign trade), as well as salary increase (and PIT growth accordingly). Speaking of the latter, the average salary in Q3 of 2020 and 2021 was UAH 11.7 thousand and 14.2 thousand, respectively.

**Execution of local budgets** was also successful. For 11 months of 2021, the general fund of local budgets (excluding intergovernmental transfers) received UAH 317 billion (a 21% increase compared to 2020), mostly from personal income tax – UAH 187 billion (an increase of about 19%).

However, not all changes in the fiscal sphere were due to economic factors. For example, on 20 November, the Verkhovna Rada passed a **highly controversial bill** No. 5600,<sup>47</sup> better known as the «**resource law**». Its main goal is to increase revenues to

<sup>45</sup> Verkhovna Rada of Ukraine Resolution «On the Budget Declaration for 2022-2024» No.1652 of 15 July 2021.

<sup>46</sup> Deficit of the State Budget 2021 was UAH 167 billion. – Business Censor, 5 January 2022, <https://biz.censor.net/n3308504>.

<sup>47</sup> The Verkhovna Rada passed a law to increase tax revenues. – Business Censor, <https://biz.censor.net/news/3302483>.

the State Budget starting in 2022, but some of its provisions have been questioned by many experts. And while it has been claimed that the new fiscal withdrawals are to apply to oligarchic business, in reality it may work differently.

In particular, expansion of the powers of the fiscal system, including in relation of individual entrepreneurs, small and medium-sized enterprises mean **increasing pressure** on private non-oligarchic businesses. And a change in the mechanism for writing off losses by large payers of income tax may be a delay in debt repayment, which always has a discriminatory effect in relation to bona fide taxpayers.

The above-mentioned bill also initiates a new system of taxation of agricultural producers, which is **far from reformist**. It introduces a «minimum tax liability» (MTL) – the total of taxes that each owner of agricultural land (or land outside the settlements, including owners of land shares) must pay by default to the budget – at least 5% of the value of land per year.<sup>48</sup> Experts believe that this will affect **small producers and farmers the most, increasing their tax burden**. Of course, this will hardly improve the conditions for agricultural production.

Any tax reform traditionally declares the goal of creating such conditions and mechanisms so that citizens themselves are interested in paying taxes and fees, thus forming the financial base of budgets and social funds. This is how the law on the so-called **capital amnesty**<sup>49</sup> was announced. The law provides for the amnesty of capital for a certain but quite a wide range of individuals (given a significant share of

Ukraine's shadow economy), who will be given the opportunity to voluntarily **declare their shadow assets** during the year (from 1 September 2021 to 1 September 2022) by paying a fee for them and then own legalised declared assets.

In reality, however, this law actually introduces «zero declaration» for almost all citizens and for any assets – in other words, it initiates the process of **general fiscalisation**.<sup>50</sup> As a result, the law found neither understanding nor **readiness to comply**, as only about UAH 300 million was declared during the first three months of the tax amnesty, but the main array of \$40–50 thousand from the payer has practically not started.<sup>51</sup> And it is not yet clear why the attitude to the amnesty may change.

It should be noted that **amnesty is a rather controversial tool** to attract **additional short-term revenues** to the budget,<sup>52</sup> as it has no stable basis for strengthening the budget process. In other words, such actions have **nothing to do with the reform measures** of economic policy but rather have a clear political component aimed at accumulating resources for the upcoming election marathons.

Another example of the government's inability to improve the social justice of generating funds to the State Budget from «specific» activities was the attempt to **balance the current system of taxation in the gambling industry**, taking into account the cost of licenses.<sup>53</sup>

However, according to some high-ranking officials, the sale of gambling licenses as of November 2021 brought only UAH 1.5 billion

<sup>48</sup> That is, if the total of all taxes (land tax, income tax, single tax, etc.) paid by the agricultural producer is less than MTL, he will have to repay the difference.

<sup>49</sup> Law «On Amendments to the Tax Code and Other Laws to Stimulate De-Shadowing of Incomes and Improve Tax Culture of Citizens by Introducing One-Time (Special) Voluntary Declaration of Assets Belonging to Individuals and Payment of One-Time Tax Fee» (15 June 2021).

<sup>50</sup> R.Kysliak. Zelenskyy's tax amnesty: what are hidden risks? – Financial Club, <https://finclub.net/ua/analytics>.

<sup>51</sup> Tax amnesty was no interest for the target audience. – Business Censor, <https://biz.censor.net/news/3305227>.

<sup>52</sup> ... in fact, it is about filling the budgets of 2022–2023, the period of rule of the current government team, so this process has an openly politicised «flavour».

<sup>53</sup> Draft Law «On Amendments to the Tax Code of Ukraine and other Laws of Ukraine on Taxation of Income from the Organisation and Conduct of Gambling and Lotteries» (19 June 2020), passed the first reading on 15 July 2021.

to the State Budget out of the planned UAH 7.4 billion (only one-fifth of revenues provided for in the Law on the State Budget). This was primarily due to regulatory flaws, including possibly conscious omissions.<sup>54</sup> Therefore, further regulatory steps will determine whether **the gambling business in Ukraine will be an example of a successful reform**, or this promising revenue-generating industry will return to the shadow.<sup>55</sup>

Having achieved questionable results in special areas (declaration of income, «capital amnesty», taxation of gambling), the government's fiscal institutions, instead of easing tax pressures, **are looking for ways to extract more funds** from people. It is already clear that the tax policy priority in 2022 will be the bill on introduction of indirect methods of control over citizens' expenses already announced by the Ministry of Finance.<sup>56</sup> This is a *de facto* **tax on individual expenses** (previously it was a question of controlling the expenses of certain categories of citizens), which can hardly be welcomed in today's Ukrainian context.

Speaking of priority funding areas in 2021, some spending priorities caused **negative surprise rather than understanding**. First of all, the government continues to actively finance the widely promoted presidential «Big Construction»<sup>57</sup> project. Thus, according to the Cabinet Directive No.1658 of 15 December 2021, the Ukravtodor received UAH 19 billion<sup>58</sup> from the total amount of additional funding and redistribution of resources by amending the State Budget for 2021. Another 1 billion was given to Ukravtodor after the reduction of funding of some other government programmes in 2021 (Box «Redistribution of funds...»).

Along with the search for «priority» projects and special terms for their funding, the government periodically comes up with ideas that **can be described as «risky reforms»**. For example, the intention to develop industrial

### REDISTRIBUTION OF FUNDS ON THE PRICELY PRESIDENTIAL PROJECT

The Cabinet of Ministers Directive N. 1658 provides for an increase in funding for Ukravtodor by UAH 1 billion at the expense of:

- ✓ reduction of the Ministry of Internal Affairs expenditures under the programme «Creation of a single aviation security and civil protection system» by UAH 350 million;
- ✓ reduction of the Ministry of Social Policy expenditures under the programme «Modernisation of the social support system of the population of Ukraine» by UAH 145 million;
- ✓ reduction of funding for the programme «Development of urban infrastructure and measures in the central heating sector of Ukraine, development of water supply and sewerage system in Mykolayiv, reconstruction and development of municipal water supply system in Chernivtsi» by UAH 250 million;
- ✓ reduction of loans to the Ministry of Energy under the programme «Reconstruction of hydropower plants of PJSC» Ukrhydroenergo» by UAH 100 million;
- ✓ reduction of the Ministry of Finance development expenditures under the programme «Subvention from the State Budget to the city budget of Dnipro for the completion of the subway construction in the city of Dnipro» by UAH 155 million.

parks in Ukraine re-emerged at the end of 2021. To this end, on 16 December 2021, the Verkhovna Rada passed two bills — No. 5688 and No. 5689 — in the first reading that provide fiscal incentives for investors in industrial parks. These incentives include a **10-year exemption from income tax** for participants of industrial parks, as well as **exemption from customs duties on new equipment** imported by participants of industrial parks for their own use.<sup>59</sup>

A peculiar feature of these innovations is the increased role of local authorities in cooperation with business. So, a number of

<sup>54</sup> Hetmantsev on the taxation of gambling: those who wanted to enter the market «in white» did not buy licenses. — Interfax-Ukraine, 14 December 2021, <https://ua.interfax.com.ua/news/economic/785875.html>.

<sup>55</sup> What is wrong with the taxation of gambling? — Economic Pravda, 27 September 2021, <https://www.epravda.com.ua/columns/2021/09/27/678209>.

<sup>56</sup> Hetmantsev announced a bill on the introduction of control over people's expenses. — Business Censor, <https://biz.censor.net/n3305165>.

<sup>57</sup> It should be recalled that in 2020, half of the planned funds from the Anti-COVID Fund were given to Ukravtodor, in addition to the approved amounts in the budget.

<sup>58</sup> The Cabinet allocated additional 20 billion to Ukravtodor from the State Budget. — Business Censor, <https://biz.censor.net/n3305387>.

<sup>59</sup> 10 years free from the income tax: Rada passed the draft law on industrial parks. — Censor.net, <https://censor.net/ua/news/3305683>.



«local» benefits can be **obtained by decisions of local governments:**

- ✓ introduction of real estate tax benefits;
- ✓ introduction of a land tax rate and rent for state and communal lands lower than the land tax;
- ✓ exemption from land tax.

It is likely that the **industrial parks regime will require clarification** in the further development of relevant draft laws, as these benefits mean a direct reduction in budget revenues. Moreover, broad benefits are likely to lead not so much to new investment as to the **«transition» of businesses to industrial parks** due to different tax conditions, as it happened in Ukraine in the first years of independence.

Probably, the meaningfulness of various «projects» could improve if controls over the government's economic activity was fully operational. Hopes for this were partly linked to the Bureau of Economic Security (BES),<sup>60</sup> established by the government in May 2021. The new agency was to deal with all abuses and crimes in the economic sphere, thus reducing the pressure on economic agents. However, so far there is **no evidence from businesses** that the BES has indeed changed the activities traditionally inherent in fiscal control bodies, and the state's pressure on business has decreased.<sup>61</sup>

**Privatisation** is usually one of the important sources of financing the state budget deficit, as apart from generating additional resources, it also contributes to structural changes in the country's economy. Unfortunately, it has already become a sad tradition for Ukraine **that privatisation remains an illustration of mismatch between government plans and their implementation.** Although 2021 revenues proved to be the largest in the last decade, but they only underscore the weakness of privatisation policy and

the government's inability to reform property and replenish the state budget; moreover, they once again demonstrated the flaws of current privatisation competition mechanisms.

As of 30 December 2021, the State Budget received UAH 5.07 billion from privatisation – less than a half of the annual plan of UAH 12.3 billion.<sup>62</sup> However:

- ✓ although the largest amount was raised from the privatisation of the Bolshevik plant, which was sold for UAH 1.44 billion (at a starting price of UAH 1.39 billion), but it turned out that most potential bidders refused to participate in the auction;
- ✓ auctions for the sale of PJSC «United Mining and Chemical Company» were repeatedly cancelled because of insufficient number of bids. International companies were ultimately unprepared to participate in the auction due to a lack of protection guarantees;
- ✓ allegedly successful competition did not bring positive results, as the winner of the tender for the Electronmash plant, having initially agreed to buy it for UAH 970 million (at a starting price of UAH 67 million), eventually but did not sign a purchase contract.

**International support.** As noted above, despite Ukraine's poor progress in institution building, and especially in anti-corruption, the country nevertheless received significant financial resources from IFIs in 2021. External resources played a major role in financing the public finance deficit.

In early August 2021, the IMF Board of Governors approved the distribution of special drawing rights (SDRs) among the Fund's members, with Ukraine receiving about \$2.7 billion (SDR 1.9 billion). Some of these funds were immediately spent on repaying external liabilities.<sup>63</sup>

<sup>60</sup> Law «On the Bureau of Economic Security» was adopted on 28 January 2021. According to the law, BES is one and the only government agency responsible for combating economic crimes.

<sup>61</sup> Y.Vinokurov. Economy is (in)secure: will the nightmares of businesses finally end with the launch of BES? – Economic Pravda, 20 September 2021, <https://www.epravda.com.ua/publications/2021/09/20/677965>.

<sup>62</sup> Chronic non-fulfilment of the plan. The State Property Fund reported the sum received by the State Budget from privatisation. – Novoye Vremya, <https://biz.nv.ua/ukr/economics>.

However, Ukraine – as usual – managed to create image problems even in such a positive process. Thus, in the Memorandum of Economic and Financial Policies with the IMF published in November, Ukraine confirmed its **intention to keep half** of the \$2.7 billion received under the SDR as a buffer against future risks. However, in early December, the Minister of Finance announced that Ukraine had already spent \$2.45 billion from the IMF and would spend the remaining funds by the end of the year. Once again, the declarations and real actions were neither coherent nor unidirectional.

With regard to other MFI resources, it should be stated that:

- ✓ at the end of October, Ukraine received the second tranche of macro-financial assistance worth €600 million,<sup>64</sup> although conditions for this assistance were not met;<sup>65</sup>
- ✓ in November, Ukraine received the second tranche of the IMF loan, amounting to almost \$ 700 million;<sup>66</sup>
- ✓ the Ministry of Finance and the International Bank for Restructuring and Development have signed a \$150 million loan agreement with Ukraine.

In addition to these resources from IFIs, Ukraine in 2021 attracted:

- ✓ \$1.75 billion (UAH 48.2 billion) through the placement of eight-year OVDP at 6.876% per annum and their additional placement with a yield of 6.3%;
- ✓ €250 million (UAH 7.5 billion) as a loan from Cargill Financial Services International, Inc.

Domestic resources, primarily financing through OVDP, did not play a significant role – it rather involved refinancing of bonds. Specifically, in early 2021, the total OVDP volume was UAH 992 billion, reaching UAH 1,019 billion at the end of the year. In other words, increase was less than UAH 30 billion. Although the Ministry of Finance gradually raised OVDP yields during the year to increase the attractiveness of bonds, there was no avalanche of domestic debt growth.

The inflow of significant resources meant that **Ukraine was able to fully and timely repay its external obligations**, while financial support from IFIs, favourable trade conditions, inflows of foreign currency through transfers also filled the country's foreign exchange reserves, which reached almost \$31 billion by the end of 2021. Therefore, **Ukraine's current foreign debt position looks quite stable**, as «generalised» external debt to non-residents (external debt of the state + external debt of the NBU + OVDP owned by non-residents in need of foreign exchange coverage) is less than \$60 billion (Table «*External debt position*», p.55).

**Laying the foundation of technological development.** As already noted, the government of Ukraine has taken a number of steps in 2021 aimed at *expanding the range of innovation processes that constitute the content of the modern technological revolution in the world*. In July 2021, the government has adopted the Regulations on the implementation of Industry 4.0<sup>67</sup> approach, which provides for comprehensive digitalisation and automation of production and management processes in the real sector of the economy.

Certain measures for the development of *AI technologies* in the country were also

<sup>63</sup> The Ministry of Finance has converted about SDR 1 billion into dollars to repay on 29 September \$1 billion of US-guaranteed Eurobonds issued 5 years ago.

<sup>64</sup> The second and final tranche. The European Union has provided 600 million euros to Ukraine. – Novoye Vremya, <https://biz.nv.ua/ukr/finance>.

<sup>65</sup> Ukraine received the first tranche of the EU's macro-financial assistance (€ 600 million) in December 2020, and the **payment was made without any specific conditions** on the part of Ukraine. As for the second tranche, the conditions required Ukraine to cooperate constructively with the IMF and comply with the rule of law requirements.

<sup>66</sup> ... their provision, however, came as a surprise, as the IMF has repeatedly criticised the Ukrainian government. Out of the seven structural benchmarks that had to be completed by the end of 2021, the most important ones were not implemented, such as improving banking supervision of the NBU, auditing the Anti-COVID fund, publishing the results of investigations into owners and managers of bankrupt banks by the Office of the Prosecutor General. See: Dubohryz every Wednesday. Economy in 2021: Oligarchs, National Bank, IMF, the state as a driver of growth, <https://biz.nv.ua/experts>.

<sup>67</sup> Cabinet of Ministers Resolution «On promoting the introduction of the technological approach 'Industry 4.0' in Ukraine» No.750 of 21 July 2021.

EXTERNAL DEBT POSITION							
	I'20	II'20	III'20	IV'20	I'21	II'21	III'21
GDP, UAH billion	853.7	874.618	1162.389	1301.172	1008.6	1169.4	1498.4
GDP, \$ billion	34.1	32.5	42.1	46.0	36.1	42.4	55.7
Gross reserves, \$ billion	24.9	28.5	26.5	29.1	27.0	28.4	28.7
External debt (period end)							
State + NBU, \$ billion	51.5	52.9	51.706	54.692	53.588	55.761	55.65
OVDP owned by non-residents, UAH billion	119.5	99.5	83.381	84.374	102.67	109.18	97.27
Generalised foreign debt to non-residents (state + NBU + OVDP non-resident), \$ billion	<b>56.1</b>	<b>56.6</b>	<b>54.7</b>	<b>57.7</b>	<b>57.3</b>	<b>59.8</b>	<b>59.3</b>

identified.<sup>68</sup> In this regard, one could observe signs of restoring the undeservedly discredited idea of using *special regimes to stimulate technological innovation*. From this viewpoint, special attention should be given to the laws aimed at *intensifying the development and activities of science and industrial parks*,<sup>69</sup> as well as *fundamentally new approaches to the development of the construction industry*,<sup>70</sup> one of the largest drivers of Ukraine's economic growth. The work on the implementation of new technical regulations in line with the relevant EU system has intensified.

When assessing measures implemented in Ukraine in 2021 to stimulate the country's economic development, one can notice a *substantial intensification of institutionalisation in the economy, aimed at supporting technologically advanced economic activities and closely related non-economic processes in education and science*.

New mechanisms of stimulating economic development, restructuring and modernisation mostly remain on paper or are in the initial stage of implementation. For the time being, they resemble *a bank of ideas and modernisation aspirations, rather than an integral economic development policy*, in which economic

development goals are organically interlinked with resources and carefully balanced in space and time. Many of the rapidly implemented institutional innovations require time and significant financial and human resources, and *their shortage can lead to poor effectiveness and even unpredictable destructiveness of some parts of innovation processes*.<sup>71</sup>

**Formulating economic forecasts for 2021 a year ago, we claimed<sup>72</sup> that Ukraine had necessary internal potential to improve economic dynamics and ability to withstand the coronavirus pressures. Summing up 2021, there are reasons to believe that our confidence was not futile. However, these opportunities were not used to maximum effect for the benefit of the state and society. At the same time, it should be emphasised that strategic planning for economic development in 2021 has been preoccupied with various security issues, which largely reflects the global trend of growing significance of security in modern contexts and the logical conditionality of efficiency and security of economic development, as well as increasing worldwide importance of economic development's resilience to various threats and challenges.**<sup>73</sup>

<sup>68</sup> Cabinet of Ministers Directive «On approval of the action plan for the implementation of the Concept of artificial intelligence development in Ukraine for 2021-2024» No. 438 of 12 May 2021.

<sup>69</sup> Laws of 7 September 2021 «On Amendments to Some Laws of Ukraine on Activation and Development of Science Parks» and «On Amendments to the Law of Ukraine 'On Industrial Parks' and other Legislative Acts of Ukraine on Attracting Investment in the Industrial Sector of the Economy by Stimulating the Creation of Industrial Parks».

<sup>70</sup> Cabinet of Ministers Directive «On approval of the Concept of introducing construction information modeling technologies (VIM-technologies) in Ukraine and approval of the action plan for its implementation» No. 152 of 17 February 2021.

<sup>71</sup> Quite illustrative in this regard is the example of transformations in railway sector. Their implementation with a considerable reliance on foreign experts eventually created a situation, in which the government now has to set up an anti-crisis staff to remedy the situation. See: Cabinet of Ministers Resolution «On the establishment of the anti-crisis staff to restore the sustainable functioning of the joint-stock company 'Ukrainian Railways'» No.967 of 15 September 2021.

<sup>72</sup> Y. Yakymenko et al. Ukraine 2020-2021: Inflated Expectations, Unexpected Challenges (Assessments).

<sup>73</sup> The National Security and Defence Council has adopted the Concept of ensuring the national resilience system (approved by the President of Ukraine Decree No. 479 on 27 September 2021), which is to become the methodological basis for this updated approach to safe and secure development.

## Energy Sector

The energy sector situation in 2021 was marked by contradictory tendencies, largely due to the imperfection of the legal framework and market instruments, as well as, in part, the dominance of corporate / group interests over the interests of the state/society.

**Reform of energy markets has been hampered by a lack of strategic vision and ad hoc decision-making through the prism of ratings.**

The following achievements and problems can be singled out in the energy sector in 2021.

### ACHIEVEMENTS

1. Revitalisation of exchange trade in the electricity market.
2. Completion of most technological measures and certification of the Transmission System Operator to synchronise Integrated Power System (IPS) of Ukraine with *ENTSO-E*.
3. Increased natural gas production by private companies.

### PROBLEMS

1. Delays in preparation for the heating season of 2021-2022 and entering the cold season with minimal coal reserves and insufficient gas reserves in storage.
2. Administrative intervention in market processes.
3. Postponed commissioning of the Central Spent Fuel Storage Facility (CSFSF).

HPPs and PSPPs — 6.7%, and renewables (SPP, WPP and biomass) — 8.9%.

In early 2021, the situation in the day-ahead market (DAM) has become favourable for traders and unfavourable for generation; «selling air» continued, enriching individual players and pushing state-owned generating companies — the main sellers of actually produced electricity in this market segment — to the brink of bankruptcy.

Electricity prices at DAM decreased and at times dipped below the prime cost of electricity (UAH 433.85 / MWh in May, UAH 734.85 / MWh in July), depriving **real producers of opportunities to get funds for the purchase of fuel and repairs.**

The lack of price stability and market principles raised doubts about the need to form an indicative price for DAM, which gradually led to the formation of price indicators in the bilateral contracts market (BCM). An important factor was the introduction by the Ukrainian Energy Exchange of a BCM-based price index,<sup>1</sup> which reflected the price of base load electricity in the Single Energy System for the next month. Given the high volatility of DAM (15% of electricity sales), the BCM price index (85% of sales) will eventually become the basis for market participants' operations.

*Restrictions and administrative regulation remained in place.* The regulator introduced price caps, which doubled in the IPS trade zone<sup>2</sup> and increased by 1.5 times in the BuOS trade zone,<sup>3</sup> but it failed to replenish coal reserves, and prices on the wholesale electricity market in Ukraine's IPS increased

## ELECTRICITY MARKET

The electricity market's key tasks included elimination of disparities in its segments and cross-subsidization, as well as the establishment of an optimal electricity tariff for households.

Electricity production in 2021 reached 156,576 kWh — a 5.2% increase from 2020. In terms of generating companies, the share of NPPs was 55.1%, TPPs and CHPs — 29.3%,

<sup>1</sup> A new indicator has emerged in the electricity market. — Ukrainian Energy Exchange, <https://www.ueex.com.ua/presscenter/news/na-rinku-elektroenergii-zyavivsyia-tsinovij-indikativ>.

<sup>2</sup> On 30 July 2021, NERC increased electricity price caps for DAM and IDM: night (from 11 p.m. to 7 a.m.) — from UAH 1,243.71 to UAH 2,000 per MWh, and day (from 7 a.m. to 11 p.m.) — from UAH 2,655.99 to UAH 4,000 per MWh.

<sup>3</sup> On 7 October 2021, price caps for DAM and IDM in BuOS also increased to UAH 1,500 per MWh (night) and UAH 2,500 per MWh (day). Then on 24 December 2021, it was decided to further increase price caps in BuOS from 2 January 2020 to UAH 1,650 per MWh (night) and to UAH 3,000 per MWh (day).

by 50% during the second half of 2021 compared to the first half of the year.

*The government tried to balance the financial system in the electricity market.* To this end, the Cabinet of Ministers extended the mechanism of assigning special responsibilities (SR),<sup>4</sup> which kept the price unchanged (UAH 1.68 per kWh), and then introduced a financial model instead of a commodity model,<sup>5</sup> slightly lowering the electricity price for households<sup>6</sup> to UAH 1.44 per kWh.

The main burden of special responsibilities remained with the state-owned generating companies – Ukrhydroenergo and Energoatom. Universal service providers had cash gaps as they had to settle with Distribution System Operators on prepayment, while households paid for services after their provision.

**Yet another change in the SR model was a political decision. Despite the crisis in the market, the government did not dare to bring household electricity tariffs to an economically reasonable level,<sup>7</sup> fearing possible public dissatisfaction and the risk of falling ratings.**

It was possible to reduce the electricity price for households by increasing its cost to industry up to UAH 4 per kWh, which logically increased price of products and services. In addition, the amount of funds available for subsidies to households has reduced.<sup>8</sup>

Since the start of the heating season, **Ukrainians became anxious about possible restrictions on electricity supply** despite the government claims that there was no shortage of energy and that current power outages were not related to energy savings but were due to repairs.

**The lack of manoeuvre and storage capacities needed to balance the Ukrainian power system** was also acute. Today, this need is met mainly by the resources of Ukrhydroenergo, as well as by the available equipment at thermal power plants to cover the daily schedule of loads. The adoption of a bill on the energy storage systems development<sup>9</sup> aiming to increase the reliability of the energy system has been long overdue.

*The Integration of Ukraine's Integrated Power System (IPS) into ENTSO-E.*<sup>10</sup> The integration of Ukrainian IPS into ENTSO is an effective way to increase electricity exports and imports, and to secure energy supply for both Ukraine and its EU neighbours.

During 2021, preparations for the synchronisation of energy systems of Ukraine (and Moldova) with ENTSO-E continued; relevant several-day testing of Ukraine's energy system in isolation from Russia and Belarus are planned for winter and summer 2022. The decision of 17 December 2021 to certify Ukrenergo according to the ISO model, taking into account the company's transfer from the Ministry of Finance to the Ministry of Energy, was another important step towards the integration of Ukraine's IPS with ENTSO-E.

Technical works and preparation for a number of technological and metrological measures in accordance with ENTSO-E requirements have been generally completed, but Ukraine is yet to implement EU legislation to ensure *market coupling* – the operation of the electricity market in line with the EU rules. Segments of the wholesale electricity market of Ukraine see price restrictions and artificial regulation, while some market players have accumulated huge debts reaching UAH 54.5 billion.

<sup>4</sup> Cabinet of Ministers of Ukraine Resolution «On amendments to the Cabinet of Ministers of Ukraine Resolution No. 483 of 5 June 2019» No. 439 of 28 April 2021.

<sup>5</sup> Cabinet of Ministers of Ukraine Resolution «On amendments to the Cabinet of Ministers of Ukraine Resolution No. 483 of 5 June 2019 and repeal of some resolutions of the Cabinet of Ministers of Ukraine» No. 859 of 11 August 2021.

<sup>6</sup> Starting from 1 October 2021 and until 30 April 2022, households consuming less than 250 kWh per month pay for electricity at the rate of UAH 1.44 per kWh (there are almost 80% of such households), and at the rate of UAH 1.68 per kWh, if consumption exceeds 250 kWh per month.

<sup>7</sup> That is, one that covers the prime cost of electricity and delivery tariff.

<sup>8</sup> For more detail, see the section *Social Sector* of this publication.

<sup>9</sup> Draft Law «On Amendments to Some Laws of Ukraine on the Development of Energy Storage Systems» (Reg. No. 5436-d of 17 September 2021).

<sup>10</sup> ENTSO-E is the European Network of Transmission System Operators for Electricity that unites 43 operators in 36 European countries.



The wholesale electricity market in Ukraine remains extremely non-transparent. In case of delay in the implementation of *REMIT*<sup>11</sup> – European legislation on transparency and integrity of the wholesale energy market – Ukraine is at risk of the European Energy Community sanctions.<sup>12</sup> According to the decision of the Council of Ministers of the Energy Community of 30 November 2021, Ukraine has time until 1 July 2022 to adopt the relevant law and other regulations implementing *REMIT*. Any delay is also unacceptable given Ukraine's chairmanship in the Energy Community for next year, approved by the Council of Ministers.

Starting from 6 November 2021, Ukraine resumed electricity imports from Belarus due to low coal reserves and the threat of electricity shortages. Despite the fact that imports make a small part of the total energy consumption in the country<sup>13</sup> (2%), it may become critical in the future and slow down Ukraine's clearly defined strategy for joining the European energy system in 2023.

During the heating season of 2021-2022, nuclear power generation in enhanced mode (operation of 14 or even all 15 power units) does not guarantee the reliable operation of the energy system due to the lack of manoeuvrable generating capacity for operational balancing of the system.

According to European experts, Ukraine's grid infrastructure requires significant investment, and the cost of its upgrading may exceed € 1 billion<sup>14</sup> (for comparison, Ukrenergo claims that its modernisation will cost about € 300 million).

## RENEWABLE ENERGY SECTOR

In 2021, Ukraine's renewables sector demonstrated growth, mainly due to the

installation of household and commercial SPPs. According to NERC, the total installed capacity of RES as of 1 November 2021 reached 9,507.9 MW, including terrestrial SPPs (6,386 MW), household SPPs (1,057 MW), WPP (1,672.9 MW), biomass (151.8 MW), biogas (120.2 MW), and small hydropower plants (120 MW). During 2021, production of «green» electricity increased by 15.2% to 12,519.7 thousand MWh.<sup>15</sup>

According to the Memorandum of Economic and Financial Policies under the *stand-by* programme<sup>16</sup> of 8 November 2021, Ukraine has committed to repay debts to renewable energy producers and prevent arrear accumulation in the future by setting a transmission tariff of the transmission system operator (Ukrenergo) at a level sufficient to cover the difference between the market price of electricity and the legally established «green» tariffs, as well as by providing loans or issuing bonds until 31 December 2021.

The NERC approved the tariff of NEC Ukrenergo for electricity transmission as one of the main sources of the «green» tariff payment at UAH 345.64 per MWh (excluding VAT) for 2022, which is 17.6% higher than the 2021 tariff (UAH 293.93 per MWh), excluding payment of 20% of the projected volume of «green» electricity.<sup>17</sup> The cost of dispatching services was approved at UAH 62.13 per MWh.

Thanks to Ukrenergo's successful placement of five-year green bonds worth \$825 million, the government has repaid UAH 19.3 billion debts (with a delay) to RES producers, but at the end of the year the total debt to renewable energy producers amounted to about UAH 12.3 billion.

In order to stabilise the renewable electricity market, it was vital that the Verkhovna

<sup>11</sup> Regulation (EU) No1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32011R1227>.

<sup>12</sup> Article 92 of the Energy Community Treaty of 25 October 2005.

<sup>13</sup> From the beginning of 2021, Ukraine has received more than 1.2 billion kWh from the Energy Community non-member states.

<sup>14</sup> Ukraine and EU: it takes two to swing (at the same frequency) by Dr. Georg Zachmann and, Lukas Feldhaus, <https://www.euractiv.com/section/energy/opinion/ukraine-and-eu-it-takes-two-to-swing-at-the-same-frequency>.

<sup>15</sup> Official site of the Ministry of Energy: information on the production activities of electric power companies for 12 months of 2021 (operational data), [http://mpe.kmu.gov.ua/minugol/control/uk/publish/printable\\_article?art\\_id=245619746](http://mpe.kmu.gov.ua/minugol/control/uk/publish/printable_article?art_id=245619746).

<sup>16</sup> See [https://www.mof.gov.ua/storage/files/IUKREA2021001%20\(1\).pdf](https://www.mof.gov.ua/storage/files/IUKREA2021001%20(1).pdf).

<sup>17</sup> According to the amendments to the Law on Alternative Energy Sources, 20% of the cost of green electricity must be paid from the state budget, but such costs were provided by the laws on the state budget for 2021 and 2022.

Rada Committee on Energy and Utility Services supported the abolition of the excise tax on electricity produced by RES (3.2%) in relevant law.<sup>18</sup> This positive development that will help prevent additional investor appeals to international arbitration, has been approved by the Energy Community Secretariat, the EBRD, and other international financial institutions.

However, there has been no improvement in the renewables sector, as debts remain outstanding and appropriate support instruments have not been provided, such as *Feed-in-Premium*<sup>19</sup> or contracts for difference (instead of a «green» tariff), improvement of the auction support model that is expected to prioritise the development wind, bio- and hydropower *Corporate PPA*,<sup>20</sup> as well as guarantees of origin,<sup>21</sup> *Net Billing*,<sup>22</sup> especially for solar energy, as the indicators for the SPP development are almost three times higher than the corresponding data for wind and bioenergy.

## NUCLEAR ENERGY

For Ukraine's nuclear energy, 2021 was the year of setting production records,<sup>23</sup> commissioning new generating capacities,<sup>24</sup>

launching the project to build new power units<sup>25</sup> and restoring old investment opportunities.<sup>26</sup> On the other hand, however, it was marked by pressure on the regulator,<sup>27</sup> controversial personnel changes<sup>28</sup> and financial misuses.<sup>29</sup>

Significant achievements have been made in the diversification of nuclear fuel supply.<sup>30</sup> In 2021, the financial situation of the nuclear power plant operator has improved – in nine months, Energoatom generated a net profit of UAH 2.35 billion, compared to 5.3 billion losses in 2020.<sup>31</sup>

At the same time, the biggest failures of 2021 include the delay in the commissioning of the Central Spent Fuel Storage Facility – one of strategic nuclear power facilities of Ukraine, as its purpose is to eliminate the country's dependence on spent nuclear fuel removal to Russia and ensure annual savings of about \$200 million.

Meanwhile, the government approved the Concept of the state targeted economic programme for the development of the nuclear-industrial complex until 2026,<sup>32</sup> aiming to increase uranium production to fully meet the sector's needs. However,

<sup>18</sup> Law of Ukraine «On Amendments to the Tax Code of Ukraine and Certain Legislative Acts of Ukraine to Ensure Balanced Budget Revenues» of 30 November 2021).

<sup>19</sup> *Feed-in-Premium* – sale of electricity by renewable energy producers in the market with an opportunity to receive a surcharge (premium) as the difference between the established «green» tariff or auction price and the market price.

<sup>20</sup> Independent participation of electricity producers in the market, concluding purchase/sale agreements directly with consumers.

<sup>21</sup> Guarantees of origin is a certificate confirming that energy from renewable sources was used in electricity production.

<sup>22</sup> Offset of funds between the consumer and the prosumer (an entity that simultaneously consumes and produces).

<sup>23</sup> On 22 December 2021, Zaporizkska and Pivdennoukrayinska NPPs operated at a nominal capacity of 6,140 MW and 3,050 MW, respectively. Source: Energoatom, <https://www.energoatom.com.ua/ua>.

<sup>24</sup> The first test run of the hydraulic unit 3 was successfully carried out at Tashlytska PSPP. Source: *ibid*.

<sup>25</sup> Energoatom and Westinghouse (US) have signed agreements on the construction of two new nuclear power units at the Khmel'nitska NPP site. Source: *ibid*.

<sup>26</sup> Energoatom is considering the possibility of restoring the Voznesenskaya HPP. Source: *ibid*.

<sup>27</sup> There was a precedent of the Energoatom licensee on the State Nuclear Regulatory Inspectorate (SNRIU) to obtain a license to operate the CSFSP.

<sup>28</sup> Dismissal of the SNRIU head on 9 December 2021 as a result of a professional conflict with the Minister of Energy of Ukraine. – The Government portal, <https://www.kmu.gov.ua>.

<sup>29</sup> Coordinated activities of Ukrelektrovat and representatives of the State Executive Service to block the accounts of Energoatom and write off non-existent debts in favour of the company that bought these debts from the Russian TVEL company. Source: Energoatom.

<sup>30</sup> An important stage in full transition of four units of the Zaporizka NPP to Westinghouse nuclear fuel has completed. Source: *ibid*.

<sup>31</sup> According to Energoatom data.

<sup>32</sup> The concept was developed in pursuance of the decision of the National Security and Defence Council «On measures to neutralise threats in nuclear energy and industry» of 29 January 2021.

current problems of the uranium mining segment remain unresolved,<sup>33</sup> fuelling the pessimistic mood in the teams of relevant enterprises.<sup>34</sup>

During the year, one could observe an emerging dangerous trend of the gradual loss of independence of the nuclear regulator due to increased influence by the Ministry of Energy and Energoatom. Therefore, there is a risk of nuclear safety gradually becoming secondary to production, which can lead to violation of a number of Ukraine's international commitments.

## OIL AND GAS SECTOR

*Gas sector.* In 2021, natural gas production decreased by 2.2%, reaching its 10-year minimum at 19.8 bcm. This trend continues for four years in a row due to unsatisfactory production indicators of the largest state-owned gas production company Ukgazvydobuvannya,<sup>35</sup> which reduced the volumes of gross production and transmission of commercial gas by 4% in 2021.<sup>36</sup>

The volume of natural gas imports from the EU to Ukraine also decreased to 2.6 bcm – 6 times less than in 2020.<sup>37</sup> However, this was solely due to low activity of traders and abnormally high gas prices in Europe,<sup>38</sup> leading to low filling of gas storage facilities in Ukraine.

In other words, only 3.6 bcm of gas<sup>39</sup> was pumped into the storage facilities in preparation for the heating season, which, on the one hand, exceeded the government's expectations,<sup>40</sup> but on the other hand, it was the lowest volume in the last five years.

Under these circumstances, the government had to resort to administrative regulation in the retail segment by introducing special price contracts for household consumers,<sup>41</sup> and by signing a Memorandum<sup>42</sup> setting fixed gas prices for budgetary institutions and religious organisations. However, even these categories of consumers saw their gas price double compared to last year.

Establishment of a balancing group<sup>43</sup> was a significant achievement in the context of manual regulation of the retail segment, as it opened equal-terms access for all suppliers to natural gas produced by Ukgazvydobuvannya, but only for further sale to household consumers. As a result, starting from October 2021, the price of gas for a significant part of the population in the suppliers' annual offers decreased by 12%.<sup>44</sup> Meanwhile, in December, NERC revised gas distribution tariffs,<sup>45</sup> which increased on average by 3.9% across Ukraine. Ultimately, the final cost of natural gas, compared to 2020, increased by 37%.<sup>46</sup> Despite these developments and legislative attempts to settle debt

<sup>33</sup> Disconnection of enterprises from electricity supply and delays in payment of wages.

<sup>34</sup> According to the Confederation of Free Trade Unions of Ukraine, there were mass protests of uranium mining workers in 2021. Source: Confederation of Free Trade Unions of Ukraine, <https://kvpu.org.ua>.

<sup>35</sup> The share of Ukgazvydobuvannya among gas production companies is 69%.

<sup>36</sup> According to operative data of Ukgazvydobuvannya, <https://ugv.com.ua/en/page/results>.

<sup>37</sup> During January-December, 50 traders (25 Ukrainian and 25 foreign) ordered gas transportation from the EU to Ukraine. Source: <https://tsoua.com>.

<sup>38</sup> Because of the growth of spot gas prices in the EU (\$ 900 per 1,000 m<sup>3</sup> in July), the present value of gas (spot price and transportation costs) on the EU-Ukraine border increased to UAH 18,000 per 1,000 m<sup>3</sup> on 1 August 2021, and to UAH 37,670 per 1,000 m<sup>3</sup> on 1 December 2021. Source: European Energy Exchange, <https://www.eex.com/en>.

<sup>39</sup> At the beginning of the heating season, gas storage facilities contained 18.7 bcm of gas, <https://utg.ua>.

<sup>40</sup> By its Directive No. 586 of 9 June 2021, the Cabinet of Ministers ordered to have gas reserves of 17 bcm by mid-October.

<sup>41</sup> Special price contract for household consumers – UAH 7.42 per m<sup>3</sup>, for budgetary institutions and organizations – UAH 16.8 per m<sup>3</sup> (including VAT and transportation), <https://www.naftogaz.com>.

<sup>42</sup> Memorandum of Understanding on the settlement of problematic issues in the field of heat and hot water supply in the heating period 2021/2022.

<sup>43</sup> A balancing group is an association of market participants, each of which is responsible for the natural gas balance of all other market participants in such an association.

<sup>44</sup> Calculations of the Razumkov Centre experts based on monitoring of proposals of gas supply companies.

<sup>45</sup> NERC resolutions No. 2741-2780 of 22 December 2021.

<sup>46</sup> Calculations of the Razumkov Centre experts based on the State Statistics Service data.

obligations,<sup>47</sup> the financial liquidity of the gas market remains insufficient.

Instead, there was a rapid increase in the price of gas in the wholesale segment of the Ukrainian market, which has increased by 4.6 times for industrial consumers<sup>48</sup> from the beginning of 2021. This could have been avoided if the government had listened to expert recommendations<sup>49</sup> and introduced a national gas price index instead of import parity.

In the meantime, the capacities of the Ukrainian gas transport corridor were not used in 2021 to resolve the price crisis in both the EU and Ukraine. In total, the national gas transportation system transported 41.6 bcm of natural gas<sup>50</sup> to European consumers – a 25% reduction from the previous year. One of the reasons for such a reduction in the use of Ukrainian gas corridor was Hungary and Romania switching to Russian gas supply via other routes.

Against this background, instead of implementing practical steps to modernise the gas transmission system<sup>51</sup> and determining its optimal modes of operation in the heating season the authorised representatives of GTSOU<sup>52</sup> articulated multiple long-term prospects.<sup>53</sup> Meanwhile, Naftogaz of Ukraine

took a more substantive and proactive position, seeking to establish systematic work with the EU<sup>54</sup> and the US<sup>55</sup> stakeholders, which indirectly affected the current status of the Nord Stream-2 project.

**In general, the biggest government's miscalculations in the gas sector include the lack of tools to protect domestic producers from the rapid rise in natural gas prices, failure to perform the functions of gas market administrator<sup>56</sup> and passivity in employing the gas transmission system.**

## OIL AND OIL PRODUCTS SECTOR

The government tried to curb rising prices and put an end to illegal enrichment of gas station networks during the pandemic. For the period of quarantine restrictions, it established the maximum mark-up on gasoline (UAH 5 per litre) and diesel fuel (UAH 7 per litre).<sup>57</sup> Based on the algorithm for calculating the average cost of these oil products, the price could not exceed UAH 27.89 per litre for diesel fuel and UAH 30.22 per litre for gasoline (including mark-ups).

This and previous decisions<sup>58</sup> on the classification of gasoline A-92 and A-95 and diesel fuel as socially significant goods, as well as the requirements to declare the growth of

<sup>47</sup> Law of Ukraine «On Measures Aimed at Overcoming the Crisis and Ensuring Financial Stability in the Natural Gas Market» of 14 July 2021.

<sup>48</sup> During January-December 2021, the price of gas in the Ukrainian market increased 4.6 times – from UAH 7,925 to UAH 36,282 per 1,000 m<sup>3</sup>. Source: <https://www.ueex.com.ua>.

<sup>49</sup> Ukraine 2020-2021: Inflated Expectations, Unexpected Challenges» (Assessments). – The Razumkov Centre, 2021, p.127.

<sup>50</sup> 38 bcm of gas were transported in the western direction (26% less than in 2020), and 3.6 bcm in the southern direction (8% less than in 2020). Source: <https://tsoua.com>.

<sup>51</sup> The bill that provides for procurements by Ukrenergo and LLC «GTSOU» outside the ProZorro system through the mechanism of direct contracts (Reg. No. 6273 of 3 November 2021).

<sup>52</sup> LLC Gas Transmission System Operator of Ukraine, <https://tsoua.com>.

<sup>53</sup> Most statements concerned the use of the Ukrainian GTS for the transportation of hydrogen mixture and biomethane. To bolster the development of biomethane market, the Law «On Amendments to Certain Laws of Ukraine on the Development of Biomethane Production» was adopted.

<sup>54</sup> For example, the German energy regulator (BNetzA) satisfied the application of Naftogaz to participate in the certification of the Nord Stream-2 gas pipeline operator. Source: <https://www.naftogaz.com>.

<sup>55</sup> Starting from June 2021, the authorised representatives of Naftogaz have stepped up their work on cooperation with stakeholders in US government institutions. Source: <https://www.naftogaz.com>.

<sup>56</sup> According to the Law of Ukraine No. 329-VIII, the gas transmission system operator performs the function of gas market administrator.

<sup>57</sup> Cabinet of Ministers of Ukraine Resolution «On amendments to the resolutions of the Cabinet of Ministers of Ukraine No. 341 of 22 April 2020, and No. 1236 of 9 December 2020», No. 474 of 14 May 2021.

<sup>58</sup> Cabinet of Ministers of Ukraine Resolution «On amendments to the resolutions of the Cabinet of Ministers of Ukraine No. 341 of 22 April 2020» No. 450 of 29 March 2021.

retail prices by 1% or more did not revitalise the oil refining industry of Ukraine, but reduced budget revenues.

Working conditions for market participants remained unequal, there was no competition, tax legislation was not observed, and trade in substandard fuels continued.

Growing demand for oil products in 2021 led to an increase in imports. In the supply sector, **the key factors were the reduction in the share of oil products imports from Russia in favour of Belarus and the increase in maritime supplies.**

The share of imports of oil products from Russia and Belarus in 2021 amounted to 4.34 million tons, down to 69% from 74%: imports of such products from Russia fell by 33% to 1.63 million tons, and imports from Belarus increased by 37% – to 2.51 million tons. Deliveries of oil products from Lithuania, Kazakhstan and Turkey continued.

These figures are partly explained by the shutdown of the Samara-Western Direction oil product pipeline and the exit of its operator, PrykarpattZakhidtrans, as well as the cessation of Ukrainian operations by *Proton Energy*, one of the largest suppliers of diesel fuel and liquefied natural gas from Russia to Ukraine, starting from 1 April 2021.

The gasoline market showed growth by almost 12% per year, in part due to the rise in liquefied petroleum gas (LPG), and partly due to the sector's «unshadowing». Diesel fuel consumption increased by 16% thanks to Big Construction project and the needs of the agricultural sector. There was a 50% increase in LPG prices due to the shortage of resources in the world. It arrived in Ukraine mainly from Russia, Kazakhstan and Belarus – together these countries accounted for 91% of imports, or 943 thousand tons.

In 2021, pipeline transit of oil<sup>59</sup> through the territory of Ukraine to European countries and Belarus decreased by 3.2% (by 427.2 thousand tons) compared to 2020, amounting to 12.72 million tons. The volume of domestic transportation to the country's refineries in 2021 was the highest in the last 10 years (3 million tons, which is 15% more than in 2020). The volume of oil production by public and private companies in 2021 remained at the level of 2020 (1.1 million tons).

In general, the tasks of **increasing the country's own refining capacity** (Ukratnafta, Shebelinsky GPP), **diversifying the supply of gasoline, diesel fuel and LPG through maritime supplies**, and **creating minimum reserves of oil and oil products** (estimated volumes to meet the country's 90-day needs) remain unfulfilled.

## COAL SECTOR

The sector's main achievement was the reversal of the long-term negative trend – in 2021, coal mining companies of all forms of ownership extracted 29.41 million tons of coal and met the target by 107%.<sup>60</sup>

State-owned enterprises also demonstrated production growth. In 2021 they increased coal production to 5.45 million tons.<sup>61</sup> This was partially due to the return of Dobropillyavuhilya company from the lease of DTEK under the state management.<sup>62</sup> This launched the creation of a vertically integrated SOE Ukrvuhilya with the participation of Centerenergo and other state-owned coal mining companies.

A notable step in supporting state-owned enterprises was that the State Budget<sup>63</sup> provided funds for the development of the coal industry for the first time in three years, including the implementation of pilot projects on the transformation of coal regions.

<sup>59</sup> Official website of Ukrtransnafta.

<sup>60</sup> Operative data of the Ministry of Energy of Ukraine, <http://mpe.kmu.gov.ua>.

<sup>61</sup> See: In 2020 state-owned enterprises, compared to the previous year, reduced coal production by 22.5% to 2.7 million tons, <http://mpe.kmu.gov.ua>; Operative data of the Ministry of Energy of Ukraine.

<sup>62</sup> Within the framework of the Cabinet of Ministers Directive No. 1215 of 5 November 2020.

<sup>63</sup> State Budget of Ukraine for 2022, Law No. 1928-IX of 2 December 2021.



**However, there have been significant miscalculations in the sector's public management, which led to historically low coal reserves in thermal power plants<sup>64</sup> and triggered an energy crisis on the eve of the heating season of 2021-2022.**

Imports increased by 15%, and the share of Russian coal in them reached critical 62%.<sup>65</sup> The situation has further deteriorated as a result of Russia's hybrid actions that blocked coal supplies to Ukraine.

Meanwhile, the 15-year-old<sup>66</sup> trend of avoiding or hampering the solution of problems in the coal sector has continued. During the reporting period, the government initiated yet another bill on the industry's reform,<sup>67</sup> which, however, was based on outdated approaches.

The main unresolved issues include effective introduction of market relations; identification of guaranteed sources of sector's financing and formulation of public policy on private enterprises; optimisation

of the structure of state-owned enterprises; introduction of appropriate mechanisms of social protection of miners; implementation of state policy on environmental protection in the coal regions of Ukraine.

The crisis in the coal sector has prompted miners to repeatedly go on strikes in the workplace<sup>68</sup> and resort to mass protests outside the central government buildings.<sup>69</sup> As a result, the government paid the current arrears of wages of miners of state-owned enterprises at the expense of the reserve fund<sup>70</sup> and through the non-market subsidy mechanism of Ukrvuhilya,<sup>71</sup> but did not repay debts for previous periods.<sup>72</sup>

In general, the energy sector remained heavily dependent on energy imports.

Ukraine failed to introduce EU legislation to improve competition, integrity and transparency in energy markets. Accumulated debt between market players has prevented stability in the sector. Investment prospects in the energy sector remain uncertain.

<sup>64</sup> At the beginning of the heating season, the actual coal reserves were 4.2 times below the planned, <http://mpe.kmu.gov.ua>.

<sup>65</sup> Operative data of the State Customs Service of Ukraine, <https://customs.gov.ua>.

<sup>66</sup> The first ever plan to restructure Ukraine's coal sector was approved by the government back in 2005.

<sup>67</sup> Draft Law No. 6232 of 28 October 2021.

<sup>68</sup> Starting from 20 December 2021, miners of Luhansk and Donetsk oblasts hold protests both underground and on the surface, <https://kvpu.org.ua>.

<sup>69</sup> In 2021, coal workers' unions organised and held three mass protests outside the Verkhovna Rada, the Presidential Office and the Cabinet of Ministers. Source: *ibid*.

<sup>70</sup> Verkhovna Rada of Ukraine Resolution No. 1981 of 17 December 2021.

<sup>71</sup> In accordance with para. 7 of the Protocol 150 of 15 December 2021. Seeking to ensure uninterrupted supply of coal products to heat generation, the government decided to agree with the proposal of NNEC Energoatom to provide interest-free financial assistance to Ukrvuhilya in the amount of UAH 600 million. Source: Government portal, <https://www.kmu.gov.ua>.

<sup>72</sup> As of 31 December 2021, wage arrears of miners of state-owned enterprises for previous periods was UAH 2.5 billion, <https://kvpu.org.ua>.

## Social sector

Despite 2021 becoming a year of the intensified role of the state in the economy, the situation in the social sector can hardly be attributed to the government's achievements. Government initiatives aimed at reducing social commitments and socio-economic programme funding became the main marker of Ukraine's social policy in 2021. The de-shadowing and de-oligarchisation regime suggested by the government failed to deliver any positive impact on investment, budget and social policies.

Pessimistic forecast for 2021 regarding a prolonged negative effect from ongoing pandemic has fully materialised. There were almost no factors to positively affect the situation. Instead, some anticipated optimism about the development of several coronavirus vaccines came true, somewhat slowing the spread of COVID-19 and restoring social life. As expected, lifting of coronavirus restrictions began in mid-2021, with an active vaccination campaign contributing to some economic growth.

As expected, the government failed in the voluntary vaccination campaign; additional obstacles emerged during the vaccine distribution, including high vaccination refusal rates (30-40%).

Against the backdrop of a slight increase in Ukrainians' nominal income, the promised rises in doctors and teachers' salaries did not happen, whereas the projected increase in officials' salaries was fully justified. As anticipated, labour migration has intensified, becoming almost irreversible, including further departure of doctors.

The «Affordable Loans 5%-7%-9%» programme had to be curtailed as it did not live up to expectations. Audits showed the misuse of funds allocated to prevent the negative consequences of the pandemic for business.

Therefore, it is possible to outline the following main achievements and miscalculations of the state in the social sector in 2021.

### ACHIEVEMENTS

1. **Resumed growth in average wages**, in both nominal and dollar terms.
2. **Accelerated growth of Ukrainians' savings** (an UAH 9.4 billion increase over three quarters of 2021).
3. **Expansion and changes in consumer habits**, such as more active use of plastic cards and refocus to online transactions.

### LOSSES AND PROBLEMS

1. In 2021, **the number of citizens who left Ukraine and did not return reached record highs** for the last 11 years (more than 600 thousand Ukrainians) – an 11% increase compared to pre-pandemic 2019.
2. **Low effectiveness of countering the pandemic**; low vaccination rates.
3. **Deterioration of the lives of pensioners – with pension indexation by 11%**, the value of food basket increased by almost 20%. Food expenditures reached almost 50% of the total Ukrainian household expenditure.
4. **Increased utility tariffs for the population** and reduced number of recipients of subsidies and its size.

## EFFECTIVENESS OF THE CORONAVIRUS PANDEMIC RESPONSE

*Extremely poor effectiveness of the coronavirus pandemic response* is the evidence of the government's weak capacity. In 2020, when protection against COVID-19 was reduced to restrictions, bans and quarantines, Ukraine had relatively low morbidity and mortality rates. However, already in 2021, when the restrictions no longer worked, public protection has deteriorated significantly, and Ukraine's

mortality rates surpassed the counties of Western Europe that were first exposed to new pandemic waves (Table «*Coronavirus impact and response*»)<sup>1</sup>. There are reasons to believe that many losses were caused by low vaccination rates resulting from late deliveries of vaccines in the first half of 2021, as well as extremely unclear communication between the authorities and the public about the need for vaccination.

During the year of the pandemic, the government failed to address three crucial issues:

- ✓ *first*, the government did not use previous lockdown periods (2020) to build new hospitals and adjust health reform areas. Moreover, the number of hospitals continued to reduce during the year;
- ✓ *second*, the start of vaccination in Ukraine was the latest in Europe and it continues at a very slow pace. As of the end of 2021, only 12.9 million Ukrainians received two vaccine doses;
- ✓ *third*, the government not only failed to stop the outflow of health professionals

from the country, but also continues the planned (!) reduction of medical staff in the context of ongoing health reform.

## LOSSES OF HUMAN CAPITAL

Low effectiveness of the pandemic response was an additional factor of human capital loss in Ukraine, which manifests itself in the continued depopulation and ever-increasing emigration sentiment.

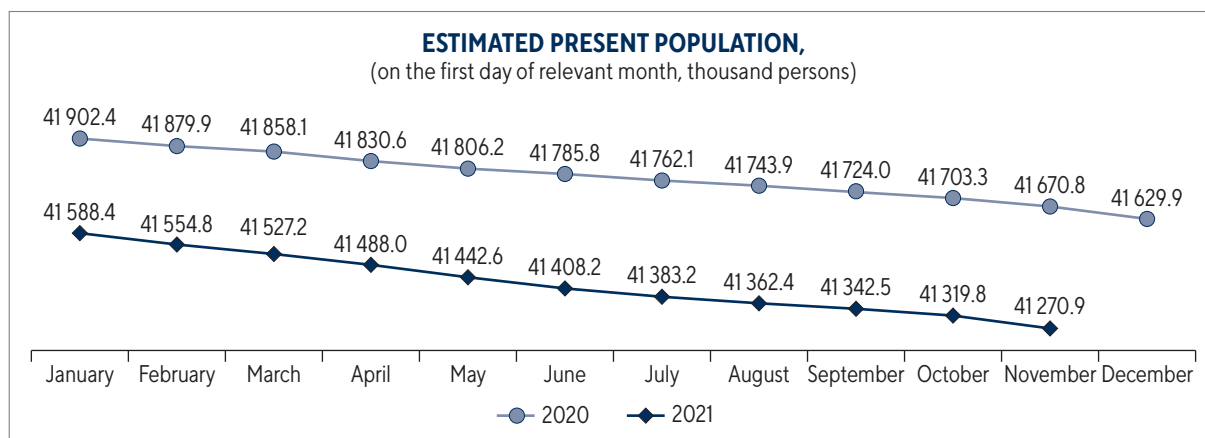
*Depopulation.* The process of rapid depopulation continues in Ukraine. The UN calls Ukraine one of the global «leaders» in population decline.<sup>2</sup> Insufficient well-being and lack of opportunities for women to combine career and care for children remain among the factors preventing Ukrainians from having the desired number of children. The excess of the number of deaths over live births remains significant at 41 births per 100 deaths.

*Mass migration.* 2021 became the year of emigration. More than 600 thousand citizens left Ukraine in 2021. In the coronavirus year of 2020, the number

CORONAVIRUS IMPACT AND RESPONSE					
		No. of cases per 1 million	No. of deaths per 1 million	No. of vaccinations per 100 persons	No. of fully vaccinated per 100 persons
Germany	2020	20 821.4	402.75		
	2021	84 140.1	1 322.93	174.75	70.19
France	2020	39 379.9	956.78		
	2021	138 700.2	1 824.19	179.25	72.78
Italy	2020	34 905.7	1 228.46		
	2021	95 356.2	2 268.69	180.48	73.92
Sweden	2020	43 048.4	858.94		
	2021	127 415.3	1 504.50	171.28	72.31
Poland	2020	34 258.8	755.46		
	2021	107 540.7	2 511.15	122.12	55.36
Romania	2020	33 054.7	824.30		
	2021	94 336.9	3 065.80	82.34	40.66
Hungary	2020	33 476.1	989.92		
	2021	129 403.0	4 037.09	156.47	61.71
Ukraine	2020	25 007.5	443.58		
	2021	88 074.9	2 328.49	64.54	30.98

<sup>1</sup> Coronavirus Pandemic (COVID-19), <https://ourworldindata.org/coronavirus-data>.

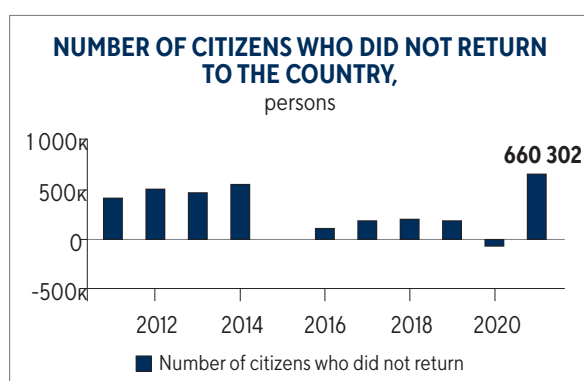
<sup>2</sup> UN Policy Options. Population Dynamics, [https://ukraine.un.org/sites/default/files/2021-11/UN%20Policy%20Paper%20on%20Population%20Dynamics\\_FINAL%20ENG.pdf](https://ukraine.un.org/sites/default/files/2021-11/UN%20Policy%20Paper%20on%20Population%20Dynamics_FINAL%20ENG.pdf)



of Ukrainians who returned home exceeded the number of those who left by 80 thousand. In general, the total negative balance during 2010-2021 will be over 3.3 million people. The top five «donor» regions of migration are Zakarpattia, Ivano-Frankivsk, Rivne, Kherson and Lviv oblasts.

It is necessary to emphasise that official statistics overlooks the large shadow market of labour migration, while the UN mentions 5.5 million persons.<sup>3</sup> This 2.5 million-difference indicates the presence of a large number of people who travel abroad to work illegally<sup>4</sup> (Figure «Number of citizens who did not return to the country»).

It is fair to say that Ukrainians are leaving the country en masse because of lack of any prospects. This tendency contradicts the President's promises to ensure the maximum return of Ukrainians. The results of the government's political course are diametrically opposed.



Inadequate living standard and low compliance with social standards are important components of the loss of human capital.

### LIVING STANDARD

***In 2021, Ukraine did not come any nearer to the European Union standards by the level of income and the quality of social environment.***

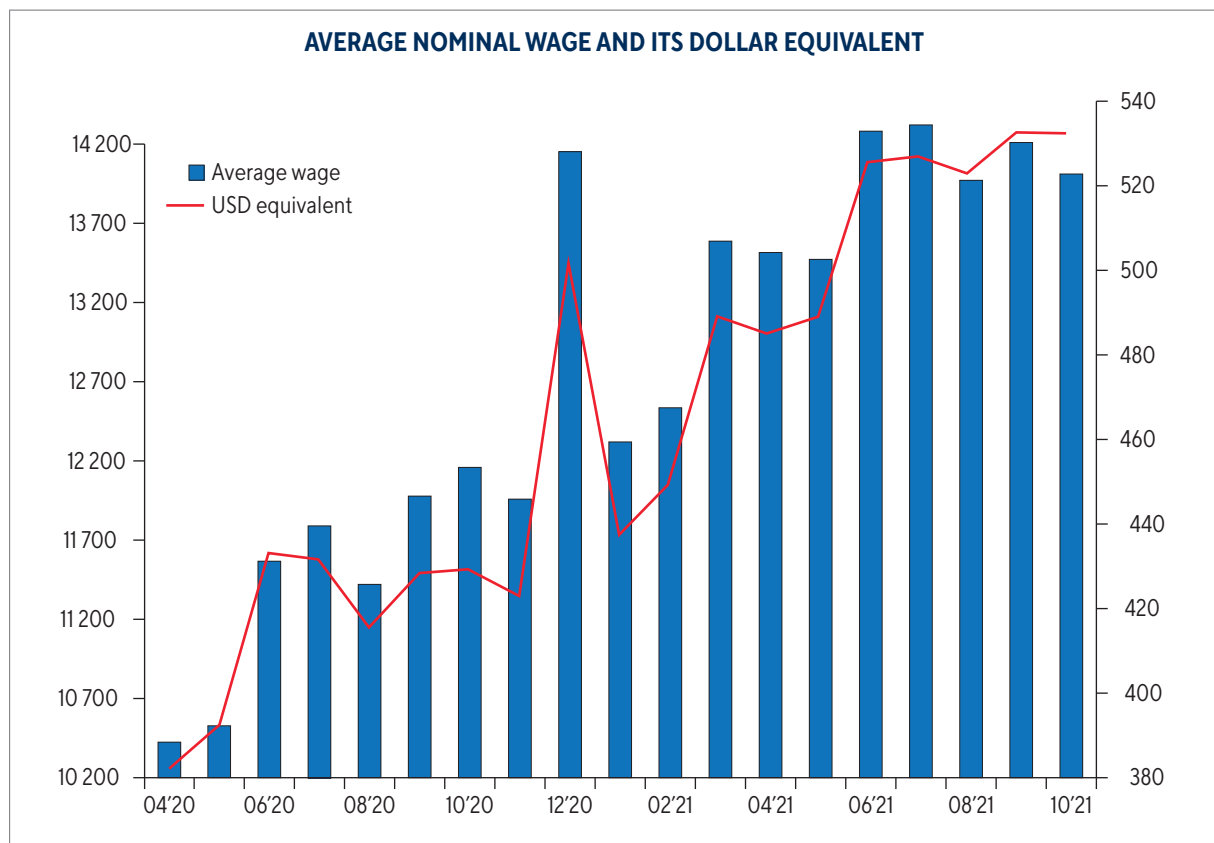
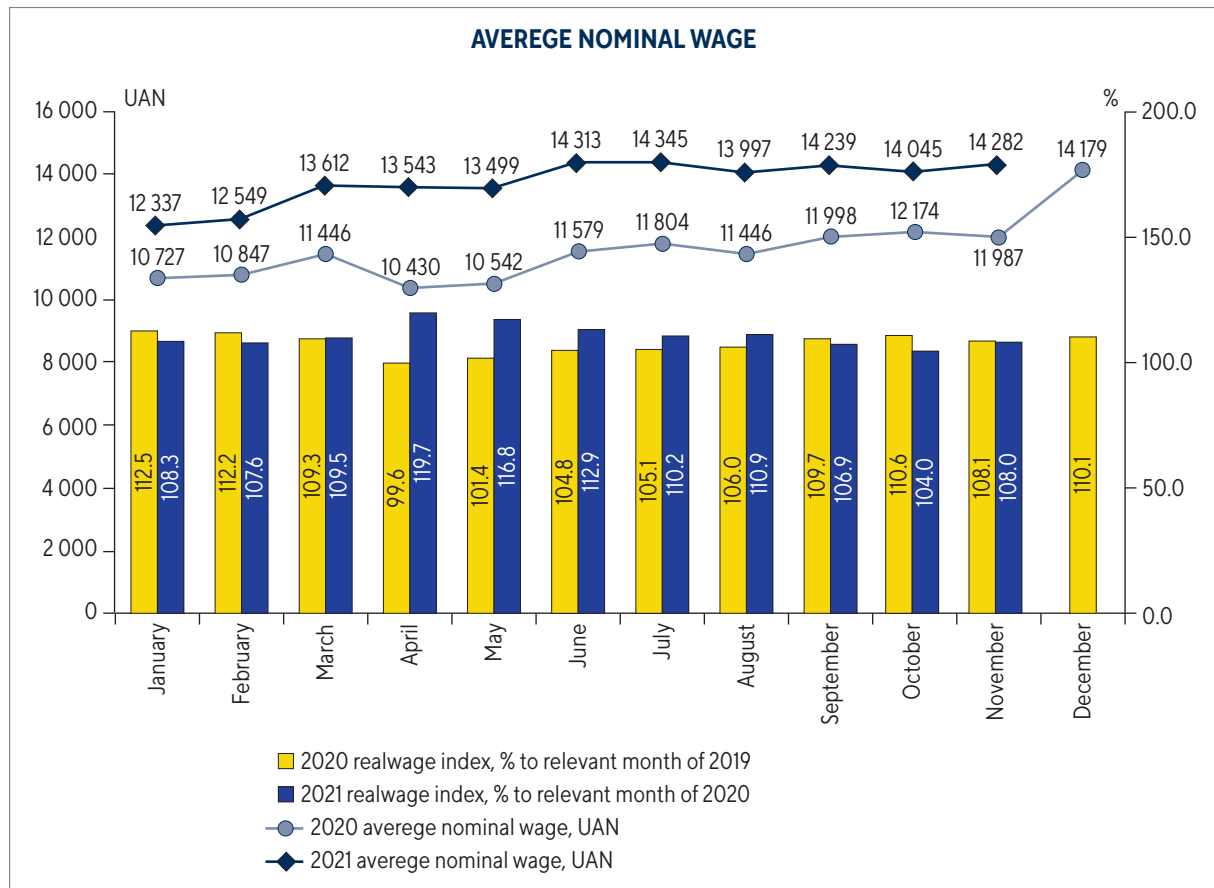
**Salaries.** In 2021, average wages resumed to grow, both in nominal and dollar terms. The average nominal wage is 2.4 times higher than the minimum wage (UAH 6,500), crossing the \$500 mark in US dollar terms, which is the highest figure for all years of observation. However, in real terms, that is, adjusted for inflation, it increased by only 10% (Figure «Average nominal wage», p.67).

The highest salaries were observed in «information and communications». Specialists in this sector earn an average of UAH 24,813 per month, with the annual growth of accruals reaching about 25.1% (Figure «Average nominal wage and its dollar equivalent», p.67).

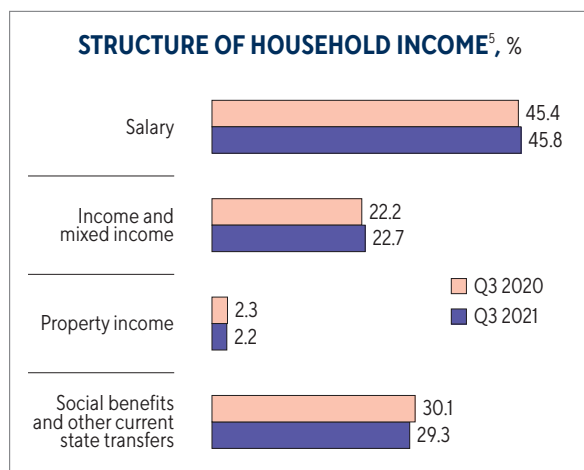
Becoming the main factor in the growth of real income, wages increased due to renewed demand for labour and higher employment. At the same time, the annual change in real income was more limited due to accelerating inflation at only 3.3%. This is much lower than the pre-crisis figures. Increasing migration stimulated wage growth within the country.

<sup>3</sup> UN Policy Options. In-Out Migration, [https://ukraine.un.org/sites/default/files/2021-03/UN%20Policy%20Paper%20on%20In-Out%20Migration\\_final%20COR\\_ENG.pdf](https://ukraine.un.org/sites/default/files/2021-03/UN%20Policy%20Paper%20on%20In-Out%20Migration_final%20COR_ENG.pdf)

<sup>4</sup> Although the difference in estimates of labour migration also depends on the calculation methodology.

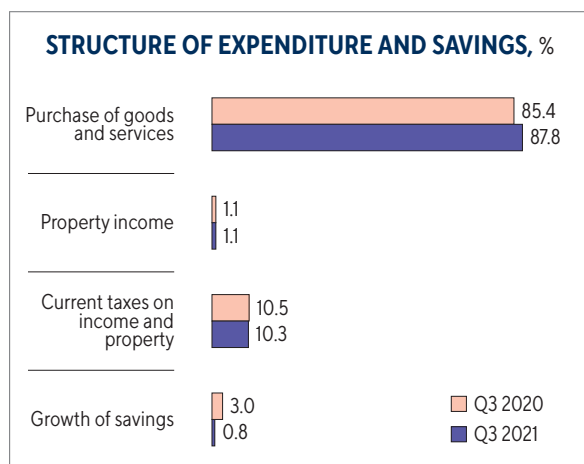






The structure of income of Ukrainians includes salaries (45.8%), social benefits (29.3%), mixed income (22.7%), and property income (2.2%). The role of various social benefits in the increasing income of household has reduced significantly. In real terms, they remained almost unchanged.

During 2021, one could observe the accelerated growth of people's savings, which increased by UAH 9.4 billion in the first three quarters (household income amounted to UAH 1,221.8 billion, and expenditure reached UAH 1,212.4 billion).<sup>6</sup> Disposable per capita income amounted to UAH 23,325. By the end of the year, however, the population's propensity to save has stopped, just like the increase of funds on current accounts.<sup>7</sup>



The Ukrainian family's food expenditures reach almost 50% of total expenditure (Table «Structure of household cash expenditures in 2020-2021»<sup>8</sup>), which is evidence of low economic capacity.

*Pension payments.* Pensions in Ukraine remain the lowest among all European countries.<sup>9</sup> And the pension-to-wage ratio over the past three years has fallen to 29%.<sup>10</sup> Most pensioners saw the pension indexation by 11%,

STRUCTURE OF HOUSEHOLD CASH EXPENDITURES IN 2020-2021, % of total						
	2020				2021	
	Q1	Q2	Q3	Q4	Q1	Q2
Food products and dining out	48.1	48.2	49.9	48.3	44.4	52.4
Health care	5.2	3.9	4.7	4.6	5.2	4.9
Clothing and footwear	4.3	4.1	5.7	5.9	4.3	4.2
Housing, water, electricity, gas and other fuels	19.7	15.3	11.0	16.7	22.1	17.2

<sup>5</sup> State Statistics Service, <https://view.officeapps.live.com/op/view.aspx?src=http%3A%2F%2Fwww.ukrstat.gov.ua%2Fexpress%2Fexpr2021%2F12%2F162.doc&wdOrigin=BROWSELINK>.

<sup>6</sup> State Statistics Service, <https://view.officeapps.live.com/op/view.aspx?src=http%3A%2F%2Fwww.ukrstat.gov.ua%2Fexpress%2Fexpr2021%2F12%2F162.doc&wdOrigin=BROWSELINK>.

<sup>7</sup> Financial Stability Report, The National Bank of Ukraine, <https://bank.gov.ua/ua/news/all/zvit-pro-finansovu-stabilnist-cherven-2021-roku>.

<sup>8</sup> Ukraine household expenditures and resources (sample survey of household living conditions), the first 6 months of 2021, [http://www.ukrstat.gov.ua/operativ/operativ2018/gdvvg/Arh\\_vrdu\\_u.htm](http://www.ukrstat.gov.ua/operativ/operativ2018/gdvvg/Arh_vrdu_u.htm).

<sup>9</sup> Change of the pension calculation formula in 2017 led to a decrease in its actual size. Pensions decreased due to the fact that the coefficient of length of service in the pension formula reduced from 1.35% to 1%.

<sup>10</sup> Over time, this ratio will be even lower, although at times the pension-to-wage ratio reached 60%. According to the International Labour Organisation standards, this ratio should be at least 40%, and in the most developed countries of Europe, the replacement rate is currently 80-95%.

while the cost of the food basket increased by almost 20%. As a result, the pensioners' lives deteriorated. Senior citizens are most affected by the inflation burden, as the lion's share of their income is spent on basic necessities and utility payments.

The phenomenon of 2021 was the government's active promotion of the thesis on unacceptable amount of state funding for the pension system and its uncontrolled growth due to the «demographic threat» – the increased life expectancy against the background of lagging and even declining birth rates.<sup>11</sup>

In addition, government officials and «economic advisers» started to actively spread «predictions» that «Ukrainians should not count on a pension if it does not include savings in private pension funds»,<sup>12</sup> or that «Ukrainians must already take care of their old age and collect money, not counting on a state pension».<sup>13</sup> This reflects the desire to transfer responsibility for pensions from the state to individuals, which not only inflicts serious political damage to the current government, but also undermines confidence in the state as a whole.

*The intention to improve the financial situation of the poorest populations did not produce any tangible positive result. Therefore, the increase in the minimum wage since January 2021 had little effect on the overall dynamics of income of the poor – the subsistence minimum, which is the «basis» for other social standards, and the minimum pension remained unchanged (Table «Minimum standards and average wages»).*

#### MINIMUM STANDARDS AND AVERAGE WAGES, UAH

	12'20	07'21	12'21
Subsistence minimum (for able-bodied persons)	2 270	2 379	2 481
Subsistence minimum (generalised)	2 189	2 294	2 393
Minimum pension	1 769	1 854	1 934
Average wage	14 179	14 345	16 000*

\* – estimated.

Even after a significant 30%<sup>14</sup> increase in the minimum wage, it still remains one of the lowest in Europe at \$171.<sup>15</sup> A minimum set of products makes up 35.7% of the minimum wage, one of the worst in the world.

The current size of the consumer basket, which according to current legislation forms the basis of the subsistence minimum, is still illegitimate, as it was declared illegal<sup>16</sup> by the Supreme Court of Ukraine back in 2016. This is due to the imperfect method of calculating the subsistence minimum, which now hardly corresponds to the real value of the consumer basket. Therefore, the principles of the subsistence minimum should be revised immediately based on the needs of Ukrainian citizens, social protection principles and the current economic and social situation of the state.

However, until the subsistence minimum is not formed on the basis of the consumer basket composition but vice versa, the norms in the consumer basket are adjusted to match the already approved sum of the subsistence minimum.

<sup>11</sup> There are 7.4 births and 13.8 deaths per 1,000 population in Ukraine – in other words, the death rate is two times higher than the birth rate.

<sup>12</sup> As announced by the Minister of Finance Serhiy Marchenko in an interview to Interfax-Ukraine. What does this statement mean and what should Ukrainians do? Marchenko: With no savings in PPF, one should not count on a pension, <https://minfin.com.ua/ua/2021/08/26/70506687/>.

<sup>13</sup> As stated by the former Minister of Economy, adviser to the head of the President's Office Tymofiy Mylovanov on the air of Ukraine 24 TV channel. Ukrainians must rely on themselves and save money for retirement – Mylovanov, <https://censor.net/ua/n3287183>.

<sup>14</sup> From UAH 5,000 in December 2020 to UAH 6,500 in December 2021.

<sup>15</sup> After all tax deductions, a person receiving the minimum wage actually gets only UAH 4,830.

<sup>16</sup> The Supreme Court declared the Cabinet's resolution on the consumer basket illegal, <https://supreme.court.gov.ua/supreme/pres-centr/news/623867/>.

*Consumer sentiment.* Although Ukrainians still assess their well-being below pre-pandemic levels, consumer sentiment has improved markedly by the end of the year and reached pre-crisis levels, as did consumer spending and borrowing.<sup>17</sup>

Excessive crisis thrift gave way to consumption, followed by a change in consumer habits, such as more active use of plastic cards and shift to online transactions. Even those who were previously afraid to use electronic services were forced to use them because of quarantine restrictions. Since the beginning of the pandemic, the amount and number of payment card transactions increased, with significant number of such payments made in the retail network.

## DEBTS

Ukraine is still unable to eliminate one of «chronic» wage system shortcomings – *timely payment of wages, as wage arrears continued to grow* during the year. If in early January 2021, the total wage arrears amounted to UAH 2.6 billion, then in November they reached the historical maximum of over UAH 4 billion.

*State debts on court decisions also grow.* These concern court decisions on social benefits to persons with disabilities, pensioners, war veterans, children of war, liquidators and victims of the Chernobyl

nuclear accident. As of 5 January 2022, the total public debt on court decisions guaranteed by the state exceeds UAH 6.3 billion.<sup>18</sup> Ukraine is one of the «leaders» by citizen appeals to the European Court of Human Rights on social benefits.

In 2021, court decisions worth UAH 99.99 million were executed, that is, the debt was repaid by only 1.6%. It is noteworthy that the budget programme for the execution of court decisions, including social payments, only had UAH 100 million for 2021.

*Household debt.* The low level of people's solvency is further confirmed by the growing debt of the population for housing and utility services. During the year, the size of debt of Ukrainians for utilities increased 1.5 times. In August 2020, there were 294,789 recorded debts, while in August 2021 their number increased by 155,964 proceedings. So far, the number of debts in the Unified Register of Debtors has reached 450,753 cases. Debts for utility bills account for 7% of the total debt, reaching UAH 72.5 billion. The situation is exacerbated by the fact that the **debt concerns all types of services** (Table «Household debt for housing and utility services»).

Summer debt reduction (compared to winter) is due to lower «natural» charges, which shows the debt for gas supply and heating. However, a period-to-period comparison

HOUSEHOLD DEBT FOR HOUSING AND UTILITY SERVICES, UAH billion (by the end of period)					
	December 2019	June 2020	December 2020	June 2021	November 2021
Gas supply and distribution	27.9	22.9	31.5	24.7	29.17
Central heating and hot water supply	20.4	18.0	24.1	21.5	23.3
Apartment building management	5.1	5.0	5.1	5.5	5.5
Centralised water supply and sewage	4.1	5.5	5.7	6.4	6.4
Household waste removal	0.8	1.0	1.1	1.2	1.2
Electricity	5.4	5.5	6.1	7.1	6.9

<sup>17</sup> Financial Stability Report, The National Bank of Ukraine, <https://bank.gov.ua/ua/news/all/zvit-pro-finansovu-stabilnist-cherven-2021-roku>.

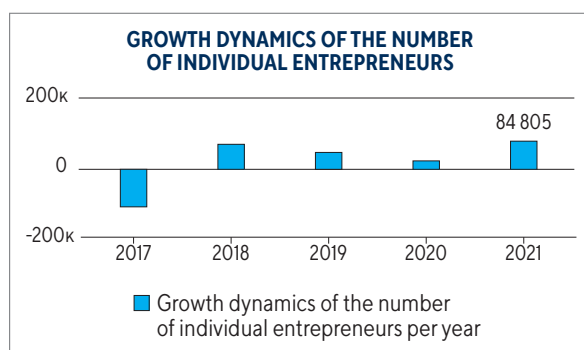
<sup>18</sup> State Treasury Service of Ukraine, <https://www.treasury.gov.ua/ua/file-storage/zvit-pro-byudzhethu-zaborgovanist-za-zagalnim-ta-specialnim-fondami-derzhavnogo-byudzhetu-ukrayini-stanom-na-01122021>.

indicates a clear upward trend of debts. That is, the population does not refuse to pay en masse, but rather «compensates» part of the debt in the spring and summer.

## LABOUR MARKET

In 2021, Ukraine's labour market has undergone ground-breaking changes in several areas, which together indicate a radical change in the employment picture. After a threefold decrease in the number of individual entrepreneurs (FOPs) at the beginning of quarantine restrictions in 2020, a record increase in the number of FOPs in the last five years was recorded in 2021. According to *Opendatabot*,<sup>19</sup> the number of FOPs using the simplified taxation system has increased by 95 thousand,<sup>20</sup> suggesting a revival of business activity at the microbusiness level. Individual entrepreneurship today is one of the most popular organisational and legal forms of business activity. The rate of registration of new entrepreneurs overshadowed the closure of old FOPs even during lockdowns and protests against the introduction of cash registers and other fiscalisation measures.

The increase in the number of FOPs can be explained by the fact that it is more beneficial for business entities to cooperate with individual entrepreneurs to reduce tax costs than to hire employees on the terms of employment contracts in accordance with the Labour Code.



During the «coronavirus business season» the workforce supply and demand became unbalanced, so both employers and job seekers tried to get used to the new conditions, work harder and look for work. At the beginning of 2021, the number of vacancies decreased significantly, but recovered fairly quickly. Moreover, the employers' activity was totally different from the usual seasonality of previous years. After the failed demand in 2020, there was a significant surge in activity. Since mid-2021, there has been an unexpected increase in employers' activity, as many companies have decided to step up staff recruitment that was suspended in 2020 due to the instability. During the year, the number of vacancies doubled from 53 thousand in September 2020 to 108 thousand in September 2021.

## SOCIAL GUARANTEES

The social insurance system is increasing the deficit of funds to provide social guarantees to citizens stipulated by the Constitution and social insurance legislation.

*The Pension Fund's debt to the State Treasury continues to grow.* As of 1 January 2022, the debt of the Pension Fund of Ukraine on loans from the single treasury account to cover the Fund's cash gaps reached UAH 70.25 billion. Although single social contribution collected in 2021 amounted to UAH 349 billion – an 18.6% increase from 2020<sup>21</sup> – actual expenses of the Pension Fund significantly exceed the planned ones.<sup>22</sup> The Fund's increased spending is explained by the execution of court decisions on the recalculation of special pensions for Chernobyl liquidators, military, judges and prosecutors appointed by special laws, which led to unplanned expenditures of UAH 3.4 billion. In addition, the number of recipients of disability pensions is growing following the introduction of special pension conditions during the quarantine period. This led to additional expenditure of UAH 0.5 billion per year.

<sup>19</sup> Foponomics, <https://opendatabot.ua/open/foponomics>.

<sup>20</sup> Record increase in the number of FOPs over the last 5 years recorded, <https://opendatabot.ua/ru/analytics/fop-up-2021>.

<sup>21</sup> State Treasury of Ukraine. Monthly report on the implementation of the State Budget of Ukraine for January-December 2021, <https://www.treasury.gov.ua/ua/file-storage/misyachnij-zvit-pro-vikonannya-derzhavnogo-byudzhetu-ukrayini-za-sichen-gruden-2021-roku?page=1>.

<sup>22</sup> The Pension Fund asks the Cabinet for UAH 4.3 billion on pensions, <https://finbalance.com.ua/news/pensiyiniy-fond-prosit-ukabmina-43-mlrd-hrn-na-viplatu-pensiy>.

Also, there is a shortage of funds in the Social Insurance Fund responsible for the administration of two insurance systems – temporary incapacity for work and workplace accidents. During 2021, the revenues of the Social Insurance Fund were insufficient to cover all benefits and payments subject to financing, and the excess of necessary expenditures over actual incomes amounted to UAH 2.3 billion, which led to *delays in payments or non-payments of sick leaves and maternity benefits*. The debt was accumulated in December 2020 due to the sharp increase in the pandemic-related expenditures, such as additional burden of sick leaves. The Fund was also made responsible for financing the self-isolation of Ukrainian workers, insurance payments to health professionals, etc.

A significant part of social benefits was under threat of non-payment because of the growing entrepreneurs' debt in single social contribution, which exceeded UAH 12 billion.<sup>23</sup> However, any prospects for improvement are not yet visible, and the problem will become particularly acute with the introduction of a number of government's fiscal initiatives that mainly hit small businesses – one can expect even fewer payers. In addition, all the prerequisites for further unemployment growth are in place.

The government's response to a difficult financial situation was the reduction of its financial obligations. Therefore, social initiatives were aimed primarily at saving payments and reducing costs, which has led to the development of relevant new schemes.

*Subsidy restrictions.* Amidst the steady growth of the cost of housing and utility services (the cost of these services for households

increased by 1.5 times – from UAH 11 billion in 2020 to UAH 16.5 billion in 2021),<sup>24</sup> the number of applicants for subsidies has been on the rise. At the same time, budget funding for subsidies reduced to UAH 36.6 billion in 2021 – a 1.5% (2.7 billion) reduction from 2020.

The verification of subsidy recipients initiated by the Ministry of Finance,<sup>25</sup> as well as changes in the procedure for subsidy allocation<sup>26</sup> that established new property criteria for recipients, allowed to «wipe off» 10% to 20% of recipients. This means that 300 to 600 thousand applicants could not or had no time to apply to social security authorities for re-registration of subsidies. In addition, more than two-fold reduction in the number of subsidy recipients was achieved at the expense of other populations – migrant workers, pensioners and low-income citizens, who inherited subdivided land plots (even in the absence of income from those). At the same time, the government offered no rational and effective measures to stop the ongoing growth of tariffs and protect people from tariff shocks, which suggests further increase in debt for consumed housing and utility services.

Against the background of growing household debt,<sup>27</sup> the government has introduced *automatic debt seizure* that significantly increases the efficiency of recovery, as executors can quickly block funds in bank accounts. This automated enforcement system has become fully operational since July 2021, allowing automatic seizure of funds in the accounts of Ukrainian debtors. Now the automatic blocking of debtors' accounts to detect and seize funds can be used in **all enforcement proceedings**, not just those related to alimony, as before.

<sup>23</sup> <https://opendatabot.ua/ru/analytics/fop-esv-debt>.

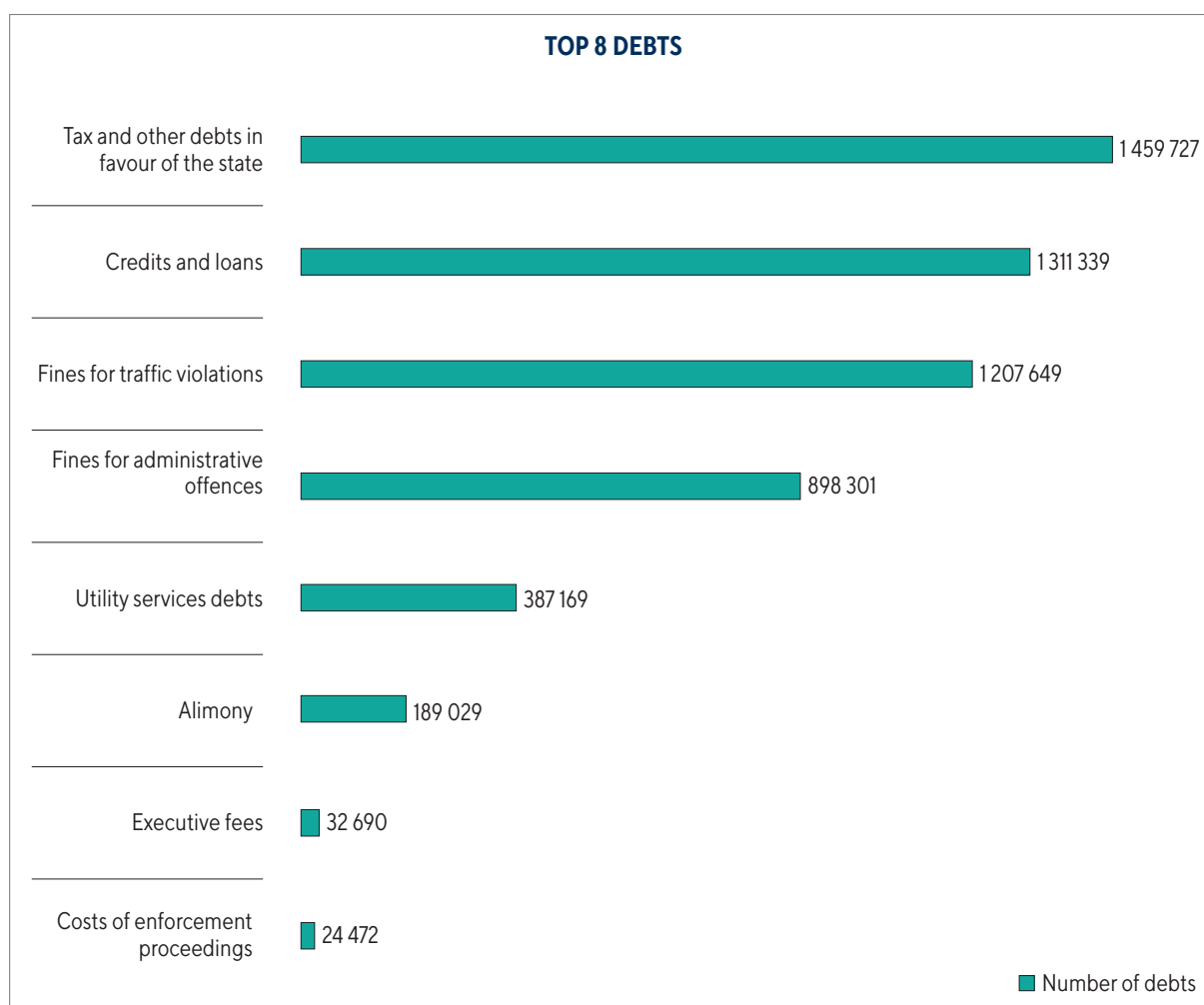
<sup>24</sup> State Statistics Service.

<sup>25</sup> <http://spo.fpsu.org.ua/images/2021/855%20%D1%81%D0%B0%D0%B9%D1%82.pdf>.

<sup>26</sup> The Cabinet of Ministers of Ukraine Resolution «Some issues of housing subsidy allocation» No. 505 of 19 May 2021, <https://zakon.rada.gov.ua/laws/show/505-2021-%D0%BF#Text>.

<sup>27</sup> According to *Opendatabot*, in early 2020, the register included information on 3.8 million debts; already in April, the system registered 5.54 million debts, and this figure continues to grow steadily. See: Banks will be able to write off debts at the discretion of the executive service, <https://bilyayivka.city/cards/139962/banki-zmozhut-spisuvati-borgi-za-rishennyam-vikonavchoi-sluzhbi-rozpovidayemo-detali> United Register of Debtors. – The Ministry of Justice of Ukraine, <https://erb.minjust.gov.ua/#/search-debtors>.





Currently, 18 banks are connected to the system (Figure «Top 8 debts»<sup>28</sup>).

On 1 October 2021, Ukraine launched *electronic sick leave certificates*. At a first glance, this step only involves replacing the paper certificate with the electronic one, but in reality, sick leave compensations are linked to the employer's payment of a single social contribution, so employers with relevant debts will leave their employees without sick leave payments. One of implementing partners, the Ministry of Digital Transformation, has already announced savings of about UAH 4 billion, which is more than 20% of the total fund for sick leave payments (about UAH 18 billion), while about 5 million people receive such compensations annually. As a

result, almost one in five Ukrainians was left without sick leave benefits.

*Eviction of foreign currency borrowers.* The moratorium on the eviction of foreign currency borrowers from the only housing ended on 23 September 2021. From the end of April and until 23 July, they had preferential terms for debt restructuring at the mean exchange rate between two dates – obtaining the loan and debt restructuring. Since July, they have been allowed to do so through the Bankruptcy Code provisions that are valid for five years from the Code's entry into force, that is, until 21 October 2024. However, financial companies have a strong interest in evicting borrowers to resale the property instead of negotiating debt restructuring.

<sup>28</sup> PrivatBank, Universal Bank, Oksi Bank, TAScombank, IndustrialBank, Bank East, ProCredit Bank, Lviv, Concord, Reiffeisen Bank Aval, Kredobank, OTP Bank, Idea Bank, MetaBank, Ukrainian Capital, RADAbank, UkrSibBank, Agroprosperis Bank.

## PROBLEMATIC REFORMS

**Health reform** does not live up to expectations. In Ukraine, the share of all public expenditures on health and as GDP percentage is much lower than the average for the WHO European Region.<sup>29</sup> Ukraine is failing to fulfil its national commitment to allocate at least 5% of GDP to health care, as approved by the Law in 2017.<sup>30</sup> Despite economic growth, health spending in consolidated budget expenditure decreased from 10.4% in 2015 to 9.2% in 2021.<sup>31</sup> With the reduction of budgetary and extra-budgetary forms of public funding, there is a proportional increase in people's spending on health services (Table «*Changes in health financing...*»).

Health sector reform is accompanied by significant violations of the human right to

equal access to health services. This trend is especially true for the timeliness of health care at the primary level, which points at the violation of universal health coverage principle.<sup>32</sup> As of early January 2022, only 32.5 million citizens had signed declarations with a doctor.<sup>33</sup> Therefore, almost 20% of Ukrainians today are deprived of the opportunity to use free health services that are guaranteed by the Constitution.

Family doctors are not always physically accessible for their patients. The emphasis of health reform is on the patient's acute condition, while prevention and prophylaxis are either pushed to the side-lines or totally ignored. As a result, patients find themselves in a situation where it is unrealistic to receive medical care if they are not in an emergency.

**CHANGES IN HEALTH FINANCING IN 2015-2021<sup>34</sup>**

	2015	2016	2017	2018	2019	2020	2021	% change	
								2020 to 2015	2020 to 2021
Real spending on health per capita (2015, UAH) <sup>35</sup>	1 657	1 553	1 850	1 897	1 959	1 988	1 848	20.2	-8.4
Real spending on health (2015, UAH billion)	71.0	66.3	78.6	80.2	82.3	83.2	77.0	17.1	-8.7
Spending on health (% of GDP) <sup>36</sup>	3.6	3.2	3.4	3.3	3.2	3.0	3.0	-14.8	0

<sup>29</sup> WHO, Budgetary Space for Health in Ukraine. Policy document to support budget preparation dialogue for 2021, Health Policy Paper Series No. 20/01, July 2020, Tables 3, 4 and Figure 4), [https://www.euro.who.int/\\_data/assets/pdf\\_file/0007/463327/UKRBudgetary-space-for-health.pdf](https://www.euro.who.int/_data/assets/pdf_file/0007/463327/UKRBudgetary-space-for-health.pdf).

<sup>30</sup> Pursuant to the Law of Ukraine «On State Financial Guarantees for Public Medical Services», Article 4 (5). In 2019, Ukraine spent 3% of GDP and 8.8% of total consolidated budget on health. Health spending planned for 2020 were 3% of GDP and 9.6% of total consolidated budget. See WHO, Budgetary Space for

<sup>31</sup> WHO, Budgetary Space for Health in Ukraine, p.2.

<sup>32</sup> State Statistics Service of Ukraine, <http://www.ukrstat.gov.ua/>.

State Treasury Service of Ukraine, <https://www.treasury.gov.ua/ua/file-storage/vikonannya-derzhavnogo-byudzhetu>.

<sup>33</sup> Universal health coverage (UHC), [https://www.who.int/news-room/fact-sheets/detail/universal-health-coverage-\(uhc\)](https://www.who.int/news-room/fact-sheets/detail/universal-health-coverage-(uhc)).

<sup>34</sup> Consensus forecasts of the Ministry of Economic Development, Trade and Agriculture (MoEDTA, 2020c), State Treasury Service of Ukraine (2020b), State Statistics Service of Ukraine (2020a, 2020b, 2020c).

<sup>35</sup> The real spending figures reflect adjustment for inflation based on the change in year-over-year consumer price index (CPI) (which measures price changes based on a specified basket of consumer goods and services). The real GDP growth rate reflects adjustment based on annual changes in the GDP deflator, which during 2015-2020 grew much faster than the CPI. As a result, deflator-adjusted real GDP growth depicts a slower dynamic compared to CPI-adjusted changes in real spending.

<sup>36</sup> National Health Service of Ukraine, <https://nszu.gov.ua/e-data/dashboard/declar-stats>.

**Deinstitutionalisation of residential facilities**, which is taking place in line with the National strategy for reforming the institutional care system for 2017-2026,<sup>37</sup> has not achieved its goal due to ineffective management decisions and the lack of a single management centre. Ukraine's Ministry of Social Policy is currently unable to coordinate the reform.

The system of agencies and services for children has been virtually destroyed in the country, rendering the function of protecting the rights of the child not performing at all levels.<sup>38</sup> To date, not all local communities have established and staffed services for children. The introduction of the National Social Service of Ukraine did not take place in the manner prescribed by law, which led to the liquidation of existing child protection bodies, while the newly created agency still lacks necessary powers. The decentralization reform, designed to transfer as many rights and powers as possible to the grassroots level, failed to determine the real capacity to implement them in practice. Regional services for children cannot fully perform their functions due to significant staff reductions.

Notable decrease in national adoption over the last 10 years is a consequence of the accumulated crises in this system. A ban on

the placement of children under three in baby homes without creating alternative forms of care for young children, introduced in several regions, creates situations, in which these children are in fact unaccounted for and stay in health facilities since birth. They are being adopted from these facilities, which creates premises for abuse in this area

**During 2021 the government has taken the most radical steps to change the very model of social policy. The desocialisation course of the state continues with gradual reduction of the system of social obligations. This directly results in further growth of already excessive social inequality and sharp polarisation of incomes of different social groups. Failure of the state to fulfil its social obligations prompts people to refuse to fulfil their own obligations to the state.**

**Reduction in the state's financial commitments significantly increases the number of people claiming mandatory financial benefits due to lower incomes, which in turn intensifies stagnation of the consumer market and worsens the business climate. In addition, the social sphere, just like other sectors, suffers from extremely low cultural and professional levels of officials at various levels, which reduces public confidence in government actions.**

<sup>37</sup> National Strategy for Reforming the System of Institutional Care and Education of Children for 2017-2026 was approved by the Cabinet of Ministers of Ukraine Directive No. 526 on 9 August 2017.

<sup>38</sup> Resolution of the Verkhovna Rada on the Report of the Parliament's temporary commission of inquiry on the investigation of cases and causes of violations of the rights of the child during decentralization of powers in childhood protection, reforming the institutional care and educational institutions, realisation of the right of the child for family care and adoption, development (modernisation) of social services. 14 July 2021, No. 1642-IX, <https://zakon.rada.gov.ua/laws/show/1642-IX#Text>.

## Humanitarian Policy

During 2021, the situation in the humanitarian sphere was determined by both external and internal factors. The external threat from the Russian Federation with its persistent information attacks on Ukrainian society has become increasingly critical, using outright misinformation to deepen internal contradictions over Ukraine's controversial historical and cultural issues. Restrictions linked to the ongoing COVID-19 pandemic remained in place.

In this situation, despite some positive events and actions of the current government team, the general weakness of the state humanitarian policy is becoming increasingly obvious due to the lack of a comprehensive strategy and clearly defined goals and ways to achieve them, constant organisational and structural reformatting of institutions, personnel blunders and the lack of experience and professionalism.

### ACHIEVEMENTS

1. Transition of print media into Ukrainian language.
2. Adoption of the Law «On Indigenous Peoples».
3. Adoption of the Information Security Strategy.
4. Establishment of the Virtual museum of Russian aggression.
5. Discontinuation of broadcasting of openly pro-Russian TV channels.

### PROBLEMS

1. Lack of generally accepted value basis of the state humanitarian policy, delays with the development and introduction of the Strategy for State Humanitarian Policy.
2. Inadequate quality of education.
3. Delays with the development and adoption of the Law on National Minorities.
4. Critical shortage of academic culture in education and science.
5. The practice of ignoring opinions of professional communities, experts and NGOs by the government in the humanitarian sphere.

the government initiated the establishment of two institutions within the Ministry of Culture and Information Policy (MCIP) tasked to protect cultural heritage – *the State Service for the Protection of Cultural Heritage of Ukraine* and *the State Inspectorate for Cultural Heritage of Ukraine*. However, culture management reform was not completed as declared.

In November 2021, the Ukrainian State Film Agency (Derzhkino) was transferred from MCIP under the direct management of the Cabinet of Ministers.<sup>1</sup> This was one of the reasons for the resignation of Minister Oleksandr Tkachenko, because this Cabinet decision was made without participation, consultations and approval of the MCIP.<sup>2</sup> There were also media reports about the intention to transfer the Dovzhenko National Centre (the Dovzhenko Centre) to Derzhkino, which was strongly opposed by the centre's team.<sup>3</sup> However, on 26 January 2022, the Dovzhenko Centre was still given to Derzhkino by the Cabinet of Ministers directive.<sup>4</sup>

## ORGANISATIONAL SUPPORT AND STAFFING

Structural transformations of the state bodies responsible for humanitarian policy continued in 2021 for the third year. In June,

During 2021, it was planned to replace the managers cultural institutions, whose term has expired, namely the heads of the Ukrainian Cultural Foundation (UCF), the Dovzhenko Centre, and the Mystetsky Arsenal Art and Culture Museum Complex. However, as of early

1 Resolution of the Cabinet of Ministers of Ukraine «Some issues of the State Film Agency» No.1183 of 10 November 2021.

2 Derzhkino goes to the Cabinet – the Government has announced the decision. – Ukrinform, 17 November 2021, <https://www.ukrinform.ua/rubric-culture/3352320-derzhkino-perehodit-v-upravlinna-kabminu-urad-opriludniv-risenna.html>.

3 Open letter of the Dovzhenko Centre team on the threat of the institution's destruction. – The Dovzhenko Centre, 15 March 2021, <https://www.facebook.com/dovzhenko.centre/posts/4204533792967838>.

4 The Dovzhenko National Centre has been transferred to Derzhkino. – UM, 27 January 2022, <https://umoloda.kyiv.ua/number/0/2006/163978>.

2022, the director of the Dovzhenko Centre has not been appointed.<sup>5</sup> There were two competitions for the position of the Mystetsky Arsenal director, and the second one resulted in the re-election of the current director Olesya Ostrovska-Lyuta for the second term.<sup>6</sup>

## PROGRAMME DOCUMENTS, STRATEGIC PLANNING AND LEGISLATIVE SUPPORT

The work of sectoral institutions and agencies is complicated by the lack of strategic documents. The *Information Security Strategy*,<sup>7</sup> generally welcomed by the experts and professional community, was approved only at the end of 2021. The document states that the key to information security (and national security in general) is the establishment of Ukrainian civic identity and the consolidation of Ukrainian society, with culture serving as the value basis and foundation for consolidation. Therefore, it is a question of strengthening the socio-humanitarian component of Ukraine's domestic policy.

However, the existence of this document does not replace the need for a *Strategy for State Humanitarian Policy*, which is still not in place. The Minister of Culture's brief report for 2021 mentions neither the Strategy itself nor national roundtables «Power in Unity», held in September–November 2020 as a preparation for developing its draft.<sup>8</sup> At the same time, media reports that MCIP is currently working on the draft with the help of the Kyiv-Mohyla Business School. Meanwhile, the institutions under the Ministry «have to implement policies that are not there».<sup>9</sup>

Despite the declared attention to the national cinema, the Law «On Amendments to Article 11 of the Law of Ukraine 'On State Support of Cinematography in Ukraine'» was passed only at the end of 2021, eliminating technical and logical inconsistencies. The bill «On Amendments to Certain Laws of Ukraine on State Support of Cinematography in Ukraine» was included in the agenda.<sup>10</sup> Meanwhile, other bills essential not only for the film industry, but also for other professional communities and Ukrainian culture in general were not considered during the year. Such a law-making practice shows a lack of a system, coordination and strategic planning in state humanitarian policy.

In this context, there appear some rather unpredictable initiatives that incite both positive and contradictory from the professional community and the public. For example, a «Big Restoration» was introduced in 2021 as a follow-up to the «Big Construction» programme aimed at restoring of about 150 historical, cultural and tourism sites. The initiative received UAH 711.1 million for its implementation. During the year, restoration was carried out on 57 sites; 13 projects were completed.<sup>11</sup> At the same time, experts point to poor quality of restoration of some objects and question good faith of some contractors.<sup>12</sup>

## INFORMATION POLICY

The adoption of the *Cyber Security Strategy of Ukraine* in August 2021<sup>13</sup> and the above-mentioned *Information Security Strategy* in October 2021<sup>14</sup> deserve special attention among

<sup>5</sup> Transfer of the Dovzhenko Centre to Derzhkino. Position. – Website of the Dovzhenko Centre, 26 January 2022, <https://dovzhchenkocentre.org/peredacha-dovzhenko-tsentru-pid-derzhkino-pozytsiya/>

<sup>6</sup> First elected in July 2016. See: Olesya Ostrovska-Luta has been elected General Director of the Mystetsky Arsenal, <https://artarsenal.in.ua/povidomlennya/olesyu-ostrovsku-lyutu-obrano-generalnoyu-dyrektorkoyu-mystetskogo-arsenalu>.

<sup>7</sup> Decree of the President of Ukraine «On the decision of the National Security and Defence Council of Ukraine of 15 October 2021 'On the Information Security Strategy'» No. 685 of 28 December 2021.

<sup>8</sup> Oleksandr Tkachenko on the results of MCIP in 2021. – MCIP, 28 December 2021, <https://mkip.gov.ua/news/6688.html>.

<sup>9</sup> See, for example: Yuliya Khomchyn, Diana Popova: «Strategy is not a matter of one, it requires a much wider circle» – LB.ua, 15 January 2022, [https://lb.ua/culture/2022/01/15/503022\\_yuliya\\_homchin\\_diana\\_popova.html](https://lb.ua/culture/2022/01/15/503022_yuliya_homchin_diana_popova.html).

<sup>10</sup> Draft law No. 6194 of 20 October 2021; included in the agenda on 14 December. – The Verkhovna Rada of Ukraine, [http://w1.c1.rada.gov.ua/pls/zweb2/webproc4\\_1?pf3511=73019](http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=73019).

<sup>11</sup> Oleksandr Tkachenko on the results of MCIP in 2021. – MCIP, 28 December 2021, <https://mkip.gov.ua/news/6688.html>.

<sup>12</sup> For more detail, see K.Bilash. «Big Restoration» on paper and in reality. – LB.ua, 21 January 2022, [https://lb.ua/culture/2022/01/21/503574\\_velika\\_restavratsiya\\_papery.html](https://lb.ua/culture/2022/01/21/503574_velika_restavratsiya_papery.html).

<sup>13</sup> Decree of the President of Ukraine «On the decision of the National Security and Defence Council of Ukraine of 14 May 2021 'On the Cyber Security Strategy of Ukraine'» No. 447 of 26 August 2021.

<sup>14</sup> Decree of the President of Ukraine «On the decision of the National Security and Defence Council of Ukraine of 15 October 2021 'On the Information Security Strategy'» No. 685 of 28 December 2021. The Strategy replaces the Doctrine of Information Security of Ukraine of 2017.



the government's steps in information policy. These also included the imposition of sanctions against persons subject to the SBU investigation into «terrorist financing» and ensuing discontinuation of broadcasting of TV channels whose editorial policies were influenced by those individuals. Thus, relevant sanctions were imposed in February against the pro-Russian MPs Viktor Medvedchuk and Taras Kozak, which included blocking of openly pro-Russian TV channels *112 Ukraine*, *NewsOne* and *ZiK*. During 2021, sanctions were imposed on 16 individuals and media owners, and their broadcasting (distribution) in Ukraine was suspended.<sup>15</sup>

Measures have been taken to counter aggressive Russian misinformation and increase media literacy of Ukrainians. In August, with the support of international partners, the MCIP launched the Filter project;<sup>16</sup> in October, Ukraine joined the *Global Media and Information Literacy Week*, implementing Media and Information Literacy for the Public Good initiative. One should also note the digital *Virtual museum of Russian aggression*, launched by the Ukrainian Institute of National Remembrance (UINR) in October 2021. The museum currently presents the information on the occupation of Crimea in Ukrainian and English; materials on the Russia-Ukraine war in the Donbas and the occupation of parts of the Donetsk and Luhansk regions are under development.<sup>17</sup>

Highly appreciated is the transition of the print media to the Ukrainian language pursuant to Article 25 of the Law «On Ensuring the Functioning of the Ukrainian Language as the State Language». This provision requires

national and regional print media to have Ukrainian versions and demands press sales outlets to offer at least 50% of the titles in the state language. According to the Commissioner for the Protection of the State Language, «...we found no periodicals published after 16 January that do not have a Ukrainian version, and major publishers observe the law. Moreover, many of them switched to publishing newspapers and magazines exclusively in the state language».<sup>18</sup>

Not all announced measures and projects were completed. For example, in April, the MCIP presented the *Media Literacy Strategy for 2021-2022*, which, according to Minister Tkachenko, was «part of a large-scale information security strategy of Ukraine, agreed with the National Security and Defence Council».<sup>19</sup> However, the relevant Strategy is yet to be made public.

The ruling team's intentions to create a powerful pool of state media, announced in 2021, were met by sharp criticism. To do so, the government reformatted the parliamentary TV channel «Rada» into an information and news channel. Under the slogan of protecting citizens' rights, it is planned to update the status of the Russian-language TV channel «Dom», which currently operates as part of the state-owned International Broadcasting Multimedia Platform of Ukraine<sup>20</sup> – the idea is to transform «Dom» into the national – possibly Russian-language – TV channel. This can be evidenced by a significant increase in funding: the International Broadcasting Multimedia Platform received UAH 997 million from the budget in 2021. This is despite the fact that Ukraine's international broadcasting per se is practically curtailed, and all information about events in

<sup>15</sup> For more detail, see: Y. Zubchenko. Medvedchuk's half-decay. How they closed Putin kum's channels three times a year. – Detector Media, 29 December 2021, <https://detector.media/infospace/article/195204/2021-12-29-napivrozpad-medvedchuka-yak-trychi-za-rik-zakryvaly-kanaly-kuma-putina>.

<sup>16</sup> Project supported by the embassies of the United Kingdom and Sweden, IREX, OSCE, UNICEF.

<sup>17</sup> Virtual museum of Russian aggression, <https://rusaggression.gov.ua/ua/about-us.html>.

<sup>18</sup> The Secretariat of the Commissioner monitored compliance with the language legislation by print media. – Commissioner for the Protection of the State Language, 20 January 2022, [https://moja-ombudsman.gov.ua/news/sekretariat-upovnovazhenogo-proviv-monitoring-dotrimannya-movnogo-zakonodavstva-u-sferi-drukovanih-zmi?fbclid=IwAR17Mt7xj\\_-Oc5vceGQ2sBURlhjFlzGft-U7xrWMOksnapAxmPSziX8Z5UHo](https://moja-ombudsman.gov.ua/news/sekretariat-upovnovazhenogo-proviv-monitoring-dotrimannya-movnogo-zakonodavstva-u-sferi-drukovanih-zmi?fbclid=IwAR17Mt7xj_-Oc5vceGQ2sBURlhjFlzGft-U7xrWMOksnapAxmPSziX8Z5UHo).

<sup>19</sup> MCIP presented the analytics on media literacy development in Ukraine. – MCIP, 25 November 2021, <https://www.mkip.gov.ua/news/6479.html>.

<sup>20</sup> «Who are you? Answer it for yourself»: an interview with President Volodymyr Zelenskyy about the Donbas and Crimea. – TV channel «Dom», 5 August 2021, <https://kanal-dom.tv/uk/kto-ty-sam-dlya-sebya-otvet-intervyu-prezidenta-vladimira-zelenskogo-o-donbasse-i-kryme>.

Ukraine is disseminated abroad by «Suspilne» public broadcasting company.<sup>21</sup>

Reports that the «Dom» TV will broadcast a social talk show «About Life with Andriy Palchevskyi», known for its pro-Russian views, incited even more public frustration.<sup>22</sup> The Independent Media Council (a public body of self-regulation in media) strongly criticised this step.<sup>23</sup>

Strengthening of the state media has faced disapproval and resistance from the parliamentary opposition, with its representatives submitting a bill that render it impossible to transform the «Dom» channel into a national one.<sup>24</sup> At the end of 2021, however, the Servant of the People MP submitted another bill «On the State Information Concern of Television and Radio Broadcasting of Ukraine».<sup>25</sup> The said concern is to be subordinated to the government and formed on the basis of the National Public Television Company of Ukraine (UA: Suspilne),<sup>26</sup> International Broadcasting Multi-media Platform of Ukraine and Derzhkino as a joint stock company 100% owned by the state.

The government-controlled process of media concentration has already been called «Big Media Construction», and many journalists and public figures have been extremely critical<sup>27</sup> of these intentions, particularly over its

non-compliance with Ukraine's commitments and European standards.<sup>28</sup>

In general, despite the assurances of government spokespeople on building strategic communication with society, the public voices reasonable doubts about the government's sincerity and feels that these efforts are aimed at self-publicity and early campaigning. The NGO «Detector Media» announced President Zelenskyy's team as the worst media owner of the year, and the «Dom» channel won the «PR of the Year» nomination.<sup>29</sup>

## ETHNIC POLICY AND STATE-CHURCH RELATIONS

The Law «On Indigenous Peoples of Ukraine» entered into force in July 2021. The Crimean Tatars, Karaites, and Krymchaks are now recognised as indigenous peoples who do not have their own state outside Ukraine. The law guarantees their cultural, educational, language and information rights, their right to sustainable development; the law also determines the legal status of their representative bodies and regulates the issues of their international representation. Being in line with international law, in particular the UN Declaration on the Rights of Indigenous Peoples (2007), this legislation was generally well received by experts, the public and the

<sup>21</sup> As a member of the European Broadcasting Union, «Suspilne» constantly shares its news stories about events in Ukraine within the Eurovision News Exchange.

<sup>22</sup> See, for example: «Dom» orders a talk show with Andriy Palchevskyi to the owner of «Ze Media» for 12 million. – Detector Media, 10 December 2021, <https://detector.media/production/article/194676/2021-12-10-dom-zamovlyaie-vlasnyku-ze-media-za-12-mln-grm-vyrobnystvo-tokshou-z-andriiem-palchevskym>.

<sup>23</sup> Palchevskyi's talk show discredits «Dom» and threatens reintegration of the occupied territories. – Independent Media Council. – LB.ua, 16 December 2021, [https://lb.ua/society/2021/12/16/501099\\_tokshou\\_palchevskogo\\_diskredituie.html](https://lb.ua/society/2021/12/16/501099_tokshou_palchevskogo_diskredituie.html).

<sup>24</sup> Draft Law «On Amendments to the Law of Ukraine 'On International Broadcasting System of Ukraine' to Guarantee the Independence of Foreign Broadcasting» No.6407 of 8 December 2021, [http://w1.c1.rada.gov.ua/pls/zweb2/webproc4\\_1?pf3511=73389](http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=73389).

<sup>25</sup> Draft Law Reg.No. 6430 of 15 December 2021. – The Verkhovna Rada of Ukraine, [http://w1.c1.rada.gov.ua/pls/zweb2/webproc4\\_1?pf3511=73432](http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=73432).

<sup>26</sup> «Suspilne» encompasses 26 TV channel (2 national and 24 regional), 3 national and 24 regional radio channels, and the news website Suspilne/News.

<sup>27</sup> See, for example: H.Sklyarevska. Closure of media outlets, pressure on «Suspilne», Zelenskyy's media holding. The main scandals of 2021 that changed the Ukrainian media landscape. – Detector Media, 14 January 2022, <https://detector.media/infospace/article/195567/2022-01-14-zakryttya-vydan-tysk-na-suspilne-mediakholdyng-zelenskogo-golovni-skandaly-2021-roku-yaki-zminyly-ukrainskyy-medialandshaft>.

<sup>28</sup> S.Ostapa. The head of the State Committee for Television and Radio Broadcasting considers the course to strengthen the state media wrong. – Detector Media, 11 January 2022, <https://detector.media/infospace/article/195450/2022-01-11-golova-derzhkomtelevradio-vvazhaie-kurs-na-posylennya-derzhavnykh-zmi-khybnym>.

<sup>29</sup> Y.Zubchenko. The worst in the media. Detector Media's anti-awards 2021. – Detector Media, 13 January 2022, <https://detector.media/kritika/article/195516/2022-01-13-naygirshi-v-media-antypremiya-detektora-media-2021>.

Crimean Tatar community. On 9 August 2021, Ukraine celebrated the International Day of the World's Indigenous Peoples for the first time. In the meantime, the law prompted very nervous response in Russia.<sup>30</sup>

At the same time, the law on national communities (minorities), announced by President Zelenskyy, is yet to be adopted. The lack of legislative regulation of the rights of national minorities has once again sparked misunderstandings between Ukraine and some of its neighbours.<sup>31</sup>

In 2020, the State Service of Ukraine for Ethnic Policy and Freedom of Conscience (DESS) proposed to abandon attempts to develop and approve the *Concept of State Ethnonational Policy of Ukraine* and replace it with «strategic documents of another format».<sup>32</sup> However, so far there are no strategic documents in any formats.

Other noteworthy activities in ethnic policy included the continuation of the national media project «Shades of Ukraine» launched in 2020 (production of videos about the traditions, languages and cultures of national communities of Ukraine) and approval of the *Strategy to promote the rights and opportunities of persons belonging to the Roma national minority in Ukrainian society until 2030*.<sup>33</sup>

Speaking of state-confessional relations, the parliament passed the Law «On the Military Chaplaincy Service» in November 2021. The process of regulating the activities of medical chaplains is currently underway. Legislative activities concerning the state-confessional relations involve close cooperation of the Ukrainian Council of Churches and Religious Organisations (UCCRO) and the inter-factional association «Values. Dignity. Family».<sup>34</sup>

Interfaith relations are not problem-free. The relations between the Orthodox Church of Ukraine (OCU) and the Ukrainian Orthodox Church of Kyiv Patriarchate (UOC-KP) remain unsettled, just like the issue of the UOC-KP de-registration. A fire in the St. Nicholas Cathedral in Kyiv at the end of 2021 has once again raised the long-standing problem of returning it to the Roman Catholic Church in Ukraine, as required by law and the state's obligations to the Council of Europe. This step was also supported by the UCCRO and multiple religious and public associations. However, at this point, there is no clear decision on the fate of said Cathedral.

The above-mentioned DESS, established back in 2020, has not yet become fully operational – its activity is limited to participation in two projects. Report on the DESS activities in 2021 is still absent on the Service's official website.

In August 2021, Ukraine's Ministry of Education and Science (MoES) signed a cooperation agreement with the UCCRO.<sup>35</sup> It has been criticised by the public because of the presence of indefinite memorandum of cooperation since 2000, while in 2008 MoES launched a Council on Cooperation with Churches and Religious Organisations capable of providing conclusions and recommendations on most issues raised in the agreement. However, the strongest criticism by human rights activists and experts was caused by «non-admission of provisions that contradict the traditional family values of the Ukrainian people to the educational literature and curricula». Experts stress that the term «traditional family values» has no legal definition, and its arbitrary interpretations can lead to direct interference of the Church in the educational process and

<sup>30</sup> See, for example, the Rada passed an indigenous peoples' law that outraged Putin. – BBC, 1 July 2021, <https://www.bbc.com/ukrainian/news-57679034>.

<sup>31</sup> See, for example: Hungary: Kyiv's position on minority rights limits any support in the conflict. – European Pravda, 27 January 2022, <https://www.eurointegration.com.ua/news/2022/01/27/7133175>.

<sup>32</sup> Report of the State Service of Ukraine on Ethnic Policy and Freedom of Conscience 2020, p.4. – DESS, <https://dess.gov.ua/wp-content/uploads/2021/02/Report-DESS-2020.pdf>.

<sup>33</sup> Directive of the Cabinet of Ministers of Ukraine No. 866 of 28 July 2021.

<sup>34</sup> Religious leaders and MPs decided on cooperation during the new Verkhovna Rada session. – UCCRO, 6 September 2021, <https://vrciro.org.ua/ua/events/religiyini-diyachi-i-parlamentari-domovilisya-vzaemodiyati-pid-chas-novoi-sesii-verkhovnoi-radi>.

<sup>35</sup> Agreement on cooperation between the Ministry of Education and Science of Ukraine and the Ukrainian Council of Churches and Religious Organisations. – UGCC, 25 August 2021, [http://news.ugcc.ua/articles/ugoda\\_pro\\_spivpratsyu\\_mizh\\_ministerstvom\\_osviti\\_i\\_nauki\\_ukraini\\_ta\\_vseukrainskoyu\\_radoyu\\_tserkov\\_i\\_religijnih\\_organizatsiy\\_94174.html](http://news.ugcc.ua/articles/ugoda_pro_spivpratsyu_mizh_ministerstvom_osviti_i_nauki_ukraini_ta_vseukrainskoyu_radoyu_tserkov_i_religijnih_organizatsiy_94174.html).

discrimination against certain – including religious – communities.<sup>36</sup>

## YOUTH POLICY

Positive achievements in youth policy include the adoption of the Law «*On the Basic Principles of Youth Policy*» in April 2021. The need to update and improve youth legislation has been long overdue, as relevant regulatory acts were adopted back in the 1990s. New legislation was also envisaged by the *National Youth Strategy until 2030*, adopted in March 2021.<sup>37</sup>

The main principle underlying youth policy under the Law is to change the very ideology of youth policy – from «working with youth» to promoting the work of young people themselves. The main objectives of youth policy include «the formation of civic, national and cultural identity of Ukrainian youth» (Article 3.3 of the Law). A notable innovation is the Law's recognition of youth (street) subcultures.<sup>38</sup>

In September 2021, the Youth Council was established as an advisory body to the President of Ukraine.<sup>39</sup> The All-Ukrainian Youth Centre is working actively. Other novelties include the First Youth TV Channel and an online policy platform on YouTube and Facebook. At the same time, the implementation of the All-Ukrainian youth mobility programme «Sewing the country together», which was set to start in April 2020, has been suspended. The government approved the State targeted social programme «Youth of Ukraine» for 2021-2025 only in June 2021.<sup>40</sup>

In current context, the systemic **state policy for national-patriotic education**, which is considered an integral part of the national

security of Ukraine, becomes particularly important. This area is regulated by the *Strategy of National-Patriotic Education for 2020-2025*, approved in May 2019, and the relevant government action plan for its implementation.

In June 2021, the government approved the *State targeted social programme of national-patriotic education until 2025*. The goal of the programme is to «improve and develop an integral national policy of national-patriotic education through the formation and establishment of Ukrainian civic identity».<sup>41</sup> The programme sets a number of priority tasks, such as increasing the role of the Ukrainian language as a national value and ensuring active involvement of the families of ATO/JFO fighters and veterans in national-patriotic education, but it is too early to assess its effectiveness.

In May 2021, there were reports on the new law on national-patriotic education being drafted by the Parliamentary Committee on Youth and Sports, which would take into account the new realities of decentralisation, but its text has not yet been made public.<sup>42</sup>

## NATIONAL REMEMBRANCE POLICY

As expected, the 30<sup>th</sup> anniversary of Ukraine's Independence brought to the fore the issues of history of the Ukrainian people and the Ukrainian state, their place and role in European and world history. The aggressor also used the anniversary – the widely publicised article, signed by the name of Vladimir Putin, has once again questioned the distinctiveness and identity of Ukrainians, as well as the legitimacy and expediency of the Ukrainian state.<sup>43</sup>

<sup>36</sup> For more detail, see: Y.Radchenko. Agreement between the MoES and the Council of Churches: legal consequences of «traditional values» and other pitfalls. – ZMINA, 17 September 2021, <https://zmina.info/articles/ugoda-mizh-minosvity-ta-radoyu-czerkov-yurydychni-naslidky-tradycijnyh-czinnostej-ta-inshi-pidvodni-kameni>.

<sup>37</sup> Decree of the President of Ukraine No.94 of 12 March 2021.

<sup>38</sup> UCF is already holding the first competition of street culture projects in Ukraine with the budget of UAH 10 million.

<sup>39</sup> Decree of the President of Ukraine «On Youth Council» No. 462 of 10 September 2021.

<sup>40</sup> Resolution of the Cabinet of Ministers «On approval of the State targeted social programme 'Youth of Ukraine' for 2021-2025 and amendments to some acts of the Cabinet of Ministers of Ukraine» No. 579 of 2 June 2021.

<sup>41</sup> Resolution of the Cabinet of Ministers «On approval of the State targeted social programme of national-patriotic education until 2025 and amendments to some resolutions of the Cabinet of Ministers of Ukraine» No. 673 of 30 June 2021.

<sup>42</sup> The new bill on national-patriotic education is being drafted in Ukraine. – Ukrinform, 31 May 2021, <https://www.ukrinform.ua/rubric-politics/3256260-v-ukraini-gotuut-zakonoproekt-z-nacionalnopatriotichnogo-vihovanna.html>.

<sup>43</sup> Vladimir Putin's article «On the historical unity of Russians and Ukrainians». – The President of the Russian Federation, 12 July 2021, <http://kremlin.ru/events/president/news/66182>.

Instead, the festivities dedicated to the 30<sup>th</sup> anniversary of Independence (President's speech,<sup>44</sup> introduction of the Day of Ukrainian Statehood,<sup>45</sup> theatrical performance «DNA of Ukraine – winning back its own») sent a clear message to Russia and the world about Ukraine as a direct successor of the Kyivan Rus, a full-fledged and recognized European state. The military parade ended this message, emphasising Ukraine's readiness to defend its sovereignty, territorial integrity and security of its citizens.

Unfortunately, the commemoration of the Holodomor Memorial Day was accompanied by heated debates over the famine's death toll. On 7 September 2021, the participants of the international forum «Mass Artificial Famines: Remembering, Honouring» organised by the National Holodomor Museum heard a statement about 10.5 million victims of the Holodomor of 1932-1933. This caused a public conflict between the Museum and the scientific community and other institutions operating other data.<sup>46</sup> Such a conflict seems particularly inappropriate when Ukraine is appealing to the world to recognize the Holodomor as genocide of the Ukrainian people, and any manipulations with the number of victims discredits such appeals and damages Ukraine's image.

2021 also marked the 80<sup>th</sup> anniversary of the Babyn Yar tragedy. The event reignited long-lasting discussions and conflicts around the

Babyn Yar National Historical and Memorial Reserve.<sup>47</sup> The conflict is essentially around two projects of memorialisation of Babyn Yar and the sources of their funding.<sup>48</sup> On the one hand, it is a project founded in 2016 by the private fund Holocaust Memorial Centre «Babyn Yar» and sponsored by Ukrainian and Russian businessmen.<sup>49</sup> It is led by Russian film director I. Khrzhanovsky, a person with a rather ambiguous reputation. On the other hand, it is a national project of complex memorialisation of Babyn Yar; its concept was commissioned by the Ministry of Culture in early 2019 and developed by the working group of the Institute of History of Ukraine of the National Academy of Sciences. In October 2021, the concept of comprehensive memorialisation of Babyn Yar was presented for public discussion under the slogan «Only under the auspices of the state!»<sup>50</sup>

The stumbling block is different ideological principles of the projects (the private one echoes mainly Russian narratives about the Babyn Yar tragedy and shows contempt of its initiators to other places of memory located in the ravine and adjacent territories, such as the construction of a «memorial synagogue» on the lands of the Kyrilivske Orthodox cemetery).<sup>51</sup> There is also disagreement about the sources of funding, as confirmed by the conflict in the Parliamentary Committee on Humanitarian and Information Policy over the Draft Resolution «*On additional measures to commemorate the victims of the Babyn*

<sup>44</sup> Speech by President Volodymyr Zelenskyy on the occasion of the 30<sup>th</sup> anniversary of Ukraine's independence. – Official website of the President of Ukraine, 24 August 2021, <https://www.president.gov.ua/en/news/promova-prezidenta-volodimira-zelenskogo-z-nagodi-30-yi-rich-70333>.

<sup>45</sup> Decree of the President of Ukraine «On the Day of Ukrainian Statehood» No. 423 of 24 August 2021.

<sup>46</sup> According to various scientific studies, the number of Holodomor victims ranges between 2.6 to 5 million people. Experts of the M.Ptukha Institute of Demography and Social Research talk about 3.9 million.

<sup>47</sup> Back on 14 May 2020, an appeal was made to the country's leadership and the mayor of Kyiv with a demand to take the creation of the National Memorial Complex in Babyn Yar under state control. The appeal was signed by more than 700 representatives of the Ukrainian cultural and scientific community. Myroslav Marynovych called the conflict over the memorialisation of Babyn Yar a «test for the subjectivity of Ukraine».

<sup>48</sup> For more detail, see: M.Marynovych. Once again about Babyn Yar. – «Zbruc», 5 August 2020, <https://zbruc.eu/node/99495>.

<sup>49</sup> The founders of the Fund include Russian businessmen M. Friedman, P. Fuchs, G. Khan. The Supervisory Board also includes ex-President of Poland O. Kwasniewski, ex-President of Ukraine L. Kravchuk, boxer V. Klitschko, former UNESCO Director-General I. Bokova, Belarusian writer and Nobel laureate S. Aleksiyevech, musician S. Vakarchuk, businessman V. Pinchuk, Chief Rabbi of Kyiv and Ukraine Yaakov Dov Bleich. The council is headed by an Israeli politician, former Soviet dissident N. Sharansky. Donors pledged \$100 million to the memorial centre. Its opening is planned for 2023. For more detail, see: S.Dorosh. Babyn Yar and the Russian trace. What is behind the conflict around the memorial. – BBC, 3 March 2021, <https://www.bbc.com/ukrainian/features-56156925>.

<sup>50</sup> Only under the auspices of the state! Ukrainian historians resented the Babyn Yar Memorial concept for public discussion, <http://babiya.org.ua/?p=1908>.

<sup>51</sup> Lawyer Vyacheslav Yakubenko: Until the Russian project showed up, no one ever thought about entering the cemetery and building something there. – «Diyeslovo», April 2021, <https://dieneslovo.org.ua/ru/node/91>.



*Yar tragedy and the Holocaust»* (No.5290 of 19 March 2021) and MPs failure to pass it.

The national project is supported by the representatives of NaUKMA, the University of Toronto (Canada), religious and public figures, deputies of various levels, academics, journalists, and the Association of Jewish Organisations of Ukraine. Instead, the private project is backed by President Zelenskyy and the Kyiv mayor Klitschko. The government's loyalty to the private project is explained by the pressure of Andriy Yermak, the head of the President's Office.<sup>52</sup> Minister of Culture Tkachenko, who was initially against the private project, eventually changed his mind and his ministry's decisions facilitated its implementation.<sup>53</sup> There is a paradox, where the public defends the national project, and the government promotes the private (Russian) one.

Speaking of other events and activities in the national remembrance policy, the President and members of the ruling team tend to avoid commenting the national liberation movement of the 20<sup>th</sup> century and the Soviet period of Ukraine's history. Therefore, the responsibility for this historical period was delegated to the UINR, whose activities are generally inertial. Cuts in the UINR funding have made it difficult to implement previously planned measures<sup>54</sup>, prolonging the process of digitising information about Soviet-era crimes, implementation of the «Ukrainian Martyrologist of the 20<sup>th</sup> century» project and others.

## EDUCATION AND SCIENCE

Education and science are leading sectors in terms of human capital formation – the basis of the country's modern economic development,

as well as unity, integrity and cohesion of its society. The sector has been undergoing the reform for several years already. **School education reform** within the New Ukrainian School (NUS) programme continue. In 2021, it extended to the basic school (grades 5–9), which received newly approved *State Standard of Basic Education* and standard curricula.

2021 was to be the Year of Reading Promotion – the initiative of the MCIP, which also put forward a draft *Strategy for the Development of Reading for 2021–2025 «Reading as a Life Strategy»*<sup>55</sup> for public discussion. However, it was never approved. However, this was partially compensated by the eSupport programme, as books became the most sought-after product procured by fully vaccinated Ukrainians under this programme. So far, they spent UAH 364 million on books.

In the context of the epidemic, much attention was paid to distance learning. A platform for distance and blended learning for students of grades 5–11 «All-Ukrainian Online School» (AUOS) is developing rapidly and already includes 2,200 lessons; relevant mobile application is available since May 2021.<sup>56</sup>

The «Capable School for Better Results» programme has been launched aiming to ensure safe educational spaces for schools. Local budget subventions for the programme reached UAH 1 billion.

Also underway is the national programme «A Laptop for Every Teacher»; in 2021, UAH 1.2 billion was allocated for the programme, and by the end of the year, more

<sup>52</sup> See: The building of the former office of the Jewish cemetery has not yet been transferred to the Memorial Centre – Joseph Zisels. – Vaad, January 2022, <https://vaadua.org/news/budinok-kolishnoyi-kontori-ievreyskogo-cvintarya-shche-ne-peredaniy-mcgya-yosif-zisels>.

<sup>53</sup> The Ministry of Culture leased the Jewish cemetery building to the pro-Russian Holocaust Memorial Centre. – Historical Pravda, 4 January 2022, <https://www.istpravda.com.ua/short/2022/01/4/160737>.

<sup>54</sup> As for the UINR: sequestration of the budget for 2020 – from UAH 120 million to 65 million; UAH 73 million allocated for 2021.

<sup>55</sup> «Reading as a Life Strategy»: 2021 is the year of reading promotion. – Scientific Library of TSATU, 23 February 2021, <http://www.tsatu.edu.ua/biblioteka/chytannja-jak-zhyttjeva-stratehija-2021-rik-promociji-chytannja>.

<sup>56</sup> More than 125,000 students; one in six teachers and most of the country's educational institutions use AUOS; 75% of users enter it using smartphones. See: Distance learning in a smartphone: an all-Ukrainian online school launches a mobile application. – The Government portal, 20 May 2021, <https://www.kmu.gov.ua/news/distancijka-u-smartfoni-vseukrayinska-shkola-onlajn-zapuskaye-mobilnij-zastosunok>.

than **61,000 laptops** were handed over to teachers.<sup>57</sup> The *EdWay* platform, designed to enhance the training of schoolteachers, continues to operate.

Despite some positive reform steps, school education continues to be plagued by various problems, as evidenced by the deteriorating quality of general secondary education among school leavers.<sup>58</sup> School education is not enough for passing the external independent evaluation (ZNO) and entering institutions of higher education, so the practice of tutoring, especially in grades 10–11, has become so widespread that one may conclude about the «existence of two parallel education systems in the country – formal and informal».<sup>59</sup> At the same time, the quality of education cannot be reliably measured due to the lack of educational monitoring system in Ukraine.

As part of the **vocational education reform**, priority measures for its modernisation take into account the best international standards, as well as current and future needs of the labour market.<sup>60</sup> In particular, it is planned to transfer state educational institutions to communal ownership and create a network of industry-specific education and practical centres of modern professional education. In September, a 150-million subvention to local budgets was allocated for these purposes. At the end of 2021, the government decided to attract € 58 million from the European Investment Bank to reform vocational education.<sup>61</sup>

During 2021, it was planned to develop and approve a number of strategic documents in education (such as the *State Targeted Programme for the Development of Vocational Education until 2027*, the *Strategy for Higher Education Development in Ukraine for 2021-2031*, etc.), but their preparation is either on initial stages or haven't started at all.

Ukraine's potential in natural and exact sciences has been restored.<sup>62</sup> In May 2021, the initiative of establishing the Presidential University,<sup>63</sup> not envisaged by the draft Strategy, has been put forward. It is designed to provide training in the specialties essential for the «sixth technological order», namely information technology, cybersecurity and artificial intelligence; nanotechnology, etc. However, the initiative produced mixed response from the professional community and the public.<sup>64</sup>

A five-year project «Improving Higher Education in Ukraine for Results» was launched in 2021 aiming to increase the efficiency, quality and transparency of the higher education system. For its implementation, a \$ 200 million loan agreement was concluded between Ukraine and the World Bank in September 2021, with 124.5 million going directly for higher education.

The current system of schools of higher education remains excessive (327 universities,

<sup>57</sup> A laptop for every teacher: more than 61 thousand laptops already delivered to teachers. – The Government portal, 29 December 2021, <https://www.kmu.gov.ua/news/noutbuk-kozhnomu-vchitelyu-dostavleno-vzhe-ponad-61-tisyachu-kompyuteriv>.

<sup>58</sup> Strategy for Higher Education Development in Ukraine for 2021-2031. – MoES, 2020, p.24, <https://mon.gov.ua/storage/app/media/rizne/2020/09/25/rozvitku-vishchoi-osviti-v-ukraini-02-10-2020.pdf>.

<sup>59</sup> O.Onyshchenko. Three reasons for tutors in Ukraine. – «Dzerkalo Tyzhnya», 12 January 2022, <https://zn.ua/ukr/EDUCATION/tri-prichini-chomu-v-ukrajini-isujut-repetitori.html>.

<sup>60</sup> Decree of the President of Ukraine «On priority measures for the development of vocational (technical) education» No. 130 of 30 March 2021. At the end of 2020, the MoES Board approved the Strategy for Vocational Education Development until 2023, which has not yet been approved by the Cabinet of Ministers.

<sup>61</sup> Ukraine to attract € 58 million from the EIB to reform vocational education – Shmyhal. – Ukrinform, 9 December 2021, <https://www.ukrinform.ua/rubric-economy/3365937-ukraina-zalucit-58-miljoniv-eib-dla-reformuvanna-proftehosviti-smigal.html>.

<sup>62</sup> In particular, Directives of the Cabinet of Ministers of 2021 «Some issues of reorganisation of educational institutions» No.147 of 24 February; «On the establishment of the State Biotechnological University» No.431 of 12 May; «On the establishment of the Ukrainian State University of Science and Technology» No.258 of 31 March.

<sup>63</sup> Decree of the President of Ukraine «Issues of the Presidential University project» No. 217 of 31 May 2021.

<sup>64</sup> See, for example: «Presidential University» instead of educational reforms? 4 warnings – Cedoss, 2 June 2021, <https://cedos.org.ua/prezydentskyj-universytet-zamist-osvitnih-reform-4-zasterezhennya>; The most expensive educational experiment. Why do we need a Presidential University and what is happening with the project now? – Lb.ua, 12 November 2021, [https://lb.ua/society/2021/11/12/498434\\_naydorozhchij\\_osvitnij\\_eksperiment.html](https://lb.ua/society/2021/11/12/498434_naydorozhchij_osvitnij_eksperiment.html).

including 231 public) and inefficient, which negatively affects the quality of education. This is evidenced by the decline in the social prestige of Ukrainian higher education, coupled with the **growth of educational emigration** from Ukraine to Poland, Germany, Canada, the Czech Republic and other countries.<sup>65</sup>

## SCIENTIFIC ACTIVITY

In view of restoring and strengthening Ukraine's research, technical and technological potential of Ukraine, important steps are taken to develop the scientific and technological foundations of space activities and marine scientific research. To this end, in 2021 the government approved the concept of the *National Targeted Scientific and Technical Space Programme of Ukraine for 2021-2025*.<sup>66</sup> On 3 December, the President signed a Decree «On some measures for the restoration and development of scientific studies and research fleet». In this context, one should recall Ukraine's recent purchase of the research vessel — icebreaker «Noosphere», which is set for its first voyage in early 2022 to reach the Ukrainian Vernadsky Research base in Antarctica.<sup>67</sup>

Given the current epidemic situation, the government allocated State Budget funds to set up a modern specialised laboratory for infectious materials with the Institute of Molecular Biology and Genetics, which will help Ukraine to independently develop its

own vaccines and pharmaceuticals, including against coronavirus.

The National Research Foundation of Ukraine continues its activities. Within the competition «Support for research of leading and young scientists», the Foundation sponsored 115 projects that were implemented or completed in 2021.<sup>68</sup> In the humanitarian context, the 2021 competition «Man, society and science in the face of modern challenges: innovative research in the social and humanitarian sphere»<sup>69</sup> deserves special attention. It is set to support projects ending in 2022-2025. The planned total amount of funding ranges from UAH 333.1 million to UAH 514.4 million, including UAH 1.6 million in 2022.

In general, **reforms in science and education so far have not essentially addressed its main problems**. These primarily concern an unhealthy atmosphere in the sector caused by a critical lack of academic culture, which negatively affects the staff development, including training of teachers and researchers.<sup>70</sup> Persistent distrust of the scientific, professional and student communities in the sector's leadership is partially due to doubts about the academic integrity of the MoES leaders (both former and current),<sup>71</sup> while the problem is consistently ignored by the government. This significantly damages Ukraine's reputation in the European and world educational and scientific space and gradually destroys the country's professional environments in science and education.

<sup>65</sup> On the state and strategy of higher education in Ukraine for 2021-2031, <https://osvitanova.com.ua/posts/4418-pro-stan-i-stratehiu-rozvytku-vyshchoi-osvity-v-ukraini-na-2021-2031>.

<sup>66</sup> Directive of the Cabinet of Ministers of Ukraine No.15 of 13 January 2021.

<sup>67</sup> The Noosphere research icebreaker set sails to Antarctica. — MoES, 28 January 2022, <https://mon.gov.ua/ua/news/doslidnickij-krigolam-noosfera-virusiv-do-antarktyki-marshrut-i-naukova-programa-pershogo-rejsu>.

<sup>68</sup> Website of the National Research Foundation of Ukraine, <https://nrfu.org.ua>.

<sup>69</sup> Ibid, <https://nrfu.org.ua/wp-content/uploads/2021/10/umovy-2021.03-1.pdf>.

<sup>70</sup> See, for example: T.Parkhomenko. Welcome academicians: people who are involved in plagiarism and thesis paper «factories» are running for members of the National Academy of Sciences. — Ukrainian Pravda, 20 May 2021, <https://life.pravda.com.ua/columns/2021/05/20/244967>.

<sup>71</sup> In 2021, Minister Serhiy Shkarlet became the winner of the anti-award «Academic In-Decency of the Year» introduced by the scientific community in the nomination «Plagiarist of the Year», and the Union of University Rectors, which supported his appointment in 2020, won in the «Toxic Rector of the Year» nomination. The anti-award «Special (Un)truth» was given to a specialised academic council on public administration at the Institute of Personnel Training of the State Employment Service of Ukraine, where the odious Ilya Kiva defended his dissertation. The very fact of defence won in the nomination «Scandal 2020/21». See: Ukrainian scientists have identified the «academic villains» of the year. — «Dzerkalo Tyzhnya», 13 May 2021, <https://zn.ua/ukr/UKRAINE/naukova-spilnota-viznachila-peremozhystiv-vidznaki-akademichna-nehidnist-roku.html>.

## 2. FORECASTS FOR 2022

### National Security and Defence

The threat of another phase of massive escalation of the Russia-Ukraine conflict, which culminated at the end of last year, is likely to have a dominant impact on the national security in 2022. Current dynamics of the so-called «Ukrainian crisis» implies frequent updates of forecasts on the possible timing, forms and scale of the Russian attack, but does not change the conclusion about the long-term nature of the threat.

The risks of a much stronger military and economic attack remain very high, but the level of internal preparedness and external support for Ukraine's resistance to possible Russian aggression is also much higher than at the beginning of the war.

Despite the significant weight of geopolitical factors, foreign partners' assistance and the active stance of citizens, the ability of the Ukrainian government to respond to crises not only quickly and efficiently, but also in full accordance with national interests will play a decisive role so as not to become the weakest link in the country's security and defence system.

The prospects of political solution to the Donbas conflict seem even more illusory than before, and the room for the settlement process is unlikely to extend beyond containment of escalation and some local agreements. Meanwhile, one should not rule out new steps by the Kremlin that can further complicate or completely demolish the settlement process.

The highest expectations of progress in the Crimean direction include growing activity internationally aimed at maintaining a policy of non-recognition of the peninsula's illegal annexation and joint neutralisation of negative consequences of the occupation (regional security, freedom of navigation, human rights, environment, etc.).

#### SECURITY ENVIRONMENT

Ukraine's continued stay at the epicentre of the West-Russia global confrontation has both negative and positive consequences for its national security. On the one hand, the role of the Kremlin's hostage and the object of its political blackmail or a potential target of military strikes is causing Ukraine significant losses and thinning its resources for development. On the other hand, Ukraine's position and its perception by the West as an ally in countering the Kremlin's aggressive policy will significantly change the balance of power in the bilateral Russian-Ukrainian conflict in the event of the expected preservation and further increase of comprehensive international support, including military assistance.<sup>1</sup>

Preliminary results of the US and NATO talks with Russia on its ultimatum-like plan to rebuild the European security system have shown the West's rejection of the vast majority of Russia's demands and readiness to support Ukraine in defending its sovereignty and territorial integrity. The West's openness to dialogue with Russia on certain aspects of international security and on conditions of military de-escalation has been reaffirmed in a form that underscores the principle «nothing about Ukraine without Ukraine».<sup>2</sup>

However, there are some reasonable doubts about the West's ability to demonstrate unwavering unity in the face of the Kremlin's threats or lucrative offers, and the objective need to cooperate with Moscow in other

<sup>1</sup> This primarily includes training missions and material assistance to strengthen defence capabilities as a deterrent to aggressive plans, but not intentions to build offensive capabilities or achieve military parity.

<sup>2</sup> Readout of President Biden's Call with President Zelenskyy of Ukraine. – The White House, 27 January 2022, [www.whitehouse.gov/briefing-room/statements-releases/2022/01/27/readout-of-president-bidens-call-with-president-zelenskyy-of-ukraine-2](https://www.whitehouse.gov/briefing-room/statements-releases/2022/01/27/readout-of-president-bidens-call-with-president-zelenskyy-of-ukraine-2).

spheres and regions where Russia and the West may have some shared interests. The Kremlin will certainly try to «sell» its services to Western partners in exchange for their concessions on the Ukrainian track.

The positions of the leading players involved in the Russia-Ukraine conflict and attempts to resolve it will be directly or indirectly affected by the processes and balance of power in the Indo-Pacific and in Asia.<sup>3</sup> In 2022, one can expect the renewed influence of the «Chinese factor», given the US-China rivalry and Russia's efforts to build an informal anti-American coalition with China.<sup>4</sup> The question remains as to how far Beijing is ready to go in a power confrontation with the West to please Russia's interests, but one should not rule out China's explicit or implicit encouragement of Moscow to keep the United States and its allies on their toes and divert their resources.<sup>5</sup>

The European dimension of the West's rivalry with Russia and China will be largely determined by progress in bolstering transatlantic solidarity and mutual trust between European allies and Washington, as well as the United States' ability to restore its image damaged by the Trump administration and dramatic events in Afghanistan. Currently it is hard to measure the impact of such factors as the adoption of new NATO and EU strategic documents,<sup>6</sup> possible policy adjustments of the Germany's new coalition government, the results of the presidential and parliamentary elections in France (which presides over the EU since January 2022) and the UK's growing political and military activity on the EU's position as a global player.

It is highly likely that in 2022 the Kremlin will try to maintain tension in Europe by

absorbing and militarising Belarus with the active assistance of Alexander Lukashenko,<sup>7</sup> destabilising the Balkans through its Serbian allies,<sup>8</sup> and creating tensions on NATO's eastern borders and in the Black Sea region.<sup>9</sup>

The Kremlin will obviously continue using its military force intensively in the foreign policy arena. The absence of almost any internal deterrent to aggressive foreign policy, such as democratic institutions and procedures, influential political, business and cultural elites, or an active civil society, gives Putin an advantage in military confrontation with the West. Reasonable fears of a direct military confrontation with the unpredictable Russia, as well as the Kremlin's propensity for short of war action virtually neutralise the West's military superiority. Accordingly, the efficacy of countering Russia's aggressive policy will largely depend on the effectiveness of the West's use of non-military deterrents and its readiness to accept the economic, political and security risks stemming from its decisions.

## PROSPECTS FOR SETTLING THE RUSSIA-UKRAINE CONFLICT

As of early 2022, there are no reasons for positive short-term forecasts on the prospects of the peace process. Instead, there are signs of a possible radical change in the Kremlin's approach to solving the so-called «Ukrainian crisis». New and relatively successful methods of Russian diplomacy in the Western direction (unacceptable demands and deadlines) are likely to be applied to official Kyiv in the near future and with renewed vigour. Vladimir Putin's intentions «*to react harshly to hostile steps*» and «*to use military and technical measures in response*» are likely to remain verbal threats to the West but may be put into practice against Ukraine.<sup>10</sup>

<sup>3</sup> These include a significant increase in China's nuclear and naval capabilities and its territorial claims; nearly conflict relations between China and India on border issues; the US initiative to establish AUKUS (a defence alliance of Australia, the United Kingdom and the United States); problems with North Korea's nuclear missile programme and security on the Korean Peninsula; Russia's efforts to create the Moscow-Beijing-Baghdad axis, strengthen the CSTO and the security component of the SCO; increased role of Turkey as a leader of the Turkic world; events in Afghanistan and Central Asia, etc.

<sup>4</sup> Joint Declaration of the Russian Federation and the People's Republic of China on the International Relations Entering a New Era and the Global Sustainable Development, 4 February 2022, <http://kremlin.ru/supplement/5770>.

<sup>5</sup> T.Wong. Chinese interest: what Beijing wants from Moscow's conflict with Kyiv. – BBC News, 4 February 2022, [www.bbc.com/ukrainian/features-60251237](http://www.bbc.com/ukrainian/features-60251237).

<sup>6</sup> These refer to the European Union's Strategic Compass to be adopted in March 2022 and the new NATO Strategic Concept to be discussed at the NATO Madrid Summit in June 2022.

<sup>7</sup> Lukashenko: «There will be war in two cases». – BBC News, 28 January 2022, [www.bbc.com/ukrainian/news-60167549](http://www.bbc.com/ukrainian/news-60167549).

<sup>8</sup> V.Portnikov. The dismemberment of Bosnia: why would Putin want this? – Left Bank, 4 November 2021, <https://lb.ua>.

<sup>9</sup> M.Krutov. Putin's naval battle. – Radio Svoboda, 2 February 2022, [www.svoboda.org](http://www.svoboda.org).

<sup>10</sup> G.Mislivskaya. Putin warned about Russia's harsh reaction to Western aggression. – Rossiyskaya Gazeta, 21 December 2021, <https://rg.ru>.



Inability to force Ukraine to implement the Minsk agreements in the Russian interpretation, as well as the lack of any dividends from further preservation of the status quo prompts Russia to «advance» the Donbas issue. An analysis of the Kremlin's recent measures shows that there may be several options on the table that could pursue any goal in the Russia-Ukraine conflict, other than resolving it.<sup>11</sup>

ORDLO is an ideal place for Russian provocation<sup>12</sup> aimed at legitimising the next covert or overt invasion of regular ground units of the Russian Armed Forces with the possible air strikes under the flags of «coercion to peace», or the entry of Russian «peacekeepers», either on their own initiative or upon request from self-proclaimed «republics» to prevent «another Srebrenica».<sup>13</sup> In 2021, Belarus became another good bridgehead, as its self-proclaimed leader Alexander Lukashenko expressed full support of Russia in the event of an escalation with Ukraine and the West as a whole.

In 2022, one can expect the growing preconditions for Russia's recognition of the «independence» of «DPR-LPR» as another tool to step up pressure on Ukraine through blackmail or the practical implementation of such a step.<sup>14</sup> The emergence of such a draft appeal to President Putin, registered in the State Duma, may be both a populist initiative of its initiators (the Communist Party) and the fulfilment of their role in preparing this plan.<sup>15</sup>

Given the recent hyperactivity of Russia's foreign policy and the tendency to set deadlines for ultimatums, one should expect a transition from accusations of official Kyiv of sabotaging Minsk agreements-2 to more active and harsh steps to preparing a conditional «Minsk-3» with an unambiguous interpretation of Russian demands and consequences for non-compliance with deadlines.<sup>16</sup>

## RUSSIA'S POSSIBLE ACTIONS

The following three scenarios are a summary of Russia's possible actions to achieve its foreign policy goals regarding Ukraine and in global confrontation with the West, as discussed in political, expert and media circles.

### 1. «Diplomatic» coercion of Ukraine to implement the Minsk agreement (*currently in progress*)

The «technology» for settling the Donbas conflict, defined in the Package of Measures for the Implementation of the Minsk agreements, envisages «federalisation» of Ukraine and its guaranteed refusal to join NATO due to the presence of pro-Russian entities («DPR» and «LPR»). Russia controls the conflict resolution process at every stage.

By creating a sense of «inevitable conflict», making ultimate-like demands and deadlines and acting uncompromisingly in negotiations with the United States, NATO, the EU (including nuclear threats), Russia sets the stage for a situation where Ukraine and the West must agree to all Russian demands to avoid «big war» in central Europe.

In parallel, Russia achieves the goals of weakening Ukraine's economy and destabilising the internal political situation through active opposition from Ukrainian society and patriotic political forces to attempts to implement the Minsk agreements, and by increasing psychological pressure on Ukrainian society with threats of imminent war.

***In the event of failure to fully achieve its goals or dissatisfaction with intermediate goals, Moscow is likely to shift to one of the following two options (with possible variations).***

### 2. Military aggression (*currently in preparation*)\*

This option involves an open offensive by Russia's ground, air and naval forces, air operations, missile and artillery strikes, landing operations and sabotage, which will be preceded by attempts to destabilise the situation in some regions of Ukraine.

<sup>11</sup> M.Sunhurovskyi. The scenario of the Russian blitzkrieg. What will Putin dare to do. – NV, 7 February 2022, <https://nv.ua>.

<sup>12</sup> See: «Propaganda video with corpses». The United States and Britain say Russia is preparing a pretext for an attack. – BBC News Ukraine, 4 February 2022, [www.bbc.com/ukrainian/news-60228943](http://www.bbc.com/ukrainian/news-60228943); The Russian Ministry of Defence stated the American PMCs are preparing provocations with chemical weapons in the Donbas. – Focus, 21 December 2021, <https://focus.ua>.

<sup>13</sup> L.Stack. «Massacre» in the Donbas: why Putin started talking about Srebrenica. – Radio Svoboda, 27 January 2020, [www.radiosvoboda.org](http://www.radiosvoboda.org).

<sup>14</sup> Harmash: The State Duma will vote for the recognition of «LPR-DPR», but Putin will not hurry. – Radio Svoboda, 29 January 2022, [www.radiosvoboda.org](http://www.radiosvoboda.org).

<sup>15</sup> «The only possible step» or «hype»? Can Russia truly recognise «LPR» and «DPR»? – BBC News Russia, 21 January 2022, [www.bbc.com/russian/news-60077648](http://www.bbc.com/russian/news-60077648).

<sup>16</sup> Harmash: Putin wants to conquer Ukraine through the Minsk agreements. – Radio Svoboda, 29 January 2022, [www.radiosvoboda.org](http://www.radiosvoboda.org).

They will primarily target air and ship defence, government agencies, military command posts, critical infrastructure, and highways.

The goals of the offensive are to force Ukraine to surrender completely or, at least, to create a land corridor to Crimea (possibly to Transnistria with Ukraine cut off from the sea), to take control of the eastern regions of Ukraine.

### **3. Hybrid destabilisation** (*currently in progress with a possibility of escalation*)

In case of failure of the first and abandonment of the second scenario\*\*, Russia will definitely activate its hybrid instruments, which have been used at least since 2013 to destabilise the situation in Ukraine, as well as use new opportunities involving Belarus (economic, energy, military, etc.) and experience of Kazakhstan «stabilisation» («international peacekeeping operation», rapid decision-making and implementation).

\* While considering this option as possible, we are aware of the objections from the Russian officials. However, we take into account both the assessments of relevant services of Ukraine's partners and public declarations of the expediency of «appropriate action» made by Russia's leading politicians in state media, which have not been officially disavowed.

\*\* The low probability and undesirability of this scenario is even recognised by leading Russian military experts. See, for example: M. Khodarenok. Forecasts of bloodthirsty political scientists – Independent Military Review, 3 February 2022, [https://nvo.ng.ru/realty/2022-02-03/3\\_1175\\_donbass.html](https://nvo.ng.ru/realty/2022-02-03/3_1175_donbass.html); Address of the All-Russian Officers' Assembly to the President and citizens of the Russian Federation – Echo of Moscow, 6 February 2022, <https://echo.msk.ru/blog/echomsk/2976084-echo>; «Peace and prosperity, not the satisfaction of the leaders' imperial lust». The retired FSB general supported general Ivashov and his statement against the war and Putin – «Znak», 8 February 2022, <https://www.znak.com/2022-02-08>.

## **EURO-ATLANTIC INTEGRATION**

Active international and domestic discussions over the hypothetical possibility of Ukraine's membership in NATO are likely to continue in 2022. However, one should not expect any significant changes in the positions of key stakeholders (Ukraine, NATO and Russia) in general, or a revision of the framework of NATO-Ukraine relations following the decisions of the NATO Madrid Summit (June 29-30, 2022).<sup>17</sup>

Despite the rise of both Ukrainian and foreign supporters of the idea of permanent non-aligned status instead of NATO membership,<sup>18</sup> it is difficult to imagine the conditions, under which official Kyiv could possibly reconsider its strategic course of integration into the Euro-Atlantic collective security system. It is not only about political convictions of the Ukrainian authorities, but also the need to recognise public opinion,<sup>19</sup> or more precisely, the consequences of ignoring it, even to please partners or concede to Moscow's pressure.

In parallel with approaching NATO, Ukraine will continue participating in the existing regional alliances and creating the new ones.<sup>20</sup> The effective realisation and development of existing formats of cooperation with NATO and the EU as organisations and with individual member states allows Ukraine to largely compensate for the lack of formal membership. In case of a positive decision on the US Congressmen's initiative to grant Ukraine the status of a «NATO Plus» country, one can expect both substantial privileges and the specification of the terms of NATO membership.<sup>21</sup> Major attention will be

<sup>17</sup> See D.Kuleba: «We believe that the outcome of the NATO summit in Madrid should not only outline Allies' response to new challenges and threats, but also establish guidelines that can help them implement the Bucharest summit decision on Ukraine's possible membership», 1 December 2021, <https://ua.interfax.com.ua/news/general/783309.html>; O.Stefanyshyna: «Ukraine does not have inflated expectations about the decision on its NATO membership to be made at the Madrid summit in June, but Ukraine should not cut rates», 4 January 2022, <https://www.eurointegration.com.ua/news/2022/01/4/7132215>.

<sup>18</sup> See: Preparation for the elections: Why did the supporters of Ukraine's non-aligned status become more active, 28 January 2022, <https://www.depo.ua>; Serhiy Datsyuk: Why NATO will not save Ukraine, 17 January 2022, <https://hvylya.net>; Battle for Ukraine: Oleksandr Chalyi on two basic scenarios for resolving the geopolitical conflict between the United States and Russia, 26 December 2021, <https://hvylya.net>.

<sup>19</sup> Public support for Ukraine's Euro-Atlantic course: assessments and recommendations. – The Razumkov Centre, 2021, <https://razumkov.org.ua/uploads/article/2021-nato-ukr.pdf>.

<sup>20</sup> For more detail on Ukraine's security cooperation with the EU, NATO and subregional entities, see the EU-Ukraine Security Partnership: Status and Prospects. Analytical report. – The Razumkov Centre, 2021, <https://razumkov.org.ua>.

<sup>21</sup> See: Congressmen proposed to declare Ukraine a «NATO Plus» country, 11 January 2022, <https://www.golosameriki.com/a/us-ukraine/6391678.html>. The Bill *Guaranteeing Ukrainian Autonomy by Reinforcing Its Defence* (GUARD) proposes, in particular, to include Ukraine in the NATO Plus community (Australia, Israel, New Zealand, South Korea, Japan), «which provides for the Congress to consider the sale of foreign military products to Ukraine, as well as all other rights, privileges and responsibilities granted to such a community of states». In addition, the United States undertakes to facilitate Ukraine's accession to NATO within five years of its entry into force, including as part of its implementation of the MAP, extending this period for another three years, if necessary, until Ukraine becomes a member of the Alliance.

on the implementation of London's initiative to establish a military-political alliance of Ukraine, the UK and Poland with the main objectives of «countering the Russian threat and working together for the future of European security».<sup>22</sup>

## PROSPECTS OF SECURITY SECTOR REFORM

Limited budget resources and anticipated deterioration of the financial and economic situation, including due to the COVID-19 pandemic, as well as permanent threat of escalation of Russian aggression will hardly allow Ukraine to achieve breakthroughs in security sector reform in 2022. Foreign advisory, military and technical support in equipping and training the Armed Forces and other security agencies, joint measures to bolster cyber and information security, involvement of Ukrainian partners in defence industrial cooperation to some extent mitigate the above restrictions, but do not compensate slowing down of reforms in some components or introducing poorly substantiated initiatives outside the established procedures.

Completion of the next cycle of defence planning and improvement of the relevant regulatory framework in late 2021 created favourable conditions for further planned reform in national defence. Recent President Zelenskyy's initiatives «to strengthen the state's defence capabilities, increase the attractiveness of military service in the Armed Forces»<sup>23</sup> may lead to adjustments in the medium-term reform plans, but will hardly affect the course of their implementation in 2022.

Contrary to relatively positive expectations in defence reforms, other key security agencies, such as the Ministry of Internal Affairs<sup>24</sup> and the Security Service had no approved reform plans

as of the beginning of 2022, and it is unclear whether they will emerge shortly. Even if the new SBU law is approved as a starting point for reform, its implementation will begin no earlier than next year.<sup>25</sup>

In any case, Ukraine's ability to prove the sincerity of its intentions to pursue Euro-Atlantic integration is a true challenge and one of the key tools for strengthening national resilience.

**In 2022, Ukraine will be facing extremely serious challenges that can only be avoided or addressed on conditions of:**

- ✓ **consolidating of political elites and society around the ideas of resistance to external threats and attractive and clear prospects for Ukraine's sustainable development, as well as effective and coordinated actions of government and society aimed at strengthening defence capabilities, increasing resilience of state and society, and ensuring targeted security sector reform;**
- ✓ **depriving Russia of its main weapon – controlled chaos – through decisive and coordinated actions of law enforcement agencies, the SBU and intelligence services, as well as adequate communication between the government and society;**
- ✓ **maintaining an adequate level of international assistance to Ukraine in ensuring its institutional, financial, energy, economic stability, as well as the ability of Western countries to act in unity against Russia's efforts to revise the principles and rules of international security;**
- ✓ **ensuring consistent integration of Ukraine into the Euro-Atlantic security system.**

<sup>22</sup> A Ukraine, Britain and Poland alliance: Kuleba lifted the curtain. – Dzerkalo Tyzhnya, 1 February 2022, <https://zn.ua/ukr/POLITICS/stvorennja-aljansu-mizh-ukrajinoju-britanijeju-ta-polshcheju-kuleba-prividkriv-zavisu-.html>.

<sup>23</sup> Decree of the President of Ukraine «On priority measures to strengthen the defence capabilities of the state, increase the attractiveness of military service in the Armed Forces of Ukraine and the gradual transition to the principles of a professional army» No.36 of 1 February 2022.

<sup>24</sup> The deadline for reforming the Ministry of Internal Affairs bodies in accordance with the 2020 Strategy ended in December 2020. See: Action plan for the implementation of the Strategy for the Development of the System of the Ministry of Internal Affairs until 2020, <https://zakon.rada.gov.ua/laws/show/693-2019-%D1%80>.

<sup>25</sup> I.Popov. The SBU reform needs to be unfrozen. – Ukrainian Pravda, 24 January 2022, <https://blogs.pravda.com.ua/authors/popov/61ee4b8d53002>.

## Foreign Policy

In 2022, the large-scale West-Russia confrontation will continue, with Ukraine remaining in its epicentre. Meanwhile, this conflict may deepen and go global as a result of possible anti-Western Russia-Chinese tandem that will polarise the world community and form two major centres of influence – Western democracies and the alliance of authoritarian states.

In these circumstances, Kyiv will be forced to resort mainly to «military diplomacy» on the world stage, aimed at defending Ukraine's independence and sovereignty, and strengthening its defence capabilities. Ukrainian diplomacy's main task will be to consolidate international support in the face of Russian aggression. It should be added that the general trends predicted by the Razumkov Centre in last year's study remain relevant with some variations.<sup>1</sup>

**Russian threat.** Russian intervention remains possible, including given the unprecedented level of confrontation on the West-Russia axis and the inadmissibility of Kremlin ultimatums to the United States and NATO. With the ongoing negotiations in various formats, the Kremlin will continue its military blackmail, also using the threat of armed provocations and local hostilities. Russia will continue the tactics of keeping Ukraine and the West astrain, maintain the crisis along the Ukrainian borders and threaten with expansion from the Russian, Crimean and Belarusian directions (for more detail see the *Security and Defence* section).

Russian hybrid aggression will seek to disintegrate Ukraine from within and create grounds for invasion. These include sabotage, inciting protests, provoking panic and social discontent, massive cyberattacks, discrediting the current government, intensifying the «fifth column», among other things. That is, external military blackmail will be combined with increased attempts at internal destabilisation, which may be a reason for intervention. In parallel, Russia will step up its hybrid influence over individual European countries to discredit Ukraine and block its movement towards the EU and NATO.

**Western direction** will remain a top priority. **NATO's** course of solidarity and assistance to Ukraine will continue, but in the context of a sharp conflict with Russia, Ukraine's inclusion will become increasingly problematic and complex issue for Allies, and the provision of a MAP will hardly be on the agenda.

The slowdown («putting on hold») in relations with the Alliance in certain areas, as well as public statements by some NATO members about «Ukraine's unpreparedness» or «inexpediency» of its membership<sup>2</sup> cannot be ruled out. In other words, NATO's doors will remain formally open, but Ukraine's accession will be blocked by countries that «understand Russia's concerns». But this scenario should in no way be seen as a reason for Ukraine to curtail or abandon its Euro-Atlantic course.

One of possible options is maintaining the current level of relations with the Alliance and the formal perspective of Euro-Atlantic integration that will be secured at the 2022 NATO summit in Madrid.

It is important that the current crisis has formed the core of Ukraine's strong and consistent allies. At the same time, such a situation can lead to a deepening conflict between Allies.

Slow progress will be made in the **European direction**. There are reasons to expect some advancement of sectoral integration in a number of important areas – trade, customs, energy, transport, digital market, environment, cyber dialogue, to name a few. A joint review of the Association Agreement implementation and its further update is also on the agenda. However, one should not expect signing of the agreement on «industrial visa-free regime» in 2022.

Ukraine's financial and economic support from the EU will continue. Supporting

<sup>1</sup> Ukraine 2020-2021: Inflated Expectations, Unexpected Challenges (Assessments). – The Razumkov Centre, 2021, pp.102-104, <https://razumkov.org.ua/uploads/other/2021-PIDSUMKI-PROGNOZI-UKR-ENG.pdf>.

<sup>2</sup> As already articulated by the President of Croatia in January 2022.



Ukraine's defence capabilities within the framework of the European Peace Facility will be important for the country. One can expect some revival of cooperation with the EU in the field of security.

It will be vital for Ukraine to maintain the EU solidarity and support in the face of Russian aggression. In general, Kyiv can count on firmness and consistency of the pro-Ukrainian positions of the EU institutions. However, it is also likely that the EU leaders – Germany and France – will be inclined to compromise with Russia and minimise the sanctions package. This is a dangerous trend for Ukraine, as the approaching presidential election in France in April 2022 will encourage Emmanuel Macron to seek peaceful initiatives in the Russian direction, possibly at the expense of Ukraine. Moreover, Paris' position will affect the EU's foreign priorities through France's presidency of the European Union in the first half of 2022.

The process of adopting joint statements on Ukraine's prospects for European integration will slow down, as the potential for support in Eastern Europe is almost exhausted, while «old Europe» is more sceptical about that. However, efforts to expand the «bridgehead» in support of Ukraine's EU membership and accelerate European integration must continue and intensify precisely because of the difficulties in the Euro-Atlantic direction.

Therefore, despite the generally positive dynamics, «strategic uncertainty» in EU-Ukraine relations will continue. The country's European integration may also be hampered by domestic political factors.

**Relations with the United States** will be crucial. Given the declared pro-Ukrainian positions of the US leadership and bipartisan support for Kyiv, it is possible to predict further intensity and level of political and diplomatic dialogue, the consistency of Washington's support for Ukraine in various fields. So, here one can expect (a) financial, economic and military assistance to Ukraine, as well as US political support on international platforms; (b) more active work of the US-Ukraine Strategic Partnership Commission; (c) support for the Crimean Platform;

(d) likely recognition of Ukraine as a «NATO Plus» country, which provides preferential terms for the acquisition of weapons under the accelerated procedure.

As predicted in the previous study, resistance to Russian influence will continue on **international platforms**. The situation in the PACE will remain difficult following the election of the pro-Russian Tiny Kox of the Netherlands as the President of the Assembly and another confirmation of the powers of the Russian delegation challenged by Ukraine (97 votes for, and 41 votes against). The situation in the OSCE is different, and Ukraine can count on more active support through the chairmanship of Poland – Ukraine's closest ally. At the UN platform, Ukraine can still expect the support of a stable group of allies (about 70 countries) and the adoption of resolutions on the annexed Crimea.

**The dynamics of bilateral relations with other countries** will be ambiguous. One can expect positive contacts with a number of Eastern European countries – **Poland, Romania, Slovakia, the Czech Republic, as well as with the Baltic states**, which actively support Kyiv in countering Russian aggression and ensure stability and security for Ukraine in western direction.

There are reasons to count on favourable partnership dynamics and assistance from the **United Kingdom, Canada and Sweden**, which together with the United States initiated the creation of the Partnership for a Strong Ukraine fund.

It is critical for Ukraine to maintain and consolidate the previously initiated strategic dialogue with **Turkey**, a regional leader that supports Ukraine, in particular on the annexation of Crimea.

One can expect further development of partnership with **Georgia and Moldova** both bilaterally and within the framework of the pro-European «Association Trio».

Relations with **Germany and France** will be more difficult in view of the above-mentioned compromise positions of these countries regarding opposition to Russian



expansion, and their scepticism about the prospects of Ukraine's integration into NATO and the EU.

Relations with **China** will remain limited and challenging, due to both the US-China geopolitical confrontation and Beijing's pro-Russian course, confirmed by Chinese support for Russia on international platforms, including the UN General Assembly.

Unfortunately, relations with **Belarus** will continue to deteriorate, as this country, plagued by the authoritarian anti-Western regime of Alexander Lukashenko, has turned into a Russian military bridgehead in Europe, posing a real threat to Ukraine. In turn, the recent events in **Kazakhstan** (violent suppression of spontaneous protests by CSTO troops) will adversely affect the atmosphere and nature of the dialogue between Kyiv and Nur-Sultan.

Positive developments in relations with **Hungary** are also unlikely. Official Budapest will continue its counterproductive policy regarding Ukraine, slowing down the country's European integration process and blocking its contacts with NATO.

One should not expect breakthroughs **in relations with other countries** (Latin America, Africa, Asia, the Middle East, etc.).

As predicted, a long status quo will remain. In particular, the Foreign Ministry's Asia and Africa strategies will not be fully implemented due to limited resources and the concentration of diplomatic potential in the western and Russian directions.

It is obvious that the previously outlined problems of the information component of foreign policy, in particular the promotion of Ukraine's image and its cultural products will remain relevant in 2022.

**Ukrainian diplomacy will operate in difficult, force majeure conditions because of lingering threat of the «hybrid war» escalations and Russian intervention. On the other hand, strategic uncertainty in relations with the EU and NATO will persist. Ukraine de facto will remain in a dangerous «buffer condition».**

**Under such circumstances, the top priorities of Ukraine's foreign policy will be (a) consolidating international solidarity and strengthening the sanctions front against the aggressor; (b) deepening military and technical cooperation with partners to strengthen the country's defence capabilities; (c) ensuring assistance to maintain the socio-economic stability of the state; (d) preventing Russian intervention by political and diplomatic means.**

## Domestic and Legal Policy

The overall external and internal conditions affecting the further development of the socio-political situation will continue to be determined by the severity of Russia's hybrid aggression, the nature of the external environment, and the degree of stability in society. Since the next regular elections to the Verkhovna Rada are set in 2023, the country is entering the next election cycle, which will intensify political competition, the struggle for power and influence.

In addition to direct actions of agents of Russian influence, other factors of socio-political destabilisation may include the government's attempts to conceal possible concessions to Russia in negotiations with motivation to end the war, increasing tax and fiscal pressure on small businesses and citizens, oppression of democratic rights and freedoms, corruption and other illegal actions of officials and attempts to cover them up, selective application of the law and attacks on political opponents.

Ukrainian society has already seen these phenomena and has relevant response mechanisms, but in the face of a sharp escalation of Russian aggression and weakness of power, the consequences of all these problems for Ukrainian statehood may be steeper.

### THE PRESIDENT OF UKRAINE

For President Zelenskyy and his entourage, the main task is to create conditions for his re-election contrary to his election statements. This means that efforts will be aimed at creating a positive image of Mr Zelenskyy, eliminating or weakening inconvenient opponents, such as Petro Poroshenko, from the election process, and creating a favourable information background. In political terms, strengthening of the President's unconstitutional influence on the Verkhovna Rada, the Cabinet and the executive branch, the judiciary, law enforcement and anti-corruption agencies is likely to continue.

At the beginning of 2022, President Zelenskyy remained the most popular politician in society, but the level of this support decreased significantly, while the distance from the closest pursuer (Poroshenko) already reduced to statistical error margins. This makes the incumbent President feel uncomfortable and may in part explain the reasons for Poroshenko's «irrational» persecution.

President Zelenskyy has limited opportunities for improving his image, since a large part of society considers him responsible for numerous public policy failures that led to the deterioration of the quality of life of most citizens and does not believe in the President's ability to arrange reliable defence and achieve peace with Russia on Ukrainian terms. He is no longer perceived as a «new politician», and in the public's eye, the current government is no better than the previous one.

The «Big Construction» programme no longer achieves the task of improving the government's image. The image of the President will be increasingly affected by scandals involving his entourage, MPs from his Servant of the People party, government officials and others. Therefore, the President may have to choose between «sacrificing» one of the most toxic members of his team and rapidly declining ratings. Already at the end of 2021, society did not support the Volodymyr Zelenskyy's nomination for a second term. However, for the President himself, for his associates and members of the «party in power», the second presidential term may mean not so much a certain perspective, as the opportunity to avoid responsibility for what they have done while in power.

As a result, President Zelenskyy becomes vulnerable in dialogue with potential partners. Amidst the intensifying political struggle, any publicity about the agreements with the President and his entourage may have a negative impact on the prospects of various potential actors in such cooperation.

One can also expect selective application of the Law «On Prevention of Threats to National Security Due to Excessive Influence of Persons with Significant Economic and Political Weight in Public Life (Oligarchs)», which will enter into force in May. This may encourage some FIG leaders to develop a common position to oppose such course of events. It can be assumed that none of the key stakeholders will be interested in excessive strengthening of positions of the President and his entourage.

Given the weak economic growth, persistent problems in the energy sector and the increasing signs of crisis in various areas, the government will hardly have the resources to strengthen its positions, while the possible use of repressive measures may provoke a sharply negative public response.

During the year, the positions, proposals and chances of potential contenders in the 2024 presidential elections will become clear, also determining the actions of the incumbent Head of State.

## THE VERKHOVNA RADA OF UKRAINE

The approximation of the election campaign is expected to become a turning point in political mobilisation that can eventually weaken the President's influence on the Verkhovna Rada, strengthen its subjectivity in the system of government, but also negatively affect its structure and controllability.

The quality of coordination between the President, his entourage and the Verkhovna Rada leadership will be determined by the sense of future prospects for these and other political entities. The parliament's priorities were already articulated by its Chairman, Ruslan Stefanchuk<sup>1</sup> – the adoption of laws on local referendums, continuation of judicial reform, completion of decentralisation reform, SBU reform, reforms of urban planning, pension system and more.

Under these conditions, the unifying factor that would allow the Verkhovna Rada to pass decisions by a constitutional majority (more than 300 votes) can only be a sharp increase in the threat of war. Therefore, the completion of decentralisation reform and the adoption of other decisions related to amendments to the Constitution is highly questionable.

As the pro-presidential party in one form or another will hardly bring even half of its current composition in the next Verkhovna Rada, the parliamentary faction of the Servant of the People party will undergo divergent processes. No longer able to play the role of a «mono-majority», the faction will increasingly turn to other parliamentary factions

and groups for support. The cost of such support from the ruling party's traditional partners – For the Future and Trust groups – will increase significantly: they will probably demand the repeal of electoral law reform and return of a mixed electoral system with a majority component. «Batkivshchyna's» support may be conditioned by the requirement to reformat the Cabinet's composition with due consideration of this party's personnel preferences.

Joining forces between the European Solidarity, the Voice and the «Batkivshchyna» factions seems possible only in the event of force majeure. The OPFL faction will have to develop a new strategy amidst both internal split into the group of Viktor Medvedchuk (who can leave big politics altogether) and that of Yuriy Boyko, and external competition, such as the «Nashi» party. An MP group led by Dmytro Razumkov may emerge by the end of the year, bringing new changes to the parliamentary process.

Therefore, the capacity of the Verkhovna Rada will be limited in view of further development of political processes, while its internal structure will change. The escalation of the political struggle may raise the issue of early parliamentary elections, but this idea is unlikely to materialise given the timing of the next election.

## THE CABINET OF MINISTERS

The Cabinet will traditionally remain the weakest link in the political system. Its dependence on the President and his entourage will not diminish, and the quality of communication with the Verkhovna Rada is unlikely to improve.

It is the Cabinet and individual ministers who will be made responsible for the systemic miscalculations of the authorities, which have already led to a number of problems in various areas.

For the Cabinet, 2022 started with the need to find a way out of high-profile scandals. In particular, the Interior Minister Denys Monastyrskyi could «cover» MP Trukhin,<sup>2</sup> and Minister of Education Serhiy Shkarlet arbitrarily

<sup>1</sup> People's rule, pension reform and decentralisation: Ruslan Stefanchuk on the Rada priorities for 2022. – Press Service of the Verkhovna Rada of Ukraine, 17 December 2021, <https://www.rada.gov.ua/news/Top-novyna/218049.html>.

<sup>2</sup> About Trukhin, the Ministry of Internal Affairs and Minister Monastyrskyi, who «passed everything, but not everything, to the SBI». – Ukrainian Pravda, 3 February 2022, <https://www.pravda.com.ua/columns/2022/02/3/7322713>.

decided not to recognise the election of the President of Kyiv-Mohyla Academy.<sup>3</sup>

With no good reasons for significant improvements in the national economy, energy and household income during this year, current composition of the Cabinet – either in whole or in part – can serve as a «bargaining chip» in attempts by the President and his people to save the situation. The process of appointing a new Cabinet or its part may be problematic due to both the lack of necessary personnel and the expected complexity of appointing ministers in the Verkhovna Rada. In the event of serious complications, the issue of early parliamentary elections may become a method of resolving the political crisis.

### **FIGS POSITION AS A FACTOR IN POLITICAL PROCESSES**

During the year, one can expect new twists and turns in relations between the government and key financial and industrial groups. After some calm at the beginning of 2022, FIG leaders will then try to determine their stakes, possible losses and gains from a potential change of government and ensuing political regime. On the other hand, the government will try to achieve a certain degree of control over the «oligarchs», given that television is the most important source of information for society, and the most rated TV channels are owned by the «oligarchs». Therefore, the government will use the «anti-oligarchic law» as a tool.

The Law «On Prevention of Threats to National Security Due to Excessive Influence of Persons with Significant Economic and Political Weight in Public Life (Oligarchs)» was adopted on 23 September 2021, signed by the President on 5 November 2021, and entered into force the next day after its publication. However, it is to be enacted in six months, that is, in May 2022.

According to this law, an «oligarch» is an individual who meets three of the four criteria: he/she participates in political life, has significant influence on the media, is the ultimate beneficial owner of an economic entity that

is a natural monopoly or has a monopolistic (dominant) market position, and maintains or strengthens such a position for one consecutive year.

After enactment of the law, the «oligarchs» will be prohibited to support political parties, make contributions to the candidates' election funds (other than their own funds), be buyers in «large privatisation», finance political campaigning, rallies and demonstrations with political demands. High-ranking officials and civil servants must declare their contacts with the «oligarchs». The task of forming and maintaining the register of «oligarchs» is assigned to the National Security and Defence Council. In turn, the NSDC may decide to exclude an individual from the register after establishing the fact of his/her non-compliance with two of the above criteria.

Prior to the adoption of the «anti-oligarchic law», then-Chairman of the Verkhovna Rada Dmytro Razumkov submitted the bill to the Venice Commission at the request of the Parliamentary Commissioner for Human Rights Liudmyla Denysova. At the time of publication of this study, the Venice Commission has not yet considered the bill and not published its opinion.

According to experts, amendments to the law in line with the Venice Commission's future conclusions will depend on the political will of the state leadership and the relevant political situation. In any case, one can expect selective application of the law to certain persons to neutralise political competition, which is made possible by the vagueness of its provisions. Different sources mention different numbers of potential entries in the register of «oligarchs».

There are reasonable doubts that the law will work at all.<sup>4</sup> In particular, the current nature of government's relations with Ihor Kolomoisky may be too burdensome, the attack on Rinat Akhmetov may be too expensive, and the persecution of Petro Poroshenko may be too harmful reputation-wise. On the other hand, excessive strengthening of one of the many political groups involved in the process, with

<sup>3</sup> MoES does not recognise the results of the elections in the Kyiv-Mohyla Academy and will announce repeated elections – Shkarlet. – Ukrinform, 1 February 2022, <https://www.ukrinform.ua/rubric-kyiv/3395924-mon-ne-viznae-rezultativ-viboriv-u-mogilant-ogolosit-povtorni-skarlet.html>.

<sup>4</sup> Kolomoisky: «I don't know why Akhmetov cared so much». Will the law on oligarchs work in Ukraine? – Novoye Vremya, 23 November 2021, <https://biz.nv.ua/ukr/economics/hto-potrapit-do-reyestru-oligarhiv-ahmetov-poroshenko-pinchuk-kolomoyskiy-firtash-novini-ukrajini-50197503.html>.

the group's apparent inability to create a level playing field for all participants, can only increase support for different political parties by the «oligarchs».

As political processes develop, the role of regional elites and groups of influence will increase, and each of the competing parties will try to attract them to its side.

## PROCESSES IN THE PARTY SYSTEM

Party life is expected to liven up following the intensification of political competition and preparation of key actors for the elections. One can expect the rebranding and re-organisation of existing parties (in particular, the Servant of the People), as well as registration and establishment of new party projects, with some of them already been announced (parties of Dmytro Razumkov and Serhiy Prytula).<sup>5</sup> Revival and intensification of competition will be observed in all segments — from «patriotic pro-European» to «pro-Russian» and «centrist». The openly «leader-oriented» nature of almost every party project will remain dominant.

## PARLIAMENTARY PARTIES

As a result of missteps and numerous scandals involving the state leadership and key party figures, **the Servant of the People** has already lost leadership in terms of voter sympathy early in the year and is unlikely to recover from that loss. At the end of 2021, media published unconfirmed reports about the change of the party's name,<sup>6</sup> which should theoretically help renew its image. The success of such a rebranding looks questionable.

By preserving the core of Petro Poroshenko's followers and mobilising additional support as a result of a lawsuit against him, the **European Solidarity** became the leader of voter support. This support, however, is relative, as it is based on society's fatigue from the current government's actions rather than on a broad public support of this party's agenda. It is too early to talk about a significant expansion

of the fifth president and his political force's electoral base.

«**Batkivshchyna**» will remain a prominent political player with limited yet stable support that will guarantee the necessary 5% of votes to enter the parliament. The party is ready to join the ruling coalition as soon as possible, but this doesn't mean that it will abandon its opposition rhetoric — harsh criticism of the government's socio-economic policies.

Any political prospects for **the Voice** as an independent political force look questionable.

**Pro-Russian camp.** The **Opposition Platform For Life** faces several problems at once — from the narrowing electoral base, both due to gradual marginalisation of pro-Russian discourse and the strengthening of a competing party project, to internal split. During 2022, it will become clear which trends — unification (both internal and external with the competing «**Nashi**» party), or ultimate separation will prevail. The prospects of the «**Nashi**» project will largely depend on the relations between its leader Yevhen Murayev and the current government.

## NON-PARLIAMENTARY PARTIES

**Strength and Honour** enjoys a relatively stable voter support. The threat of escalation of Russian aggression will help Ihor Smeshko and his political force preserve the popularity, but the party has no other recognisable figures other than Mr Smeshko. Its ideology — «conservative democracy» — is little understood by the general public. As the party has no proposals for voters from different regions, it will be very vulnerable to competition.

Parties such as **Groysman's Ukrainian Strategy**, **Svoboda**, and **UDAR** have strong local ties to the regions where they are represented in local governments. This feature gives them a more solid foundation for maintaining voter support but does not create the preconditions for their nationwide success. UDAR's decision to go to the election independently<sup>7</sup> based on Volodymyr Klitschko's visibility is not necessarily

<sup>5</sup> Serhiy Prytula creates his party «24 August». — Ukrainian Pravda, 5 February 2022, <https://www.pravda.com.ua/news/2022/02/5/7322950>.

<sup>6</sup> The Servants of the People discuss the change of the party's name but officially deny it. — Ukrainian Pravda, 31 December 2021, <https://www.pravda.com.ua/news/2021/12/31/7319133>.

<sup>7</sup> UDAR will participate in the elections as an independent force — Klitschko. — Interfax-Ukraine, 4 February 2022, <https://interfax.com.ua/news/political/796184.html>.



optimal. **Radical Party of Oleh Lyashko** will have limited opportunities for electoral growth.

**Future party of Dmytro Razumkov** is likely to maintain electoral support throughout 2022, which will be sufficient to reach the electoral threshold. The potential voters of this not yet created political force is quite diverse in terms of ideology, so for now they are focusing on a recognisable leader who evokes sympathy rather than a party programme.

**Future party of Serhiy Prytula** does not have significant public support. Its prospects are uncertain, as there is no information about the team, target audience, party agenda and the like. Even if one assumes that its creation is aimed at working out a prototype of some future coalition, present data is not enough to make any forecasts.

During the year, a **new law on political parties** is expected in the Verkhovna Rada. It was developed at the initiative of the MPs from the parliamentary «mono-majority» with involvement of experts and civil society and based on the Venice Commission expertise. Potential innovations include the conditions of party registration, the introduction of party member registers, and the legal provision for intra-party democracy mechanisms.<sup>8</sup>

## REFORMS IN SPECIFIC AREAS

### *Constitutional Reform*

In 2022, one can expect the adoption of amendments to the Constitution of Ukraine concerning decentralisation. It should be added that the constitutional solution of the future of the temporarily occupied territories of the Donetsk and Luhansk regions remains an important propaganda component of Russia's «hybrid war» against Ukraine.

It is likely that constitutional changes empowering the President to appoint and dismiss the NABU and SBI directors, initiated in 2021, will be completed this year. The relevant bill is currently being considered by the Constitutional Court. In case of the Court's positive opinion, the bill will have to pass the parliament by at least 300 votes, which won't be easy to achieve. In case of

the CCU's negative opinion, the Presidential Decree on the appointment of the SBI Director No. 691 of 31 December 2021 will be declared unconstitutional, with all legal and political consequences.

Other amendments to the Constitution, initiated in previous years – amendments to Article 85 concerning consultative, advisory and other subsidiary bodies of the Verkhovna Rada, abolition of the bar monopoly, reduction of the constitutional composition of the Verkhovna Rada and consolidation of the proportional electoral system – are unlikely. Relevant bills have already received positive conclusions of the CCU on their conformity with Articles 157 and 158 of the Constitution and were preliminarily approved by a majority of the constitutional composition of the Verkhovna Rada.

In 2022, the Constitutional Court will have five vacancies for judges. Two vacancies of CCU judges remain unfilled since 2019 (one from the Congress of Judges and one from the Verkhovna Rada). Moreover, the nine-year term is coming to an end for two judges appointed by the President and one nominee from the Congress of Judges. Such a significant renewal of the only body of constitutional jurisdiction can have a strong impact on its activities, including in terms of constitutional reform.

### *Judicial and Law Enforcement Reform*

The formation of the High Court on Intellectual Property and introduction of a new composition of the High Qualifications Commission of Judges are expected in 2022, while the newly established Ethics Council should assess the compliance of current HCJ members with the professional ethics and integrity criteria. In addition, the Ethics Council is to initiate a procedure for recommending candidates for vacant HCJ positions. All this should facilitate the process of renewing the judiciary, especially at the primary level (rayons and cities), where the shortage of judges is particularly acute.

The announcement of the assessment procedure for current HCJ members against the professional ethics and integrity criteria

<sup>8</sup> Authors of the new law on political parties presented their developments to the leading Ukrainian think tanks. – OPORA, 22 July 2021, <https://www.oporua.org/news/vybory/partii/23287-rozrobniki-novogo-zakonu-pro-politichni-partiyi-prezentuvali-napratsiuvannya-providnim-think-tankam-krayini>.

led to a «sudden» voluntary resignation of two of its members (Pavlo Grechivskyi and Oleksiy Malovatskyi)<sup>9</sup> and prompted other HCJ members to think about the feasibility of their tenure and the functioning of the High Council of Justice in the «previous mode».<sup>10</sup> Such a start of the Ethics Council may lead to a significant renewal of the HCJ composition in the near future.

Introduced in 2021. The head of state to the Parliament as an urgent draft law «On the liquidation of the District Administrative Court of Kyiv» can be considered by the Verkhovna Rada only with the «good will» of its formal initiator, as focused on him parliamentary «majority» is not a self-sufficient phenomenon. Therefore, the «liquidation case» of the UACC will continue to depend exclusively on the will of President V.Zelenskyy.

The procedure for appointing the head of the SAP should be completed within a year. This year is also the year of the end of the seven-year term of office of NABU Director A. Sytnyk, which means the beginning of the procedure for appointing a new head. This procedure should take place in accordance with the latest legislative changes (2021), according to which candidates for the position of NABU Director will be determined by a special Competition Commission based on the results of open competitive selection. However, the Cabinet of Ministers almost missed the deadline for establishing a commission to hold a competition for the post of NABU director within the timeframe provided by current legislation, which jeopardizes the proper conduct of the competition with the appointment of a new head of the department.

The draft law «On the Liquidation of the Kyiv District Administrative Court»,<sup>11</sup> introduced by the President in 2021 as urgent, can be

considered by the Verkhovna Rada only with the «good will» of its formal initiator, because the pro-presidential «mono-majority» in the parliament is not self-sufficient. Therefore, the «liquidation» of the KDAC will continue to depend exclusively on the President Zelenskyy's will.

The procedure for appointing the SAP's director should be completed at some point during the year. 2022 is also the final year of the seven-year term of NABU's Artem Sytnyk, indicating the start of the procedure for appointing a new head. This procedure must be in line with the latest legislative changes (2021), according to which candidates for the NABU Director will be determined by a special Competition Commission based on the results of open competitive selection. However, the Cabinet almost missed the deadline for setting up the commission for such a competition within legally defined timeframe,<sup>12</sup> which jeopardises the proper conduct of said competition.

The newly created Bureau of Economic Security (BES) is expected to become fully operational in 2022, directly dealing with offences that encroach on the functioning of Ukraine's economy. However, staffing of the BES apparatus and its territorial branches is not «secure» from the arrival of former taxmen, customs officers and other members of the so-called «power structures», who can «poison» the new agency with negative traits and traditions inherent in their previous activities. Obviously, this will not contribute to the reboot of the state's economic security system at a qualitatively new level.

A new version of the Law «On the Security Service of Ukraine», as well as amendments to other laws directly related to the functioning of state security bodies are also to be adopted.

<sup>9</sup> On 26 January 2022, the powers of two HCJ members will terminate. – Judiciary in Ukraine, <https://court.gov.ua/press/news/1244686>.

<sup>10</sup> The Ethics Council ignored the requirements of the Law on the procedure and sequence of assessments, which results in a violation of the principle of institutional continuity of the HCJ. – HCJ Statement, 9 February 2022, <https://hcj.gov.ua/news/etychna-rada-ne-dotrymala-vymog-zakonu-shchodo-poryadku-ta-chergovosti-ocinyuvannya-shcho-maye>.

<sup>11</sup> Draft Law on Liquidation of the District Administrative Court of Kyiv and Establishment of the Kyiv City District Administrative Court. – The Government portal, <https://www.kmu.gov.ua/bills/proekt-zakonu-pro-likvidatsiyu-okruzhnogo-administrativnogo-sudu-mista-kiyeva-ta-utvorenniya-kiivskogo-miskogo-okruzhnogo-administrativnogo-sudu>.

<sup>12</sup> Decree of the President of Ukraine «On the appointment of A. Sytnyk as Director of the National Anti-Corruption Bureau of Ukraine» No.218 of 16 April 2015.

See: «The Competition Commission shall be formed no later than two months before the expiration of the term of office of the Director of the National Bureau or within 14 days from the date of early termination of his powers (dismissal) in the manner prescribed by this Law», para. 7, Article 7 of the Law «On the National Anti-Corruption Bureau of Ukraine». The Cabinet of Ministers announced the establishment of a commission only at night on 15 February, and with some procedural violations, according to some experts.

These legislative changes should promote democratisation and openness, strengthen civilian oversight of the security services, strengthen the country's defence capabilities and ensure human rights and freedoms.

Generally speaking, the continuation of judicial reform launched in 2016, as well as reforms of law enforcement agencies are rather demonstrative and formal and are unlikely to be completed in the near future. The reason for this is the persistent willingness of the President's Office to «cooperate as closely as possible» with the judiciary and law enforcement agencies, to «direct» their activities and to use them in internal political processes.

### **Civil Service and Public Administration Reform**

The government-approved Strategy for Public Administration Reform for 2022-2025 (July 2021)<sup>13</sup> and relevant action plan for the current year focus on the optimisation of work processes in the executive branch, continuation of the reform civil servants' remuneration and training, further implementation of HRMIS personnel management system, reduction of staff turnover and increased competition for vacancies. The strategy also envisages a new version of the Law «On Citizen Appeals» and introduction of public consultations on the online platform designed for interaction of executive bodies with citizens and civil society institutions.

The deployment of the Centres for Administrative Services network covering all territorial communities is to be completed in 2022, bringing their number to 1,438. In 2022, it is also planned to expand the range of their services and introduce monitoring of their quality.

The government's plans for establishing a system of professional and politically

neutral public service in the near future raise nothing but scepticism, given the experience of previous years and a «manual» style of government in the highest echelons of power. As the practical implementation of the civil service pay reform is planned only for 2023, one can hardly expect significant progress in finding competent and motivated civil workers. Under these conditions, the system of advanced training for current civil servants can only have a limited positive effect.

As for the infrastructure of administrative services (both on-site and online), the previous pace of implementation and the current progress suggest that most of the declared goals will be achieved.

### **Legislation on Elections and Referendums**

During 2021, different government officials generated contradictory signals about the possible abolition of the proportional electoral system and return to a mixed system.<sup>14</sup> Losing public support, the ruling team may be interested in de facto repealing electoral reform, but this can be deterred by the society and international community's reaction.

In November 2021, President Zelenskyy confirmed that the government was considering the possibility of introducing **parallel online voting**, which was one of his electoral promises. At this point, it is unknown when online voting will be introduced in Ukraine.<sup>15</sup> Arguments for postponing this idea include Ukraine's vulnerability to cyberattacks of 2021 and early 2022.<sup>16</sup> This issue is further politicised by the fact that, according to government plan, online voting can help attract more young people — Zelenskyy's most dedicated supporters. Instead, the expert community is sceptical about both the feasibility and the real possibility of introducing this tool in the coming years.<sup>17</sup>

<sup>13</sup> Directive of the Cabinet of Ministers of Ukraine «Some issues of public administration reform in Ukraine». — Single web portal of the executive bodies of Ukraine, <https://www.kmu.gov.ua/npas/deyaki-pitannya-reformuvannya-derzhavnogo-upravlinnya-t210721>.

<sup>14</sup> For more detail see subsection *Legislation on Elections and Referendums*, Section *Domestic and Legal Policy* of the Results part of this publication.

<sup>15</sup> Zelenskyy: Microsoft and Apple work on the introduction of online elections in Ukraine. — Liga.Tech, 26 November 2021, <https://tech.liga.net/ua/ukraine/novosti/zelenskiy-microsoft-i-apple-rabotayut-nad-vnedreniem-onlayn-vyborov-v-ukraine>.

<sup>16</sup> See, for example, Cyberattack on Ukraine: how they hacked the government websites? — BBC Service Ukraine, 19 January 2022, <https://www.bbc.com/ukrainian/news-60050149>.

<sup>17</sup> See [https://www.oporua.org/news/video/about\\_election/23346-q-a-vse-shcho-vi-khotili-znati-pro-elektronne-golosuvannia](https://www.oporua.org/news/video/about_election/23346-q-a-vse-shcho-vi-khotili-znati-pro-elektronne-golosuvannia); <https://tech.liga.net/ua/ukraine/article/ukraina-ne-gotova-k-onlayn-vyboram-pogovorili-s-ekspertami-ob-elektronnom-golosovanii>; [http://cvu.org.ua/nodes/view/type:news/slug:zaprovadzhennia-elektronnoho-holosuvannia-v-ukraini-holovni-ryzky?fbclid=IwAR1cP10IA3ml2rhkkSupehWI9rYKKv9v4DURORog\\_ed9nG6k338W9qD3PE](http://cvu.org.ua/nodes/view/type:news/slug:zaprovadzhennia-elektronnoho-holosuvannia-v-ukraini-holovni-ryzky?fbclid=IwAR1cP10IA3ml2rhkkSupehWI9rYKKv9v4DURORog_ed9nG6k338W9qD3PE).

Since people's rule is one of the main narratives of the current government in communication with society, a number of **all-Ukrainian referendums** in 2022 cannot be ruled out, especially given the presence of all necessary legislative mechanisms. The experience of «five questions from the President» during the 2020 local elections suggests that the referendum mechanism will most likely be instrumentalised by the government to create advantages in internal political competition. Also, the Verkhovna Rada registered the draft law «On Local Referendum» (No.5512 of 19 May 2021), the passing of which, according to the Speaker Ruslan Stefanchuk, should be one of the parliament's top priorities.<sup>18</sup>

On 8 February 2022, President Zelenskyy informed the public about the launch of a new **eSmartphone** programme since the spring 2022. Under this programme, all vaccinated Ukrainians aged 60+ will receive free modern smartphones with preferential mobile plans. The government expects that at least 8.5 million people will benefit from this initiative. This gift will go with a training for new smartphone users.<sup>19</sup> According to surveys, only 6% of Ukrainians aged 60+ used smartphones in 2018, and already 12% in 2019,<sup>20</sup> suggesting that this indicator is growing naturally. In other words, its additional stimulation through the eSmartphone programme is rather an inefficient waste of budget funds focused primarily on meeting political needs.

On 8 February 2022, the «Diia» app launched the first ever **electronic polls** available

to all registered users. The questions concerned minor topics, such as which service in the app was the most useful or how to name a new programme of free distribution of smartphones to vaccinated Ukrainians. During the first two days, as many as 200,000 citizens participated in these polls. President Zelenskyy called this «the start of digital democracy».<sup>21</sup> Such surveys can only be of a consultative nature, as by law they are neither elections nor referendums; moreover, they are representative in terms of polling methodology. Nonetheless, this mechanism may well become part of the «electronic voting» system used to politically legitimise certain government decisions or used in the census scheduled in 2023.<sup>22</sup>

### **Decentralisation and Local Governments**

Advancement of decentralisation reform requires amendments to the Constitution that will give new meaning to the concept of «community», replace the system of state administrations with executive bodies of local governments and prefects, who will only have supervisory functions. In November 2021, draft amendments to the Constitution concerning decentralisation were published on the website of the relevant parliamentary committee.<sup>23</sup> Speaker Ruslan Stefanchuk called them a top priority of the parliament's work during the year, although not the top priority.<sup>24</sup> His first deputy Oleksandr Kornienko then stated that the final text of the bill could be finalised in February 2022.<sup>25</sup>

Questions remain about the appointing authority of prefects and their accountability

<sup>18</sup> People's rule, pension reform and decentralisation: Ruslan Stefanchuk on the Rada priorities for 2022.

<sup>19</sup> Zelenskyy: The state will give smartphones with preferential plans to all vaccinated Ukrainians over the age of 60. – Left Bank, 8 February 2022, [https://lb.ua/news/2022/02/08/504983\\_derzhava\\_vidavati\\_vsim.html](https://lb.ua/news/2022/02/08/504983_derzhava_vidavati_vsim.html).

<sup>20</sup> See: Ukrainians actively master smartphones. Most popular applications. – Ukrinform, 14 March 2018, <https://www.ukrinform.ua/rubric-technology/2421397-ukrainci-aktivno-priborkuut-smartfoni-najpopularnisi-mobilni-dodatki.html>; 55% of Ukrainians have smartphones, including 92% of young people. – UNIAN, 1 April 2019, <https://www.unian.ua/economics/telecom/10500204-smartfoni-ye-u-55-ukrajinciv-sered-molodi-92-infografika.html>.

<sup>21</sup> «Diia» launches surveys – an e-democracy tool. – Left Bank, 8 February 2022, [https://lb.ua/news/2022/02/08/504986\\_dii\\_zapuskayut\\_opituvannya.html](https://lb.ua/news/2022/02/08/504986_dii_zapuskayut_opituvannya.html).

<sup>22</sup> Shmyhal: the 2023 census will be «unusual». – Radio Svoboda, 14 September 2021, <https://www.radiosvoboda.org/a/news-urid-perepys-naselennia/31459503.html>.

<sup>23</sup> On amendments to the Constitution of Ukraine concerning decentralisation – Parliamentary Committee on State Building, Local Governance, Regional and Urban Development, 30 November 2021, [http://komsamovr.rada.gov.ua/news/main\\_news/82345.html](http://komsamovr.rada.gov.ua/news/main_news/82345.html).

<sup>24</sup> People's rule, pension reform and decentralisation: Ruslan Stefanchuk on the Rada priorities for 2022.

<sup>25</sup> Kornienko said when changes to the Constitution concerning decentralisation could be elaborated. – Ukrinform, 14 January 2022, <https://www.ukrinform.ua/rubric-politics/3384784-kornienko-skazav-koli-mozut-napracuvati-zmini-do-konstitucii-v-castini-decentralizacii.html>.

<sup>26</sup> 8 December 8 – expert discussion of the published draft amendments to the Constitution concerning decentralisation. – Decentralisation, 6 December 2021, <https://decentralization.gov.ua/news/14330>.

(to the President or to the Cabinet).<sup>26</sup> Consideration and approval of these constitutional changes will definitely be long and arduous, but their adoption, at least in the first reading, looks realistic.

In addition, the Verkhovna Rada expects submission of several draft laws that should supplement and optimize the current legislation. They concern the new functions of state administrations (No.4298), the procedure for settling issues of administrative-territorial organisation (No.4664), community cooperation (No.5742), delimitation of powers of local governments and executive authorities (No.6281 and No.6282), service in local government (No.6504), property of communities (No.6479), establishment and activities of citizen self-organisation bodies (No.6319), borrowings by rural and township communities (No.6472), ensuring publicity in the work of local governments (No.6401).<sup>27</sup> The next step is to consider the new law on the capital city, initiated by the current government (No.2143-3). A comparative table of changes to the second reading was distributed to MPs in November 2021.

Since conflict is bad for both parties, relations between the centre and local self-governments are likely to reach compromise and stabilise. The Congress of Local and Regional Authorities will remain the government's platform for cooperating with loyal local leaders. Differences in the planning horizon make such cooperation limited and temporary, because the main milestone for the central is the 2023 parliamentary elections, while local elections are set in 2025, after the presidential elections.

**One can single out the following trends in domestic political development in 2022:**

✓ The main focus of President Zelenskyy's government will shift to creating conditions favourable for his re-election in 2024. Therefore, the government will probably take action to reduce political competition, win over the information space and maintain control over the Verkhovna Rada, the Cabinet of Ministers and other central executive bodies, as well as reach certain agreements with other important actors, such as the most influential (primarily «oligarchic») business communities and regional elites.

✓ Since the next regular elections to the Verkhovna Rada are scheduled in 2023, the year of 2022 will see the intensification of political life, which will inevitably lead to increased political competition. In the earlier stages of the country's recent history (before the Revolution of Dignity), parliamentary elections were often seen as a prelude to presidential elections that usually resulted in a change of political regime. In present-day Ukraine, it is the parliamentary election results can mark a change in the main trends.

✓ The activities of the government system as a whole will continue to be mostly reactive – it will not act proactively but rather respond to events, trends and stimuli, trying to take into account key societal sentiments and positions of other factors affecting the government – in particular the largest FIGs (representatives of «oligarchic» capital), Ukraine's foreign partners, etc. Events of the late 2021 – early 2022 demonstrated that the government, having no strategy but some fragments of behaviour scenarios used during the Viktor Yanukovich's term (2010–2014), will not necessarily succeed in its intentions.

✓ In the context of obvious weakening of the President's position, it will be very difficult for him to achieve control over the judiciary, the Constitutional Court and anti-corruption bodies (NABU, NAZK, SAP, the High Anti-Corruption Court).

✓ The imbalance of the state system and the absence of checks and balances inherent in traditional democracies lead to widespread involvement of extra-parliamentary factors – FIGs, local elites, public activists – in political processes.

✓ With a much higher likelihood of a new hybrid aggression, the question of the state and society's ability to resist become particularly relevant. The threat of Russia's information and psychological operations against Ukraine will increase. The potentially possible consent of the government under pressure from foreign partners to literally implement the Minsk agreements and include the so-called «Steinmeier's formula» to national law and give other concessions to Russia will add to destabilisation in the country.

<sup>27</sup> 10 key bills for decentralisation that are already in the Verkhovna Rada (+ infographics). – Decentralisation, 18 January 2022, <https://decentralization.gov.ua/news/14464>.



## Economy

Despite showing some moderate growth in 2021, Ukraine's economy will be able to reach pre-crisis levels only in mid-2022 in the absence of new external shocks. But even this will require the government to respond to a number of internal and external challenges, demonstrate balance and rationality, abandon resolving of internal (fiscal) imbalances by suppressing business activity and household well-being.

The complexity of Ukraine's post-coronavirus recovery in 2022 is aggravated by inextricable links between the external and internal risks and challenges. Accordingly, strengthening of the economic environment is hampered by the risk of full-scale Russian aggression.<sup>1</sup> Industry development depends on the global demand for metals, which, in turn, is associated with investment projects in the United States and China. The resilience of the agricultural sector balances between export capacity (including global conditions) and readiness to fill domestic markets to ensure food security.

It should be noted that in 2.5 years, current government has not demonstrated the ability to make and implement «depoliticised» economic decisions and ensure proper communication with society, often using the coronavirus pandemic or predecessors' actions to justify their own mistakes. So far, there are no visible prerequisites for correcting the situation, so Ukraine's economic development in 2022 will depend on the ability and willingness of businesses to achieve positive results by relying on own resources, and thus – to maintain the economic viability of households.

**Factors affecting the situation in Ukraine's economy.** The global economic recovery that started in 2021, will become sustainable in 2022 and may be fundamental for Ukraine's economic recovery. This does not mean that all barriers and problems will automatically disappear. However, there are **reasons to predict** a cautiously optimistic scenario for Ukraine's economic situation in 2022 in the absence of conflict escalation with Russia.

Key factors of divergent impact on GDP dynamics include the following:

- ✓ being not eliminated in 2021, the economy's collapse of 2020 kept a fairly **low base of comparison** for the next years. Therefore, possible positive growth in 2022 should not mislead anyone but rather become an additional incentive for change;
- ✓ inflation that accelerated in the second half of 2021 primarily due to the energy shocks, will somewhat weaken in the first half of 2022 but will remain significantly

higher than government forecasts, creating negative put pressure on economic dynamics and **preventing** investment expansion in the next 2-3 years;

- ✓ although Ukrainian **business** has already acquired some anti-fiscal «immunity», its **«margin of safety» may be undermined by the government's new intentions to increase fiscal and administrative pressure** to replenish budgets. At the same time, significant risks caused by more expensive energy, rent, transport and intermediary services coupled with increased production costs can lead to the displacement of a large number of individual entrepreneurs (FOPs), small and even medium-sized businesses;
- ✓ **recovery of world trade and investment**, which will support the demand for Ukrainian products, will accelerate. Although investment risks, especially in emerging markets, including Ukraine will remain high, one can still expect a gradual investment expansion that will

<sup>1</sup> In our forecasts, we consider this risk as possible, but if it becomes a reality, any forecasts will no longer make any sense because of the catastrophic scale of human and other losses. In our opinion, the scenario of diplomatic pressure is more probable, with a possible continuation as hybrid destabilisation. For more detail, see *Security and Defence* forecasts.

also require the **formation of new global value chains**. With the accelerated development of domestic infrastructure, the country gets a chance to enter certain production niches for competitive industries;

- ✓ in 2020-2021, Ukraine has demonstrated the ability to attract external resources that allowed to timely settle its external liabilities and replenish the country's foreign exchange reserves. However, these tasks in 2022 will become more complicated, as growing inflation and devaluation risks will require a new level of effectiveness of public policy in the debt sector;
- ✓ **political factor** will particularly influence the development of the country's socio-economic environment, such as the beginning of in fact inseparable parliamentary and presidential election marathons. As a result, government initiatives to «ensure» its leadership in the election race will become less rational and more populist, costlier and burdensome for the economy, and riskier for public finances.

Of course, this list is not exhaustive, but it is sufficient to assess the level of **complications facing the economic environment and public administration** for Ukraine to be able to achieve, albeit insignificant, but relatively sustainable growth and development in the short- and medium term.

**Key macroeconomic indicators.** First of all, Ukraine is **not yet** on the trajectory of stable and balanced development in 2022. Although the government insists on the accelerated recovery in 2022 our cautious scenario suggests that **GDP growth in 2022 will remain at the 2021 levels (or 2.8-2.9%)**. We consider such dynamics positive, as it points at the gradual adaptation of domestic businesses and households to difficult internal and external conditions (Table «Key macroeconomic indicators», p.105).

Also, inflation in Ukraine in 2022 will not be much different from the 2021 figures, failing to reach the NBU target of about 5%. One

should remember the «monetary overhang» formed in 2021 (see *Economy* in the Results part), as well as energy pressure, which may even increase.

The main **risks to the national currency's resilience** apart from Russian aggression are linked to the ongoing energy crisis caused by imports of expensive energy resources, declining revenues from international financial institutions (IFIs) and the country's limited access to global financial markets. Strengthening of monetary policy (raising interest rates) to counter inflation will lead to the **flow of capital** to «safe havens», which will have pro-inflationary and pro-devaluation consequences for Ukraine.

However, our observations suggest that the **situation in the currency sphere in 2022 will remain controlled** and will be determined by:

- ✓ stoppage of political manipulations around the NBU leadership;
- ✓ retention of relatively insignificant trade deficit;
- ✓ continued significant transfers for households from abroad;
- ✓ use of the part of foreign exchange reserves for making timely payments to international creditors and meeting the demand for foreign currency.

There are reasons to expect some **changes in the macroeconomic structure** in 2022. First of all, the share of **consumer spending will slightly decrease**, thus allowing some increase in investment resources. Although the **foreign trade balance** will remain in **deficit**, it will be lower than in 2019-2021, also reducing the need for foreign borrowing.

**Main industries.** In 2022, the domestic economy will need to actively make up for the losses of the crisis years, as well as to **find directions for accelerated full-scale recovery**. However, Ukraine seems not to be «ready» to get active involving in global recovery. At the end of 2021, domestic businesses once again lowered assessments

<b>KEY MACROECONOMIC INDICATORS.</b> % of growth to the previous year (unless indicated otherwise)				
	2019	2020	2021(e)	2022(f)
Real GDP	3.2	-3.8	2.8	2.9
CPI, December-December	4.1	5.0	10.0	8.9
CPI, average for period	7.9	2.7	9.4	9.1
GDP Deflator	8.1	10.3	16.5	15.2
Exchange rate: UAH/\$1 (period end)	23.6	28.3	27.2	29.5
Exchange rate: UAH/\$1 (period average)	25.8	27.0	27.3	28.4
Average wage, UAH thousand/month	10.5	11.6	13.9	14.9
Average wage, \$ equivalent	406	430	508	525
Final consumption expenditure, % of GDP	93.2	92.6	92.2	91.8
Gross capital formation, % of GDP	14.9	8.9	9.1	9.2
Trade balance, % of GDP	-8.1	-1.5	-1.3	-1.0
Gross reserves, \$ billion	25.3	29.1	30.9	26.5

of the economic condition of their enterprises from 49.8 in November to 48.6 in December.<sup>2</sup> Rocketing energy prices, shortage of raw materials, rising production costs, growing threat of military conflict, complication of the global epidemic situation have provoked a decline in all sectoral indices below neutral levels.

There are still serious doubts that current losses **in industry** will be eliminated within a year. After the industry's 2020 fall by 4.5%, its 1.1% growth in 2021 means only short-term «containment» (or error rate). At the same time, freight turnover, which is largely formed based on industrial production, after collapsing by more than 14% in 2020, will improve only slightly in 2022 (Table «Growth of the main production areas»).

The growing need for economic activity and production to **«go green»** presents an additional challenge for domestic industry. As a result, Ukrainian industry will lose competitiveness and markets with the introduction

**GROWTH OF THE MAIN PRODUCTION AREAS,**  
% to the previous year

	2020	2021	2022
Industry	-4.5	1.1	2.0
Freight turnover	-14.4	-0.3	2.0
Agriculture	-10.1	14.4*	-4.0

\* – thanks to a record-breaking harvest, but similar results are unlikely in 2022 due to a sharp increase in the cost of fuel, fertilizers, plant and animal protection.

of the EU's total taxation of environmentally polluting goods and industries. And it is not yet clear how it is going to adapt to this «green» European challenge will take place.

As for **agricultural production**, the risks will only be widening, primarily due to ill-considered land reform. Particularly depressing are the **contradictions between agricultural exports revenues and domestic food security**. Unfortunately, the problem in ensuring and maintaining food security will once again be

<sup>2</sup> According to the Business Expectations Index (BEI). Business sentiment has deteriorated against the background of ongoing quarantine restrictions. Survey of enterprises in December, <https://bank.gov.ua/ua/news/all/>.

solved in an ad hoc manner, further worsening the situation:

- ✓ re-introduction of **state regulation of prices** for social foodstuffs through the introduction of mark up limits of 5-15% (draft law No.6374);<sup>3</sup>
- ✓ introduction of product vouchers, including electronic;<sup>4</sup>
- ✓ regulatory **restrictions on grain exports**. An export duty<sup>5</sup> may even be introduced for this purpose, which is likely to provoke lawsuits to the WTO.

In the second half of 2022, the government will also have to respond to the EU's initiative establishing **zero VAT on food** for European producers,<sup>6</sup> although Ukraine is traditionally reluctant to reduce taxes.

However, these measures are unlikely to strengthen the agricultural sector and hence food security, increase investment in modern agricultural and food production and increase farmers' incomes.

**Public finance.** The objectives of bolstering security, social welfare and support, financing health and education and repaying debts in 2022, as well as the «election factor» will determine the need to expand budget revenues at all levels. Under such circumstances, the government – just like in 2020-2021 – will resort to **increasing fiscal and administrative pressure**. Of course, given the need to step up economic activity and counter the coronavirus crisis, **this approach is destructive and has nothing to do with the economic policy's reform measures**.

Meanwhile, some high-ranking officials have already announced **drastic tax changes** aimed at increased withdrawal of funds in favour of budgets, which the government will try to **implement as soon as possible** – first at the legislative level and then in practice. In essence, 2022 will be a «full-fledged» continuation of the previous year in terms of **fiscalisation and increase in tax deductions** from the income of all economic agents.<sup>7</sup>

One can expect increased penalties for improper use of cash registers, new rules of taxation of controlled foreign companies (CFC), more expensive online services resulting from the entry of the so-called «Google Tax» law into force. Moreover, there may be an accelerated adoption of the bill on **introduction of indirect methods of control over citizens' expenses**. Since the declaration of income in the so-called tax amnesty did not reach the desired level in 2021, the depressing expansion of fiscalisation in 2022 will include the general **tax on individual expenses** (previously it was a question of controlling the expenses of certain categories of citizens).

Some tax initiatives are likely to require updated relations with the IMF, as chronic gaps between agreements and their implementation persist. First of all, it is about a very controversial **introduction of the so-called «exit capital tax»** (tax on distributed profits) replacing corporate income tax.

It should be reminded that in the autumn of 2020, in his address to the Verkhovna Rada, President Zelenskyy voiced the need to decide on the exit capital tax. Later the **Ukrainian authorities committed to the IMF to abandon these plans**.<sup>8</sup> In late 2021, however, the

<sup>3</sup> Draft Law «On Amendments to the Law of Ukraine 'On Prices and Pricing' to restore state regulation of prices on food products of social significance» of 2 December 2021.

<sup>4</sup> In 2022, the government can introduce product vouchers for the poor, <https://censor.net/ua/n3308973>. The absurdity of such a decision is multiplied by the idea of introducing electronic cards for low-income individuals and single pensioners, who in fact do not have adequate access to IT services.

<sup>5</sup> Record grain harvest, but not enough for bread: will the government impose restrictions on food wheat exports? – <https://agroreview.com/content>.

<sup>6</sup> Stormy year – what awaits the agro-industrial complex and Ukrainians in 2022? – <https://agropolit.com/spetsproekty>.

<sup>7</sup> The government also promises to reduce tax burden by combining three mandatory payments (single social contribution, personal income tax and military tax) into a single PIT rate of 30%, with a gradual 1% reduction each year down to 25%. However, experts believe that relevant changes will not occur for at least the next 2 years. See: Tax Reform in Ukraine 2022. – World Experience and Ukrainian Peculiarities, <https://ua.interfax.com.ua/news/press-release/787393.html>.

<sup>8</sup> Zelenskyy refused the promise to introduce an exit capital tax – a memorandum with the IMF, <https://biz.censor.net/n3301575>.

government once again spoke about the need to introduce this tax instead of a corporate income tax. The new tax is reasonably associated with a number of **contradictions and complications** for the State Budget, primarily concerning the absence of compensation sources due to a sharp drop in budget revenues at least in the first 3–5 years after its introduction.

Experts believe that the transformation of the current system of personal income taxation by introducing a **cumulative household tax** rather than personal would be much more significant for effective tax reform, but in conditions of the «needs» to fill budgets, adoption of relevant bill in 2022 is highly unlikely.

**Balance of payment.** In 2021, Ukraine has significantly **increased and improved its foreign trade**, which will hardly be repeated in 2022. Moreover, the uncertainty of demand for metals and probable lower harvests in 2022 (compared to the record-breaking 2021) means that even with the growing global demand in 2022, the volume of domestic exports and imports of goods will slightly reduce (Table «Key indicators of the balance of payment»).

<b>KEY INDICATORS OF THE BALANCE OF PAYMENT,</b> % of GDP (unless indicated otherwise)				
	2019	2020	2021 (e)	2022 (f)
GDP, \$ billion	153.9	156.6	185.3	211.1
Exports of goods and services	41.3	38.3	44.5	38.6
Imports of goods and services	49.4	40.3	45.8	39.7
FDI	5.2	-0.1	6.7	5.5
Wages (balance), \$ billion	12.8	11.7	15.4	14.5

This may even improve the **foreign trade balance** – although it will remain deficient but continue to improve (the deficit of goods will reduce to 2.9% of GDP, goods and services – to 1% of GDP).

The funds received by Ukrainians from abroad (private transfers to Ukraine) will have a traditional positive impact. Although their volumes will decrease slightly in early 2022 as

a result of yet another COVID-19 wave, but in the second half of the year they will recover rapidly.

#### **External debt and international reserves.**

In recent years, the Ministry of Finance managed to stabilise Ukraine's reserves and foreign debt positions. Therefore, Ukraine's gross reserves are maintained at a level close to 4 months of imports, while the total (gross) external debt of Ukraine ranges within \$115–125 billion since 2017. The total amount of external public debt and external debt of the NBU is within \$50–55 billion.

It is necessary to admit that payments on external liabilities in 2022 are quite significant (Table «Schedule of planned payments...»), and the risks of their refinancing are growing, primarily due to a significant increase in price for domestic and external resources linked to the threat of Russian aggression.

At the same time, one should not expect more productive dialogue with the IMF, or greater willingness of the Ukrainian government to undertake reform steps. In 2022 marks the beginning of the election marathon, and the **authorities will hardly want to deal with «painful» reforms but rather seek to expand their populist activities.**

<b>SCHEDULE OF PLANNED EXTERNAL DEBT PAYMENTS TO NON-RESIDENTS IN 2022,</b> as of 1 October 2021, \$ million				
	Q1	Q2	Q3	Q4
<b>Total, including</b>	<b>4 634</b>	<b>3 312</b>	<b>5 089</b>	<b>3 133</b>
Public administration sector	1 437	1 054	2 438	1 027
National Bank of Ukraine	725	291	617	285
Other sectors, including state guaranteed borrowings	1 118	1 363	1 472	1 078

Of course, under such circumstances, **Ukraine will have to make part of its debt payments at the expense of reserves**, which are expected to reduce by \$4–5 billion during 2022. Although such reduction in gross



international reserves seems inevitable, they will remain sufficient to cover 4-month imports and will not undermine the stability of the macroeconomic environment.

## OPPORTUNITIES AND RISKS OF UKRAINE'S ECONOMIC DEVELOPMENT IN 2022

As noted, the conditions for Ukraine's economic development in 2022 will be determined by a complex combination of divergent internal and external factors reinforced by confrontations between world political and economic leaders, as well as the risks of a massive Russian aggression.

The domestic environment for economic development will generally **benefit from the increasing adaptation to coronavirus restrictions**. Cautious forecasts of the WHO and other international organisations on the pandemic wave ending in 2022 may prompt weakening and gradual lifting of restrictions on the movement of people and mark the beginning of revival of different industries most affected by the pandemic (tourism, recreation, passenger transport, culture, sports, etc.).

At the same time, the country's economy will face a number of complicating factors, including those that emerged in previous years and received no proper attention from state institutions. There may be an **aggravation of public controversy over certain areas of economic reform**, including land and energy reforms, as well as contradiction between the fiscal approaches of the state seeking to expand the tax base, and the interests of small and medium-sized enterprises.

The policy of maximum withdrawal of resources from businesses and households, including through the introduction of universal declaration and indirect methods of control of expenses, which become increasingly «attractive» for the country's fiscal bodies, provokes the escape of business activities and incomes to the shadow economy and reinforces successful businesses' intention to emigrate.

Significant challenges and risks for accelerated development are also linked to

structural distortions in the country's economy, which become increasingly evident not only due to the COVID-19 pandemic, but also due to **hypertrophied privileges granted to some areas of economic development**, particularly road construction. As the country's economy is an interlinked complex of different sectors and industries, excessive structural distortions may become a source of *internal disintegration* rather than the driver of development.

Growing tariffs for energy resources in general and electricity in particular may undermine the value position of Ukrainian metallurgical products by reducing their competitiveness. This will have a negative impact not only on domestic production but also on the country's export capacity.

The risks of structural distortions are also due to increasing government support for the processes of localisation or regionalisation of economic development, although this means inevitable losses in overall economic efficiency and effectiveness. Moreover, the government's predisposition to greater localisation of domestic industry, which also significantly limits the access of foreign companies to public procurement, casts doubt on Ukraine's readiness for transparent and mutually acceptable terms of cooperation.

**Key challenges in the international economic environment fall within the international security**, which demonstrates increasingly dangerous trends. Such processes dramatically increase the risks for economic activity, significantly worsen the innovation and investment environment, and raise the overall level of uncertainty.

For Ukraine, whose economy strongly depends on external economic factors (imports of goods and capital, exports of human capital), these changes are both a huge challenge and a «window of opportunity». With correct and nationally oriented development policy, they make it possible to adjust the economic development's trajectory aimed at accelerating economic and technological modernisation as a prerequisite for the formation of a brand-new economic profile and international competitiveness.

## Energy Sector

The analysis of the state energy policy over the last period makes allows experts to predict the continuation and consolidation of the 2020-2021 trend of strengthening of administrative regulation in the electricity and natural gas markets. This can lead to increasing cross-subsidisation and a significant growth of the deficit of investment in energy infrastructure.

**2022 will be crucial for the preparation for the planned synchronisation of the Integrated Power System of Ukraine (IPS) with ENTSO-E set in 2023.**

**Significant challenges in the energy sector are posed by Russia's aggression and the possible use of energy as a »hybrid weapon«. These challenges require an adequate response not only from the Ukrainian authorities but also from the international community as a whole.**

### ELECTRICITY MARKET

The crisis in Ukraine's electricity market in 2022 is likely to deepen. This is due to the following: *first*, the expected high energy prices in international markets; *second*, the inhibition by the government of liberal market reforms in line with Ukraine's commitments under the Energy Community Treaty and the EU-Ukraine Association Agreement; *third*, the realisation of the government's populist pricing policy through systematic administrative intervention in the market; and *fourth*, the loss of the NERC's independent status and strengthening of political influence on this agency.

Throughout 2022, Ukraine will retain the following features that are uncharacteristic of market economies:

- ✓ application of strict price restrictions (price caps), in particular in DAM (day-ahead market);
- ✓ continuation of the inefficient special responsibilities (SR) system, which significantly distorts the liberal market model and contradicts the Law «On the Electricity Market»;
- ✓ attempts by the government to keep prices low for households regardless of the impact of economic factors and risks to the IPS operation due to the growing deficit of investment in basic infrastructure.

The main reasons that will hinder the electricity market reform in 2022 based on the Third Energy Package principles include:

- ✓ efforts of the ruling political force to break the fall of its ratings, caused by significant shortcomings in the implementation of socio-economic policy, through populist decisions on prices in the energy sector;
- ✓ ongoing strong influence of some powerful industrial and commercial groups on government policy to obtain non-competitive advantages through price distortions and cross-subsidisation;
- ✓ deepening of the systemic crisis in public management of the energy sector, caused by a significant shortage of qualified personnel and institutional deformations.

Due to the acute shortage of coal and natural gas for electricity generation at TTPs and CHPs, the main burden of energy supply for the country's economy in January-March 2022 will fall on nuclear energy, which in this period may exceed 12 GW.<sup>1</sup> This will allow NPPs to achieve about 57% of total electricity production in the country.

However, if the air temperature in Ukraine in Q1 2022 is average or below average for this season, and if coal is imported in insufficient quantities, there exists a certain risk of capacity shortages at certain intervals at the end of the heating season.

<sup>1</sup> Daily schedule of electricity production/consumption in the IPS trade zone. – Ukrenergo, <https://ua.energy/peredacha-i-dyspetcheryzatsiya/dyspetcherska-informatsiya/dobovyj-grafik-vyrobnystva-spozhyvannya-e-e>.

**Due to the gradual recovery of the economy and passage of peak COVID-19 incidence, electricity production in Ukraine in 2022 is expected to increase compared to 2021 up to 161 billion kWh, or by 2.1%.**

In particular, heat generation by CHP is set to increase to 42.1 billion kWh, or by 7.6%. Instead, due to the need to expand scheduled repairs at nuclear power plants after their record-breaking electricity production during the autumn and winter of 2021-2022, nuclear generation will drop to 83.9 billion kWh, or by 1.5%.<sup>2</sup>

In view of the global forecast for 2022 regarding high energy prices and Ukraine's substantial dependence on imported coal, gas and nuclear fuel, as well as due to the growing share of expensive renewables electricity in total production, it can be predicted that the mean DAM price for Ukraine's IPS may increase compared to 2021 from UAH 1,800 to UAH 2,200 per MWh, or by 22%, subject to the elimination of market manipulation.

**However, the price of electricity for households, given the government's populist economic policy and harsh price restrictions is likely to remain at the 2021 level or increase slightly.**

## UKRAINE'S IPS SYNCHRONISATION WITH ENTSO-E

Integrated Power System of Ukraine (IPS) is currently in sync with the energy systems of Russia and Belarus. At the same time, Ukraine has completed the main technological measures provided for in the Agreement on the conditions for synchronisation of Ukraine's energy system with the Continental Europe electricity system ENTSO-E. As part of the integration into the pan-European ENTSO-E, the domestic energy system must operate for at least three days in isolation from the systems of Russia and Belarus in February and July 2022.

**According to the final report on the assessment of static and dynamic stability of Ukraine, Moldova and ENTSO-E energy**

**systems, there are no obstacles to the IPS synchronisation with the European power grid.** Some technical inconsistencies are minor and can be fixed by reconfiguring power management systems at thermal and hydropower plants.<sup>3</sup>

Although the main technological measures stipulated by the Agreement on the conditions for synchronisation have been generally implemented, Ukraine's electricity market does not yet operate in line with EU rules and regulations and remains non-transparent. In addition, the shortage of coal and gas also increases the risk of delaying IES tests in isolation and postponing the ENTSO-E decision on the synchronisation of energy systems in Ukraine and Europe from 2023 until later date.

Under this scenario, the parties will have to develop an updated roadmap for the IPS integration with European electricity grids to get rid of dependence on Russia and Belarus in electricity imports without losing the IPS reliability.

**With the completion of system integration, the level of cross-border flows will almost double to 2 GW per year.**

Advantages of joining ENTSO-E include:

- ✓ creating conditions for competitive pricing in the over-regulated electricity market of Ukraine;
- ✓ increasing the level of energy security (currently Ukraine depends on the support of electricity frequency standards provided by Russian and Belarusian network operators);
- ✓ supporting competition between all market participants, more efficient interaction in production, transmission, distribution, purchase and sale of electricity, reliable supply of electricity to consumers in Ukraine;
- ✓ promoting reductions in GHG due to increased CO<sub>2</sub> taxes.

<sup>2</sup> Electricity balance 2022: What will change? – Ukrainian Energy, <https://ua-energy.org/uk/posts/balans-elektroenerhii-2022-shcho-zminytsia>.

<sup>3</sup> Synchronisation of Ukraine and Moldova's energy systems with ENTSO-E is possible without additional measures – research results. – Ukrenergo, <https://ua.energy/zagalni-novyny/synhronizatsiya-energosityu-ukrayiny-ta-moldovy-z-entso-e-mozhlyva-bez-dodatkovykh-zahodiv-rezultaty-doslidzhennya>.

## RENEWABLE ENERGY DEVELOPMENT

According to the Ministry of Energy's projected balance for 2022, electricity production from renewable energy sources is to increase to 14.9 billion MWh, or by 17.2%. The largest contribution to the increase in production will be provided by wind power plants (WPPs) – up to 5.8 billion MWh, or 43%, and CHPs running on biofuels – up to 1.1 MWh, or 10%.<sup>4</sup>

**Instead, due to recent deterioration of the investment climate in the renewables sector, the implementation of this plan will face serious difficulties. For Ukraine to achieve its ambitious goals of increasing the share of renewables in total electricity production, first of all, it is necessary in 2022 to improve the current energy market model by eliminating administrative interference in market relations, optimize the SR system and minimise cross-subsidisation.**

Also, it is critical that the NERC included full compensation for the renewable energy producers of the difference between the «green» tariff and the market price in Ukrenergo's transfer tariff for 2022 by increasing it from UAH 345.64 / MWh to UAH 458.83 / MWh.<sup>5</sup> In addition, there is an urgent need to resolve the issue of repayment of existing debts to the renewable generation and prevent of new debts. If these measures are not implemented, Ukraine can expect an increase in debt and a further decline in investment in the renewable energy sector.

## NATURAL GAS SECTOR

One of the biggest challenges facing Ukrainian energy sector in 2022 will be the issue of reliable gas supply to consumers at affordable prices in conditions of record high prices in international markets and the shortage of natural gas in underground storage at about 2 bcm in the heating season of 2021-2022. One should not forget the ever-increasing threat of stoppage of the transit of Russian gas by the Ukrainian GTS following possible commissioning of the Nord Stream-2 gas pipeline.

In such critical conditions, the government, Naftogaz, the Ministry of Energy and NERC must undertake the following measures to address these challenges:

- ✓ prepare Ukrainian GTS to work in the absence of transit of Russian gas by introducing changes to the technological modes of its operation in order to steadily meet consumer demand in all regions of Ukraine;
- ✓ ensure the full implementation of the transit contract between Naftogaz and Gazprom, including the prevention of unauthorised gas offtake;
- ✓ establish the Ukrainian stock exchange price index for natural gas and conclude long-term contracts for gas supplies to reduce the impact of spot prices, which are formed on the principle of import parity and make the price situation in the domestic market almost unpredictable;
- ✓ pump at least 14-15 bcm of active gas into underground storage facilities before the heating season of 2022-2023.

**Key external risks for the energy security of Ukraine and other European countries stem from Russia's aggression against Ukraine and its possible escalation.** Given the variety of scenarios of Russia's possible actions,<sup>6</sup> experts identify the following main areas of destabilisation of the situation in Ukraine's energy sector that are either already in use or may be used depending on the course of events:

- ✓ discontinuation of the Russian gas transit through Ukraine during the heating season, which may lead to limited gas supply to many EU countries, as well as to some areas of southern and eastern Ukraine;
- ✓ simultaneous stoppage of exports of diesel fuel, gasoline and LNG to Ukraine by Russia and Belarus, which may cause panic in the Ukrainian oil products market, create shortage of fuel for the needs of

<sup>4</sup> Electricity balance 2022: What will change? – Ukrainian Energy, <https://ua-energy.org/uk/posts/balans-elektroenerhii-2022-shcho-zminytsia>.

<sup>5</sup> Ukrenerg estimates. – ExPro Consulting, <https://expro.com.ua/novini/nkrekp-pdvischila-tarif-na-peredachu-ee-na-176-do-34564-grnmvt-god>.

<sup>6</sup> See Security and Defence Forecasts section.

the Armed Forces and the agro-industrial sector of Ukraine;

- ✓ cyberattacks on critical energy infrastructure that can partially paralyse the energy supply to certain regions;
- ✓ large-scale aggression with weapons of mass destruction against the country that has 15 nuclear units poses a real threat to the lives of millions of people in Ukraine and other European countries and cause radiation contamination of large areas of the European continent.

To render these scenarios impossible or prevent their devastating consequences, both Ukraine and its international partners must take appropriate measures.

In particular, **Ukraine needs to create strategic reserves of oil and oil products, develop a plan for supply diversification**, elaborate relevant agreements and reserve additional resources needed to implement these measures, audit existing capacities and possibilities for their use in emergencies.

**The issue of the threat to Ukraine's nuclear energy infrastructure** in the event of escalation of aggression, the global devastating effects of damage or destruction of this infrastructure in case of a large-scale armed conflict with Russia or sabotage **needs to be immediately raised in the international arena.**

To ensure energy security in conditions of zero transit and the energy transition to a carbon-free economy, in 2022 Ukraine absolutely needs **to reverse the recent years'**

#### **negative trend of reducing gas production.**

To do so, it is first of all necessary to abandon the administrative regulation of gas prices, prioritising targeted financial assistance to low-income citizens instead. In this context, the revision of the rule on the mandatory sale of 20% of gas by private companies at regulated prices is an extremely important step to attract investment in gas production.

At the same time, it is expedient to maintain a system of incentive taxation for new gas wells, which in recent years has proven itself and allowed private companies to steadily increase gas production.<sup>7</sup>

**One can hardly expect increased competition in Ukraine's energy markets in 2020 and bringing their functioning in line with EU legislation. Instead, the non-transparency and political dependence of the NERC on pricing and market rules formation is likely to persist, which will significantly complicate the attraction of investment and preparation for the heating season of 2022-2023. Some uncertainty regarding the implementation of all planned measures to prepare for the IPS synchronisation with ENTSO-E also remains.**

**The possible launch of the Nord Stream-2 gas pipeline is one of the biggest challenges for the Ukrainian energy sector, as it will significantly increase the risks of energy supply to the country's economy. However, the deadlines for the start of its commercial operation are currently unclear and depend on the completion of the certification procedure by the Germany's Federal Network Agency and the nature of Russia's further actions in the conflict with Ukraine.**

<sup>7</sup> Source: Association of Gas Production Companies of Ukraine, <https://agpu.org.ua/novyny/novyny-asotsiatsii/5-mlrd-kubometriv-hazu-rekordnyi-vydobutok-pryvatnykh-kompanii-u-2021-rotsi>.



## Social Sector

**2022 promises to be difficult, challenging and full of overlapping crises resulting from both external factors and policies pursued by the government in previous years. Moreover, some factors are beyond rational prediction, which further complicates forecasting.**

**Experts believe that in the absence of force majeure, the situation in the near future will develop inertially and with no drastic improvement. It will rather be accompanied by further deterioration in the social sphere. Worsening of the situation becomes something familiar for society, and it is mentally ready for that.**

**The weakening factor of the coronavirus crisis may well lose its dominance, giving way to other threats. On the one hand, one cannot rule out the introduction of various of lockdowns, which in 2022 may be due to the emergence of new COVID-19 variants. On the other hand, during a pandemic, restrictions become commonplace, just like reluctance to observe them.**

**Quality of life. «Increasing spending on government, deteriorating living standards – for people».** The government will try to follow the formula «spend less – earn more – save more». Reduction of expenditure will obviously be achieved at the expense of social spending, as the government will only maintain the façade of «indexation» basic social payments, benefits, privileges, etc. By eliminating the «tax loopholes» and «improving the administration», the government will try to «check» the pockets and wallets of «small Ukrainians» and small businesses, which are easier to fight with than the oligarchs.

In 2022, one can expect multiple tax changes. For instance, it is proposed to introduce household taxation, which provides for the payment of taxes by the households' authorised representatives and the submission of a single declaration of property and income of all family members; taxation of real estate transactions (from 1 January 2022, the income of an individual from the third and subsequent sales of real estate will be subject to personal income tax at 18%); and cash registers (RRO) for almost all individual entrepreneurs. The government also promises to start controlling the citizens' income using indirect methods after the end of the tax amnesty, and so on.

**Therefore, the quality of life of Ukrainians in 2022 is likely to decline.** Most citizens can hardly expect real income growth. Moreover, the real wages may even fall, and this primarily concerns a significant share of public sector employees and those receiving the minimum wage. Below are the main reasons for declining quality of life.

*For Ukrainians, the biggest risk in 2022 will be high inflation rates, which will significantly exceed the inflation set in the budget for 2022 (7.2%), despite the fact that it was already higher in 2021.<sup>1</sup> At the same time, amidst the ongoing attempts to save on social expenditure, spending on the maintenance of government will be increased.<sup>2</sup>*

At the same time, the growth rate of social payments will be three times lower than the inflation growth. The 2022 budget provides for price increases by 8%, but the minimum wage will only increase by 3%, from UAH 6,500 to 6,700 in October 2022. The subsistence minimum increases by UAH 196 – to UAH 2,589, or by 8.2% – «as much as» by 1 percentage point more than inflation. And this despite the fact that the subsistence minimum does not match reality, and the actual subsistence level has long exceeded this amount.

<sup>1</sup> According to the State Statistics Service data for 11 months of 2021, inflation in Ukraine was 9.4% (base 7.4%).

<sup>2</sup> Compared to 2021, it is planned to increase expenditures on the Cabinet of Ministers (+7%), the Office of the Prosecutor General (+17%), the State Customs Service (+14%), the State Tax Service (+5%). The 2022 budget provided for reduced expenditure on the Verkhovna Rada Apparatus (by 8%), but in reality, it increased by 46%. The same concerns the State Management of Affairs – its expenditure in 2022 is set to reduce by 12% after the 33% increase in 2021.

This situation will hit the pensioners the hardest. 4 million pensioners receive the minimum pension; 2 million have pensions equal to the subsistence minimum; another 2 million receive 40% of the minimum wage. In general, after all increases for these categories, the average pension in 2022 will rise from UAH 80 to 165. As for the remaining pensioners, indexation of their pensions in March will be at about 11%. However, given the rising prices, utility tariffs (utility bills and the «borsch set» have already increased by 32% and 35%, respectively, during this period) and inflation, the increase in pensions will be totally invisible.

Less money will be spent on subsidies (UAH 38.4 billion in 2022 compared to UAH 47 billion in 2021). This will not be enough, so the government will probably have to increase this amount before the next heating season.

The government has adopted a resolution<sup>3</sup> setting the salaries for health workers – at least UAH 20 thousand for doctors and no less than 13.5 thousand for of junior specialists with medical education. However, this does not guarantee the fast growth of health workers' salaries. The document includes a provision stating that if a health professional works part-time (week or day), that is, has part of the rate, then the payment is calculated based on the time worked. As a result, one can expect a mass transfer of doctors and nurses to part-time employment, while maintaining the same volume of work.

In addition, not all health facilities will be able to pay higher salaries, as they are essentially self-sufficient and can only dispose

of the funds that they receive from the NHSU. However, these funds are not enough even for current salaries, while the budget provides only UAH 157.3 billion for the medical guarantees programme of the required UAH 268.4 billion (underfunding 41%). UAH 11.4 billion (of the required UAH 16.4 billion)<sup>4</sup> has been allocated for medicines for seriously ill patients. Therefore, it is safe to say about further reduction in medical staff and a decline in the quality of health services.

**Prices and tariffs.** An increase in the cost of housing and utility services will be the biggest challenge of 2022. So far, shocks from high energy prices barely affect the population, as households and some utility companies have preferential gas and electricity prices. Thus, households pay UAH 7.96 for 1 m<sup>3</sup> of gas and UAH 1.44 for 1 kWh of electricity.<sup>5</sup> However, in April 2022, Ukraine launches a new «housing maintenance market»,<sup>6</sup> which, according to the IMF requirement, will have to have free electricity prices, plus there is an operating free gas market. As a result, Ukrainians will have to pay for the increase in tariffs twice – directly for consumed services, and indirectly for more expensive consumer goods, whose price will also increase due to higher energy tariffs for businesses.

*Rising food prices.* Higher energy prices trigger a chain reaction with prices rising for all goods and services without exception. In addition, the price of food in the world continues to rise, which also leads to price hikes in Ukraine.<sup>7</sup> Experts predict that inflation in the commodity food group of goods in 2022 can range from 10% to 20%.<sup>8</sup> Given the significant share of foodstuffs in the Ukrainian

<sup>3</sup> Resolution of the Cabinet of Ministers of Ukraine «Some issues of remuneration of medical workers of health facilities» No.2 of 12 January 2022.

<sup>4</sup> Law of Ukraine «On the State Budget of Ukraine for 2022».

<sup>5</sup> Denys Shmyhal stated that the price of gas for households for the next annual period from 1 May 2022 through 30 April 2023 will be formed depending on the price of gas on the world market and the volume of its domestic production. – Government meeting, 29 December 2021, <https://www.youtube.com/watch?v=DdpfPmtIA-0>.

<sup>6</sup> Despite the fact that the decision to create this market was made back in December 2020, Volodymyr Zelenskyy was afraid to sign the law, and therefore this tariff is now «frozen». However, the postponement is only until May, and after the launch of the market, there will no longer be tariffs with any limitations but simply the price of maintenance of apartment buildings.

<sup>7</sup> Food inflation in the world reached its highest level since June 2011, the second post-crisis year after 2008. See: Global food prices are at a level not seen for most of modern history – this is why, <https://www.weforum.org/agenda/2021/10/global-food-prices-global-food-price-index>.

<sup>8</sup> Inflation in the commodity food group of goods in 2022 may reach 20% and will require anti-crisis measures, <https://interfax.com.ua/news/economic/789819.html>.

consumer basket (almost 50%), such an increase in prices could lead to a serious inflationary shock.

Prices for vegetables (especially grown in greenhouses) will renew their historical heights, as the price of gas is decisive in their cost. Large greenhouse complexes have already stopped working. The main food product of most Ukrainians – bread – will become increasingly expensive (already **10% rise** in January),<sup>9</sup> just like other foodstuffs. All calls for help from producers were ignored by the government.<sup>10</sup> The first days of the new year show that the supply reduction always works against the consumer. The trajectory of development implies a further gradual reduction of consumption standards.

**Labour market.** *Unemployment is expected to rise.* If official unemployment rate in 2020 was estimated at 8.2% of the able-bodied population, then in 2021 it reached 9.5% and is set to exceed 10% in 2022.

The growth of the shadow economy is inevitable. It can only be reduced by easing the tax pressure, reducing state intervention in the economy, stabilising the investment climate and normalising business operations, especially small ones. Unfortunately, there are no grounds for this today in Ukraine.

Current employment trends that have emerged recently in developed countries, such as job abandonment, will add pressure on the labour market. For example, in the United States alone, 4.5 million people (or 3% of all employed) quit their jobs during November 2021,<sup>11</sup> and the number of vacancies exceeds the number of jobseekers by 1 million. The main reason for that is that people want other jobs with better working conditions and higher pay. For Ukraine, this global trend may further stimulate Ukrainians to leave the country, thus creating a shortage of labour force.

The effect of mass fiscalisation through the introduction of cash registers<sup>12</sup> can be diverse, as some businesses may truly come out of the shadows and agree to play by the new rules. On the other hand, the effect may be just the opposite, and instead of «white-washing» business, Ukraine may face a new wave of FOP closures, migration of entrepreneurs to group I of the payers of single tax, rising retail prices and departure of businesses to the grey zone.<sup>13</sup>

In general, the continuation of the current government's policy of anti-social measures, such as further increases in utility tariffs, reduction of subsidies, «knocking out» of debt and the like will only provoke further discontent in society.

<sup>9</sup> Memorandum of 31 December 2021 signed by representatives of bakery and flour-milling associations, is not working yet, as the issue of providing these enterprises with gas at a reduced price is still being negotiated.

<sup>10</sup> The parliament has registered a draft law «On Amendments to the Law 'On Prices and Pricing'» to Restore State Regulation of Prices on Food Products of Social Significance» that introduces markup limits 5-15% to the selling price of the producer» (No. 6374). However, food market participants are convinced that state price regulation cannot solve the problem. For example, EU countries intend to abolish VAT on all food products in 2022 to make them more accessible to consumers. See: Latest VAT changes and news in European VAT – Marosa VAT, <https://marosavat.com/vat-news>.

<sup>11</sup> A record 4.5 million Americans quit their jobs in November. – The Washington Times, <https://www.washingtontimes.com/news/2022/jan/4/a-record-45-million-americans-quit-their-jobs-in-n>.

<sup>12</sup> 1 January 2022 marks the end of transition period (para. 61 of subsection 10 of Section XX «Transitional Provisions» of the Tax Code of Ukraine), and the use of cash registers (physical and electronic) by payers of single tax of groups II-IV becomes mandatory. See: Law «On the use of registrars of settlement transactions (cash registers) in trade, catering and services».

<sup>13</sup> The application of cash registers for group I of the simplified taxation system remains voluntary. – Ministry of Finance, [https://www.mof.gov.ua/uk/news/zastosuvannia\\_rroprro\\_dlia\\_pershoi\\_grupi\\_sproshchenoi\\_sistemi\\_opodatkuvannia\\_zalishaietsia\\_dobrovilnim-3260](https://www.mof.gov.ua/uk/news/zastosuvannia_rroprro_dlia_pershoi_grupi_sproshchenoi_sistemi_opodatkuvannia_zalishaietsia_dobrovilnim-3260).

## Humanitarian Policy

The situation in the socio-humanitarian sphere will be affected by a number of external and internal factors and challenges. Intensification of Russian aggression is the main external challenge, while internal factors include the weakness of government's humanitarian policy and incomplete formation of the mechanisms for its realisation, lack of consensus on certain socially pressing issues of the humanitarian sphere and lack of trust between government and society.

**Key factors and challenges.** *First*, Russia's hybrid aggression against Ukraine is gaining steam. In any scenario, the socio-humanitarian sphere is one of its main goals. The most likely scenario – hybrid destabilisation – transforms this area into the main target of Russian propaganda and information and psychological attacks.

*Second*, restrictions introduced in response to the COVID-19 pandemic will remain in place. Although some action was taken recently to compensate for losses of cultural and artistic institutions (i.e. the *eSupport* programme), they do not counterweigh the general narrowing of socio-cultural opportunities in meeting the citizens' cultural, language needs and communication needs. In particular, public spaces essential for humanitarian and youth policy, as well as for collective practices in general, will not be fully utilised.

*Third*, 2022 will mark several memorable dates dedicated to the events of Ukraine's history that still generate arguments and conflicting attitudes.<sup>1</sup> These include the 80<sup>th</sup> anniversary of the UPA (Ukrainian Rebel Army during and after WWII), the 75<sup>th</sup> anniversary of the Vistula<sup>2</sup> and West operations.<sup>3</sup> All these events are interconnected, but each of them causes controversy not only in Ukraine but also abroad (for example, there is no concord on the UPA and the Operation Vistula not only between Ukraine and Poland, but also in both countries' societies).

The possible politicisation of these events, given that the UPA, despite the ambiguity of

its slogans and actions, has become one of the symbols of modern Ukrainian resistance to Russian aggression, may raise tensions both within Ukraine and with neighbouring Poland and some other countries. The situation may be further complicated by the continuing conflicts over the memorialisation of Babyn Yar and preparations for the 90<sup>th</sup> anniversary of the Holodomor of 1932-1933, which have already become scandalous both domestically and internationally. Preventing such a course of events should be the government's urgent task. The institutional support of **the policy of national remembrance** in the face of Russian hybrid aggression needs to be significantly strengthened.

*Fourth*, the ruling team has traditionally entered the new year with no proper programmatic and personnel support for the processes of formation and implementation of public policy in the socio-cultural and educational spheres, which will continue to negatively affect the effectiveness of its actions.

The problems in **national education** need to be addressed immediately. For example, the reform within the «New Ukrainian School» programme will directly deal with senior school only in 2026-2027. All other problems of 2021 also await resolution.

The problem of senior school also needs attention in the context of decentralisation. Local governments often opt to stop the enrolment of students in senior classes, thus de facto eliminating senior school classes on the ground, which creates a real risk

<sup>1</sup> Resolution of the Verkhovna Rada of Ukraine «On the celebration of memorable dates and anniversaries in 2022-2023» No.1982 of 17 December 2021.

<sup>2</sup> Operation Vistula was the forced deportation of more than 140,000 Ukrainians by the communist authorities of Poland in April 1947. For more detail, see, for example: Who took Zakerzonie away from the Ukrainians? Mykola Lytvyn on deportation and establishment of modern borders of Ukraine. – ZAXID.net, 7 May 2021, [https://zaxid.net/hto\\_vidibrav\\_v\\_ukrayintsiv\\_zakerzonnya\\_n1518562](https://zaxid.net/hto_vidibrav_v_ukrayintsiv_zakerzonnya_n1518562).

of restricting access of students to senior school.

One can expect further accumulation of problems in **higher education and educational and research activities**. It is about the critical situation caused by the outright disregard for even the basic norms of academic culture, which is inherent primarily in leadership and applies to all components of the educational and scientific sphere. In such a situation, any pinpoint steps (i.e., the introduction of civic education and media literacy courses in the middle and senior school curricula, improvement of the National Research Fund activities, etc.) will hardly be effective without improving the quality of education in general, and the quality of training of secondary school teachers in particular.

Complications in the **state-confessional and inter-confessional relations** are also possible. The legal process around the termination of activities of the UOC-KP will continue; the enforcement of the law on renaming the UOC-MP, which entered into force back in 2018, will remain questionable; conflict points on Ukraine's church-religious map, as well as other problems will persist outlined in the *Humanitarian Policy* section above.

The possible visit of Pope Francis to Ukraine may add complications to relations between the Churches may be caused by. While the UGCC welcomes this visit,<sup>4</sup> the head of the OCU has already warned that he expects this visit to be coordinated with his church as «dominant in the Ukrainian state».<sup>5</sup> The UOC-MP has expressed hope that the Vatican will «treat this invitation with

caution», as it could damage relations with the Russian side.<sup>6</sup> Therefore, the UOC-MP's negative reaction and even organisation of protests cannot be ruled out.

Not all problems have been addressed in **ethnonational policy**. The draft law on national communities announced by the President and set to replace the current Law on National Minorities in Ukraine of 1992 and determine the status and rights of national communities according to modern reality, is likely to be submitted to the Verkhovna Rada. There is a possibility that its provisions will provoke discussions among domestic politicians and even be used by Russia (and maybe some other countries) to speculate on the violation of rights of national minorities by the Ukrainian state and promote the thesis of «protection of fellow national», which, according to Russia, include not only the Russian ethnic community, but also Russian-speaking citizens of Ukraine.

Speaking of **information policy**, the current long-standing problems (constant underfunding of Suspilne public broadcasting, curtailment of international broadcasting, etc.) may be «supplemented» with intensified political struggle between pro-government and opposition parties for media resources – both through the establishment of government-controlled media «pool» and in the process of possible media landscape changes due to «de-oligarchisation». Given the obvious political implications of the media process and in the context of approaching parliamentary and presidential elections, freedom of speech and media independence will be the focus of the media community, civil society and Ukraine's international partners.

<sup>3</sup> Operation West was a forced eviction 78 thousand people from Western Ukraine to Kazakhstan and the eastern regions of Russia by the Soviet authorities in one day, 27 October 1947. For more detail, see: O. Bazhan. Operation West: to the 75<sup>th</sup> anniversary of the deportation of the population of Western Ukraine to remote areas of the USSR. – Institute of History of the National Academy of Sciences of Ukraine, <http://resource.history.org.ua>.

<sup>4</sup> Pope Francis may visit Ukraine next year - Head of the UGCC. – Radio Svoboda, 2 December 2021, <https://www.radiosvoboda.org/a/news-papa-frantsysk-ukraina/31590741.html>.

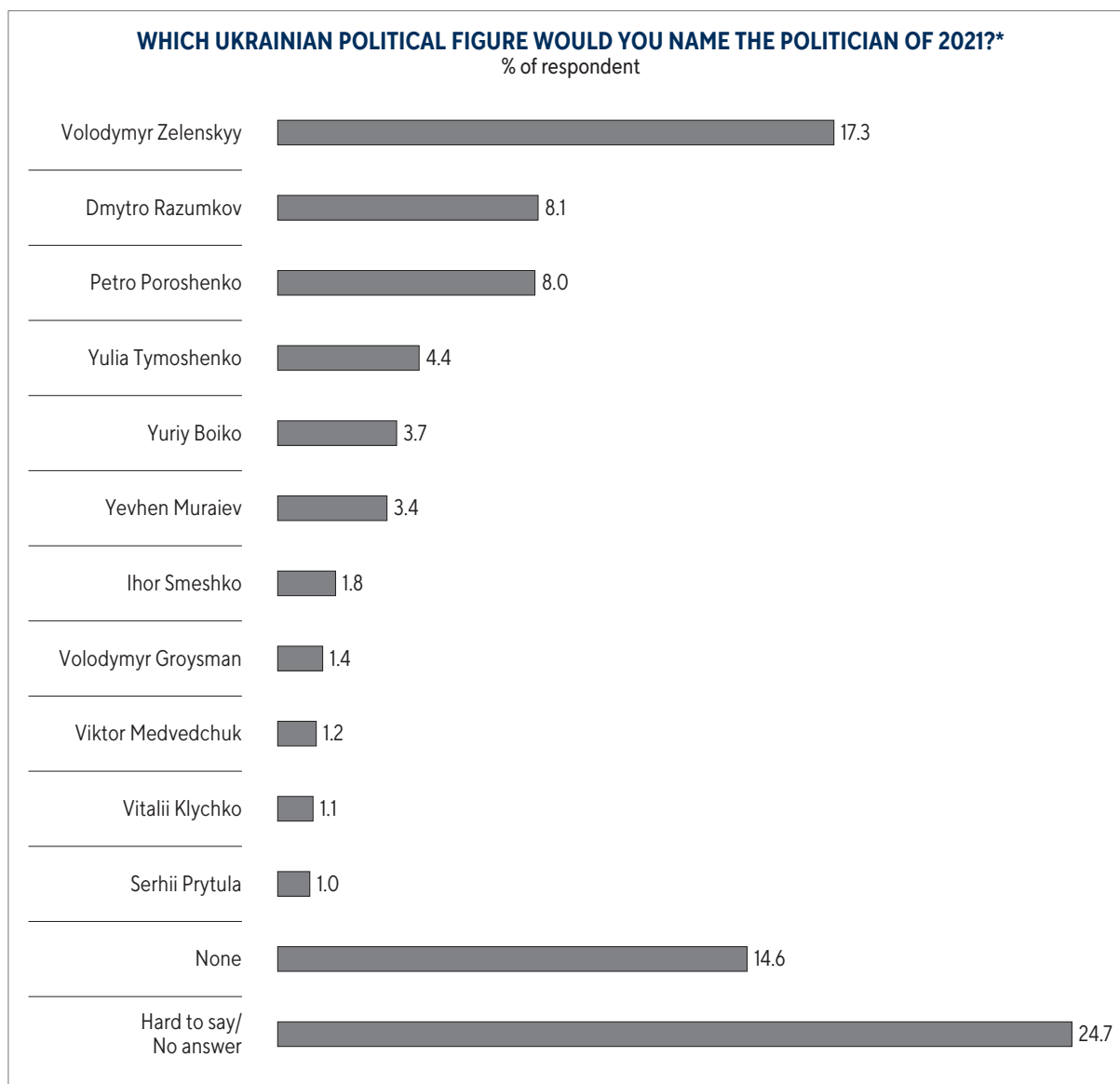
<sup>5</sup> Epiphanius commented on the possible arrival of the Pope in Ukraine. – Radio Svoboda, 16 December 2021, <https://www.radiosvoboda.org/a/news-epifanii-pro-pryzd-papy-do-ukrainy/31612490.html>.

<sup>6</sup> The visit of Patriarch Bartholomew may threaten public stability – the Head of the UOC. – UOC Information Centre, 8 April 2021, <https://www.facebook.com/church.information.center/posts/3632888283505447>.



### 3.

## PUBLIC OPINION ON THE RESULTS OF THE YEAR 2021<sup>1</sup>



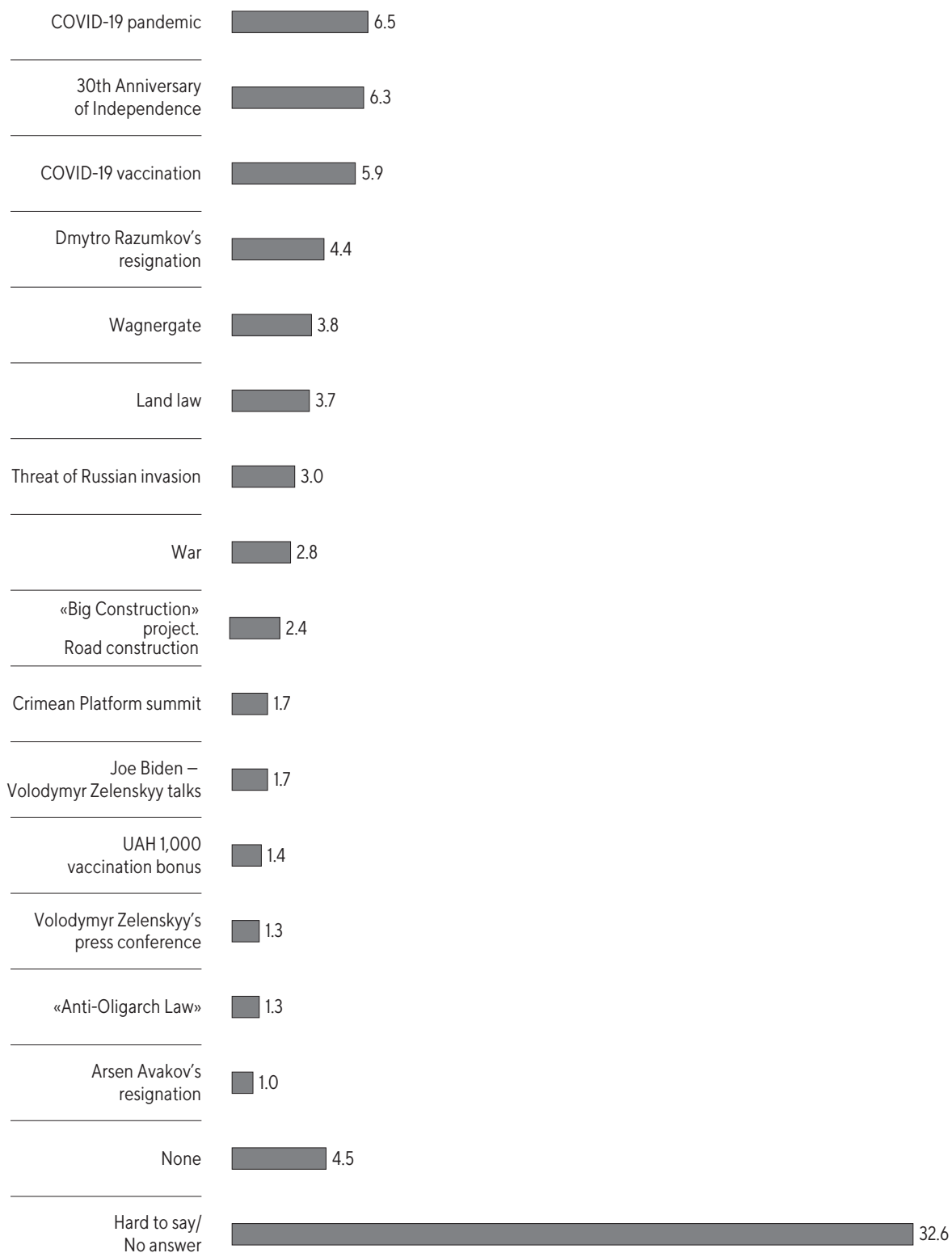
\*This was an open question, and the respondents had to provide their own answer.  
Answers presented are those given by over 1% of respondents.

December-7 (2021)

<sup>1</sup> This material presents the results of sociological studies conducted by the Sociological Service of the Razumkov Centre independently: on 6-12 March 2015, 6-12 November 2015 (marked in diagrams and tables as November 2), 18-24 December 2015 (marked in diagrams and tables as December), 1-7 November 2019 (marked in diagrams and tables as November 3), 4-9 December 2020 (marked in diagrams and tables as December 6), 24 November - 1 December (marked in diagrams and tables as November 4) and jointly with Democratic Initiatives Foundation named after Ilko Kucheriv: 14-22 November 2015 (marked in diagrams and tables as November), 16-20 December 2016 (marked in diagrams and tables as December 2), 15-19 December 2017 (marked in diagrams and tables as December 3), 19-25 December 2018 marked in diagrams and tables as December 4), 13-18 December 2019 (marked in diagrams and tables as December 5) and 17-22 December 2021 (marked in diagrams and tables as December 7). All surveys were conducted in all regions of Ukraine with the exception of Crimea and temporarily occupied territories of Donetsk and Luhansk oblasts. In each survey, there were over 2,000 respondents aged from 18 y.o. Theoretical error of each sample does not exceed 2.3%.

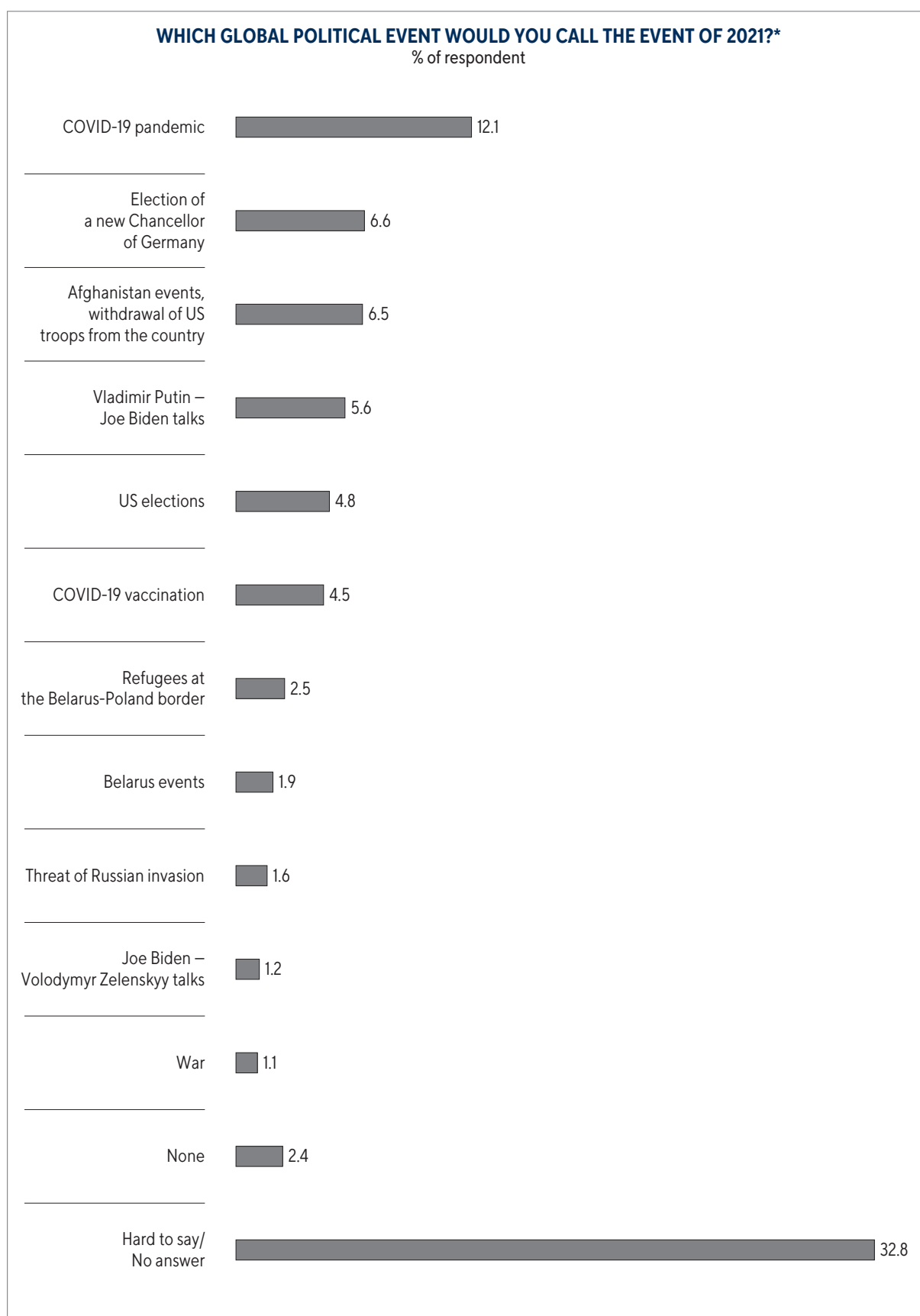
**WHICH POLITICAL EVENT IN UKRAINE WOULD YOU CALL THE EVENT OF 2021?\***

% of respondent



\* This was an open question, and the respondents had to provide their own answer.  
Answers presented are those given by over 1% of respondents.

December-7 (2021)

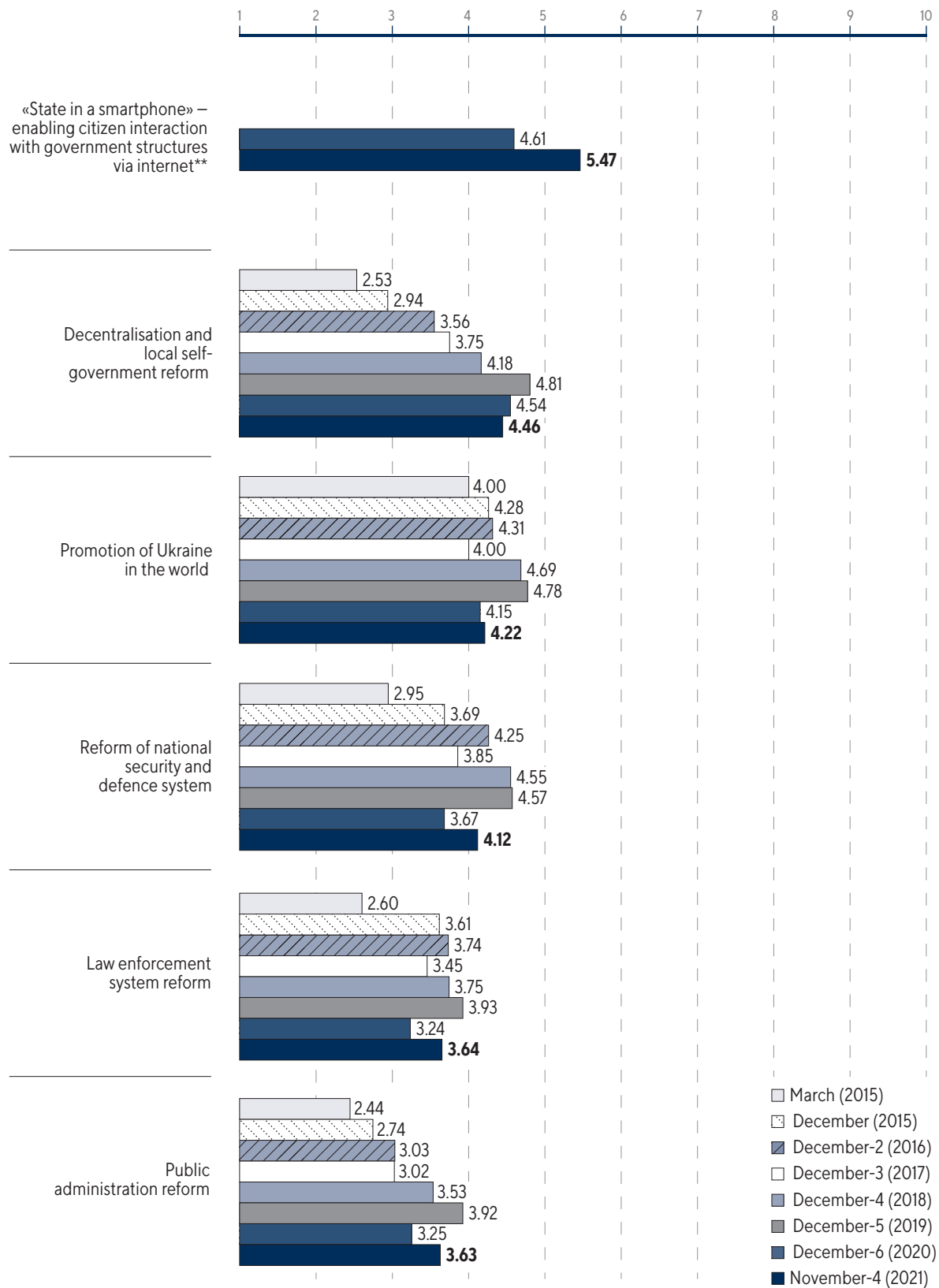


\* This was an open question, and the respondents had to provide their own answer.  
Answers presented are those given by over 1% of respondents.

December-7 (2021)

## ASSESSMENT OF UKRAINE'S REFORM PROGRESS AND GOVERNMENT ACTIONS IN DIFFERENT SECTORS,

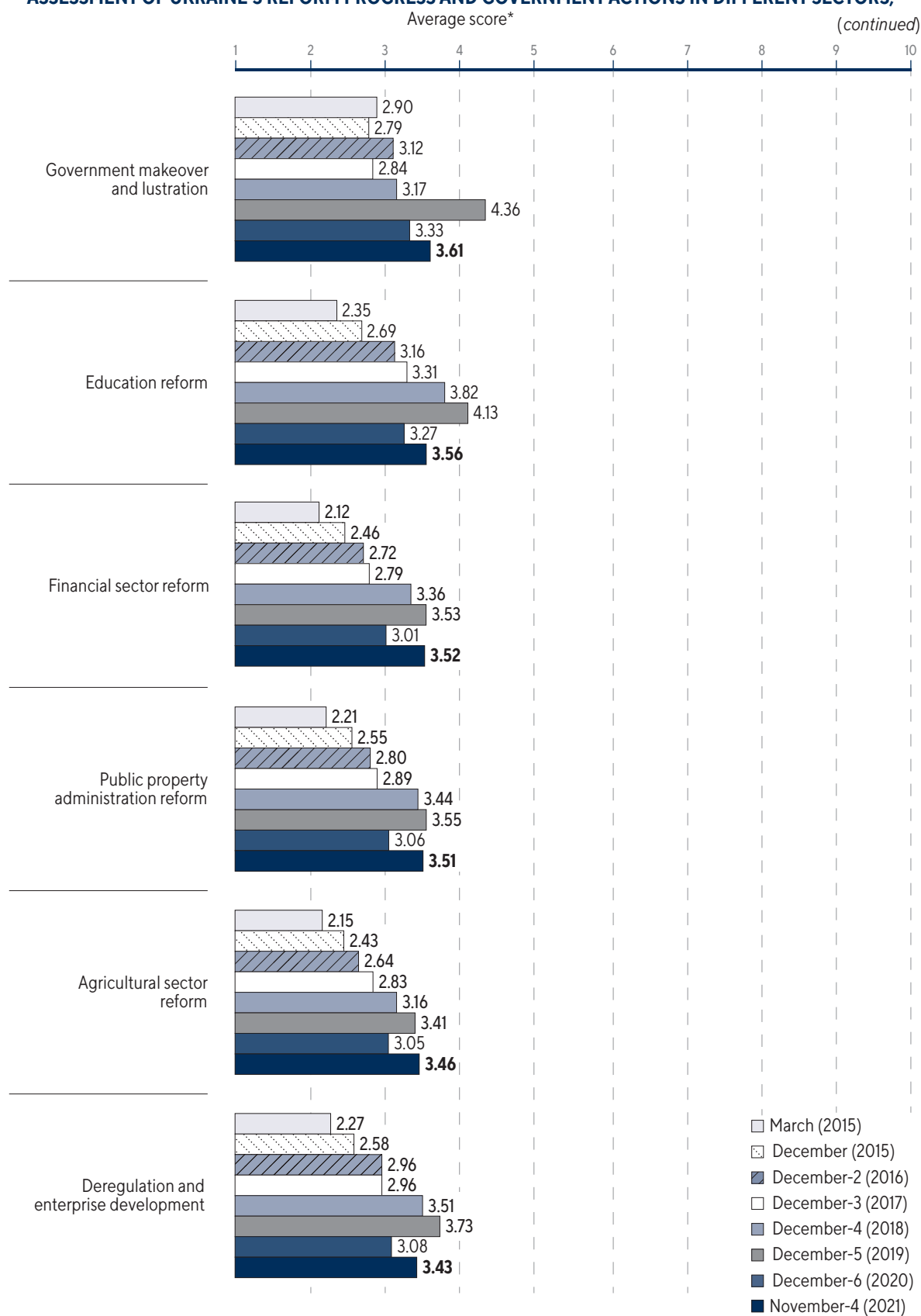
Average score\*



\* On the 10-point scale from 1 to 10, where «1» means no or almost no reforms, and «10» that reforms are being implemented with maximum success.

\*\* This option was not offered in previous years' surveys.

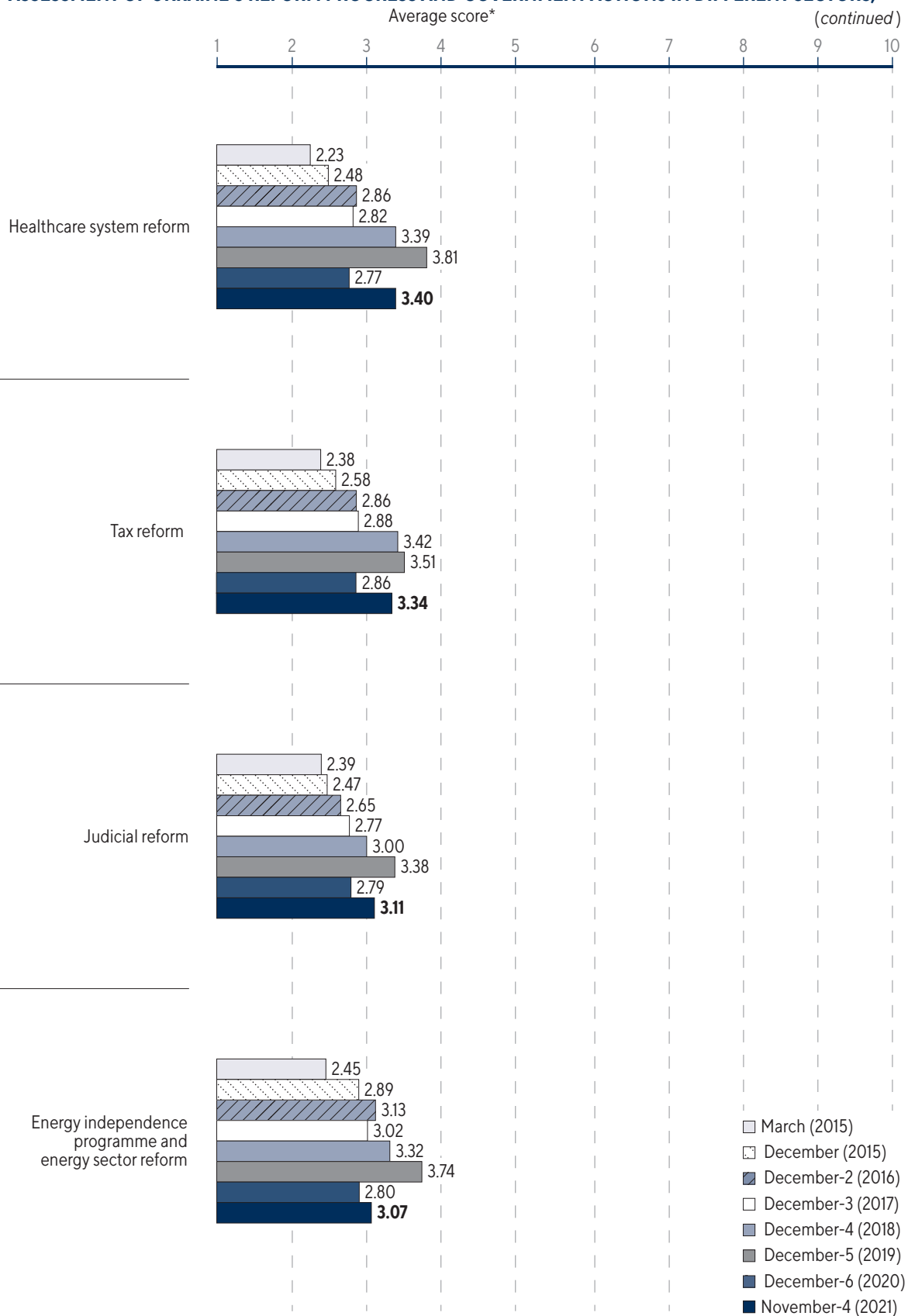
# ASSESSMENT OF UKRAINE'S REFORM PROGRESS AND GOVERNMENT ACTIONS IN DIFFERENT SECTORS, (continued)



\* On the 10-point scale from 1 to 10, where «1» means no or almost no reforms, and «10» that reforms are being implemented with maximum success.



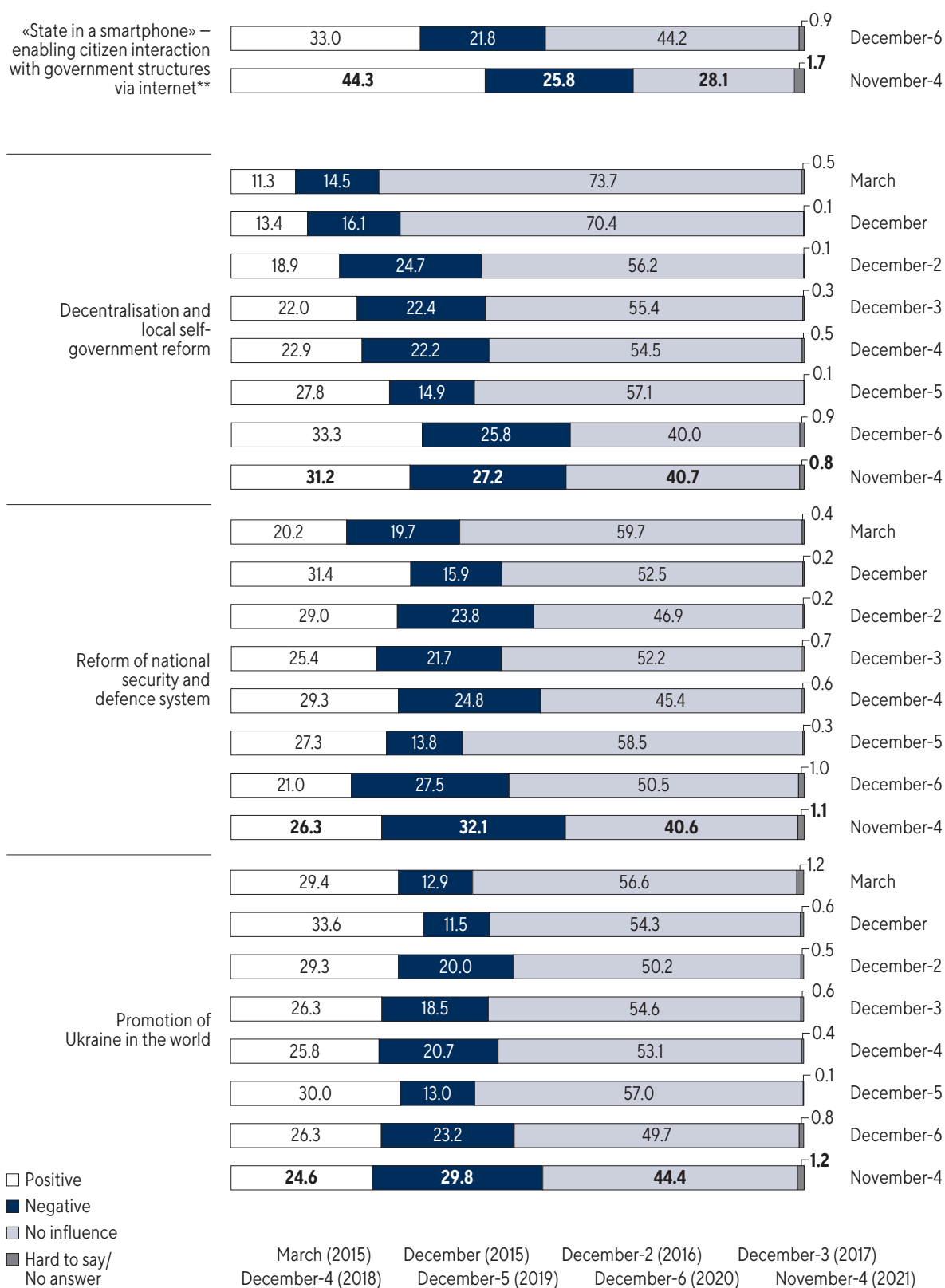
## ASSESSMENT OF UKRAINE'S REFORM PROGRESS AND GOVERNMENT ACTIONS IN DIFFERENT SECTORS, (continued)



\* On the 10-point scale from 1 to 10, where «1» means no or almost no reforms, and «10» that reforms are being implemented with maximum success.

### WHAT IS THE INFLUENCE OF REFORMS AND GOVERNMENT ACTIONS IN DIFFERENT AREAS ON YOUR PERSONAL CIRCUMSTANCES?

% of respondent

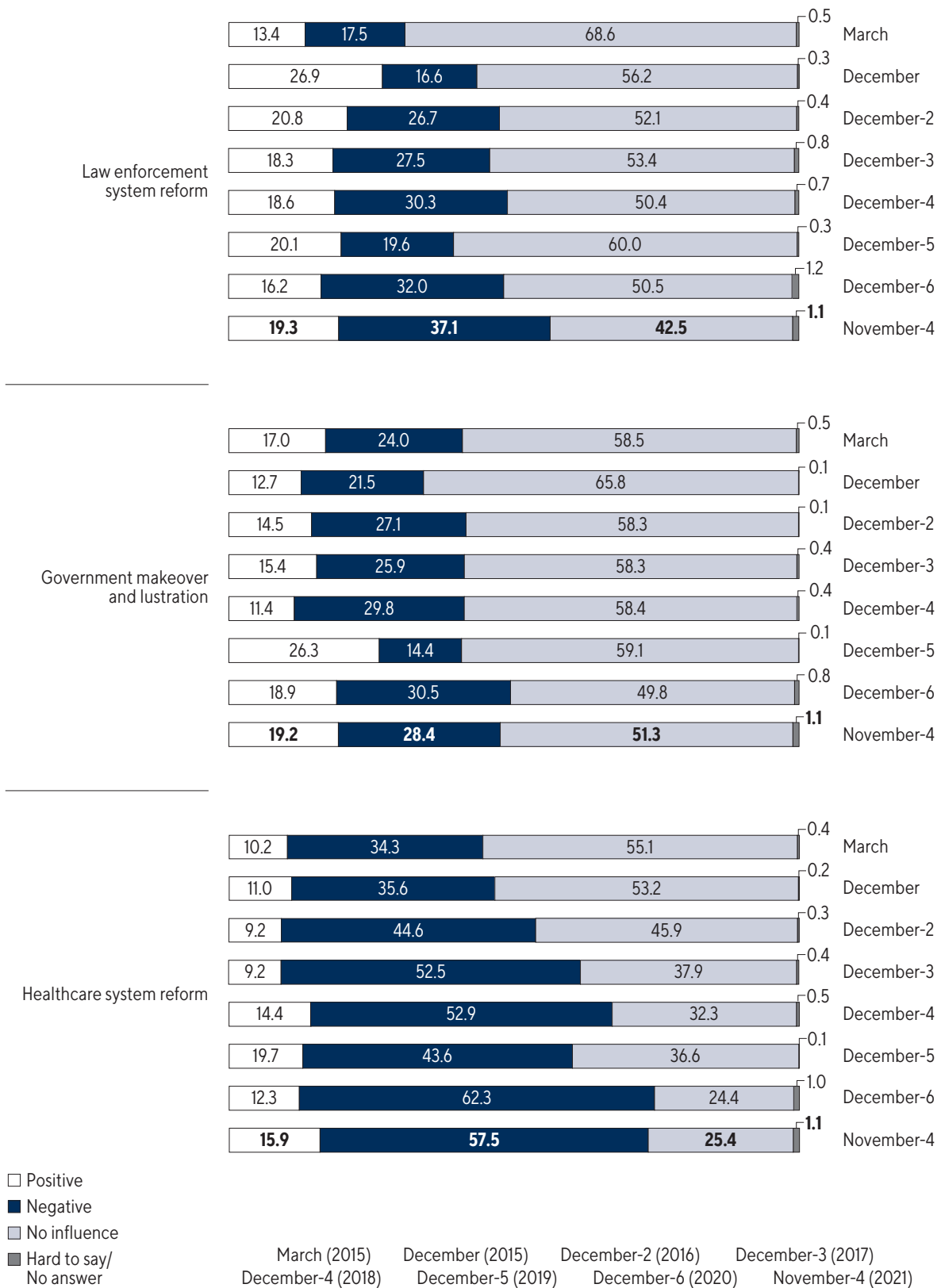


\* This answer was not suggested previously.

**WHAT IS THE INFLUENCE OF REFORMS AND GOVERNMENT ACTIONS  
IN DIFFERENT AREAS ON YOUR PERSONAL CIRCUMSTANCES?**

(continued)

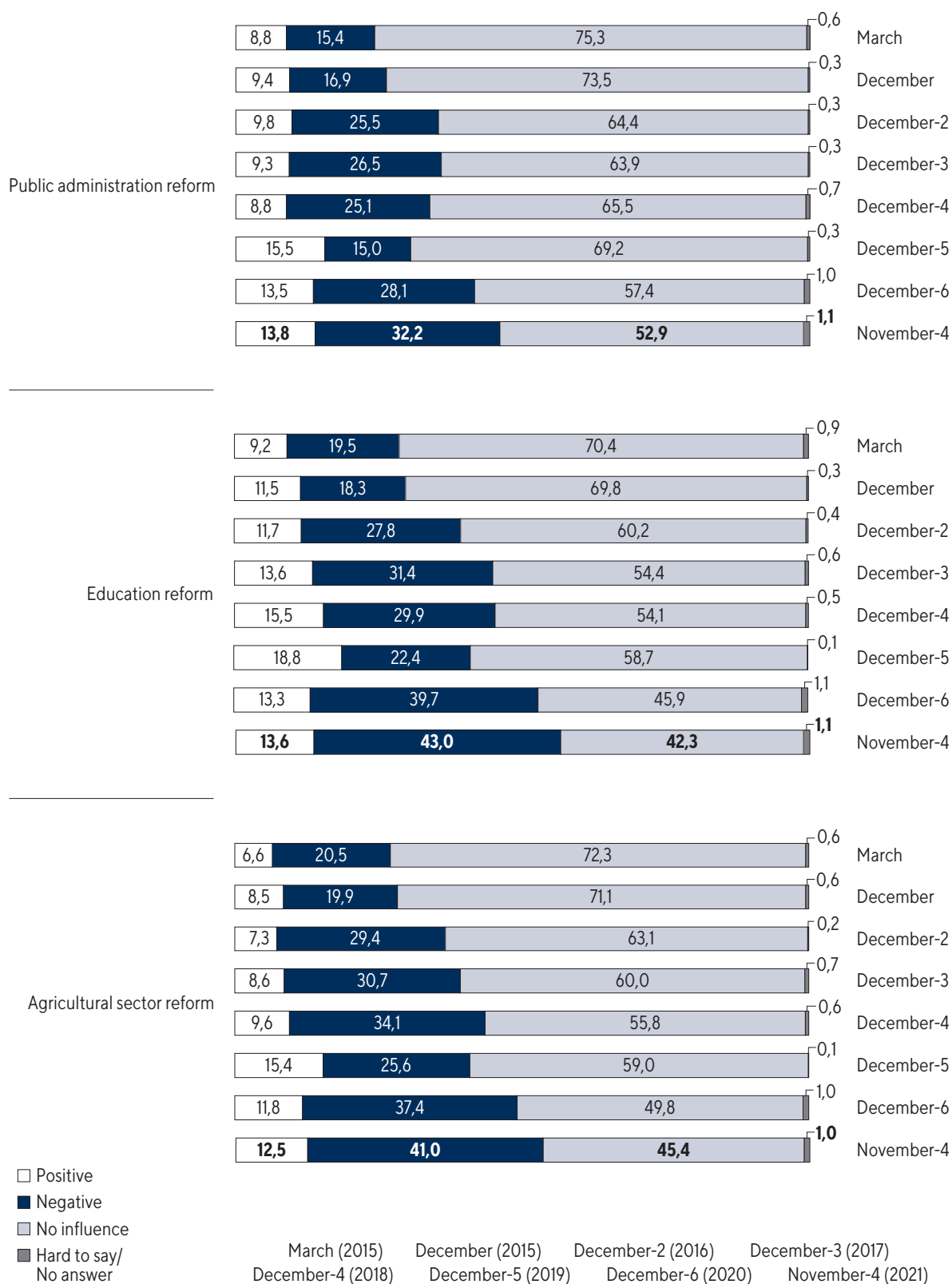
% of respondent



**WHAT IS THE INFLUENCE OF REFORMS AND GOVERNMENT ACTIONS  
IN DIFFERENT AREAS ON YOUR PERSONAL CIRCUMSTANCES?**

(continued)

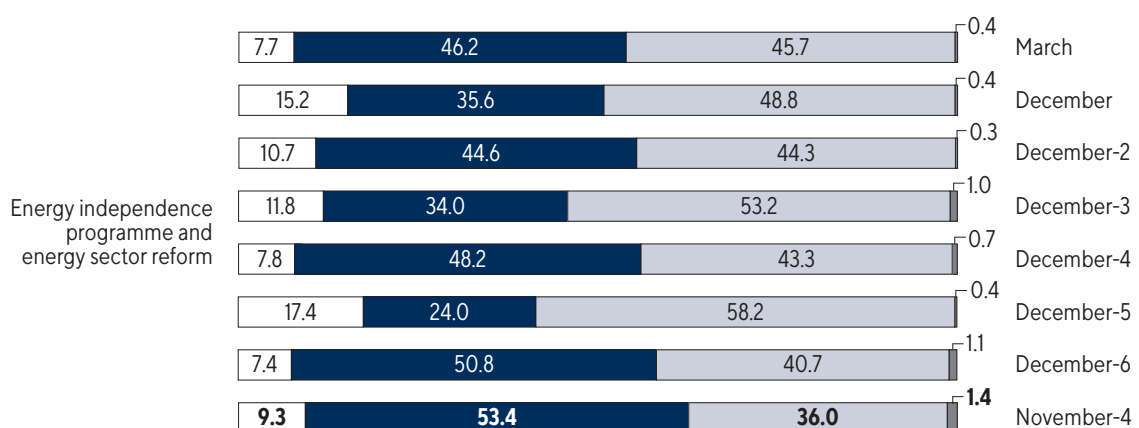
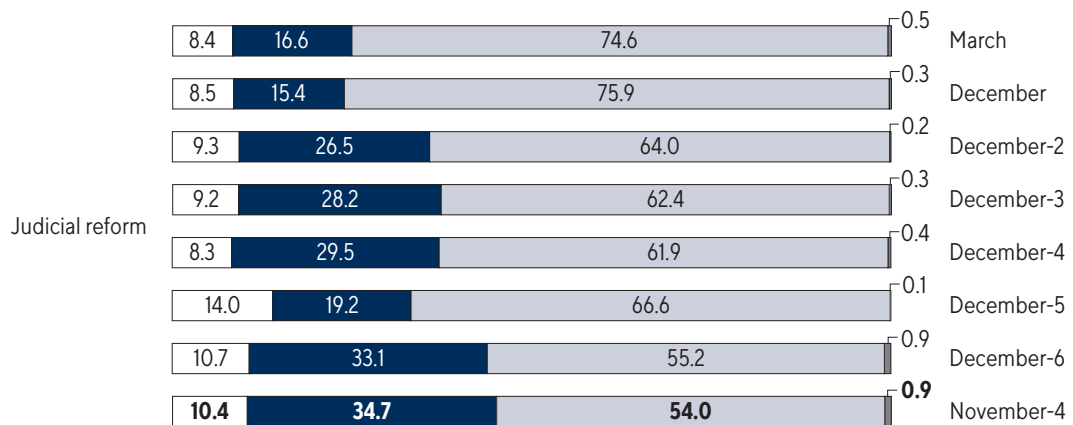
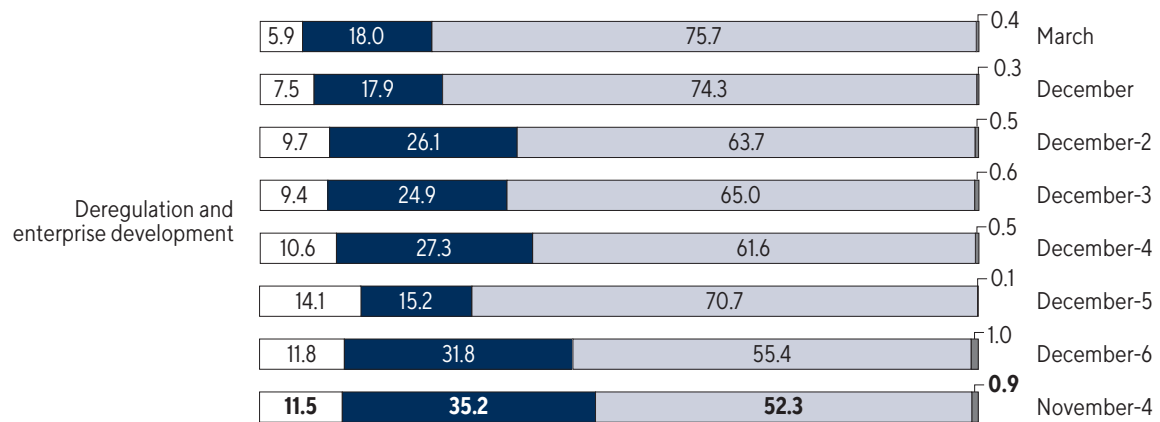
% of respondent



### WHAT IS THE INFLUENCE OF REFORMS AND GOVERNMENT ACTIONS IN DIFFERENT AREAS ON YOUR PERSONAL CIRCUMSTANCES?

(continued)

% of respondent



☐ Positive  
☒ Negative  
☐ No influence  
☒ Hard to say/  
 No answer

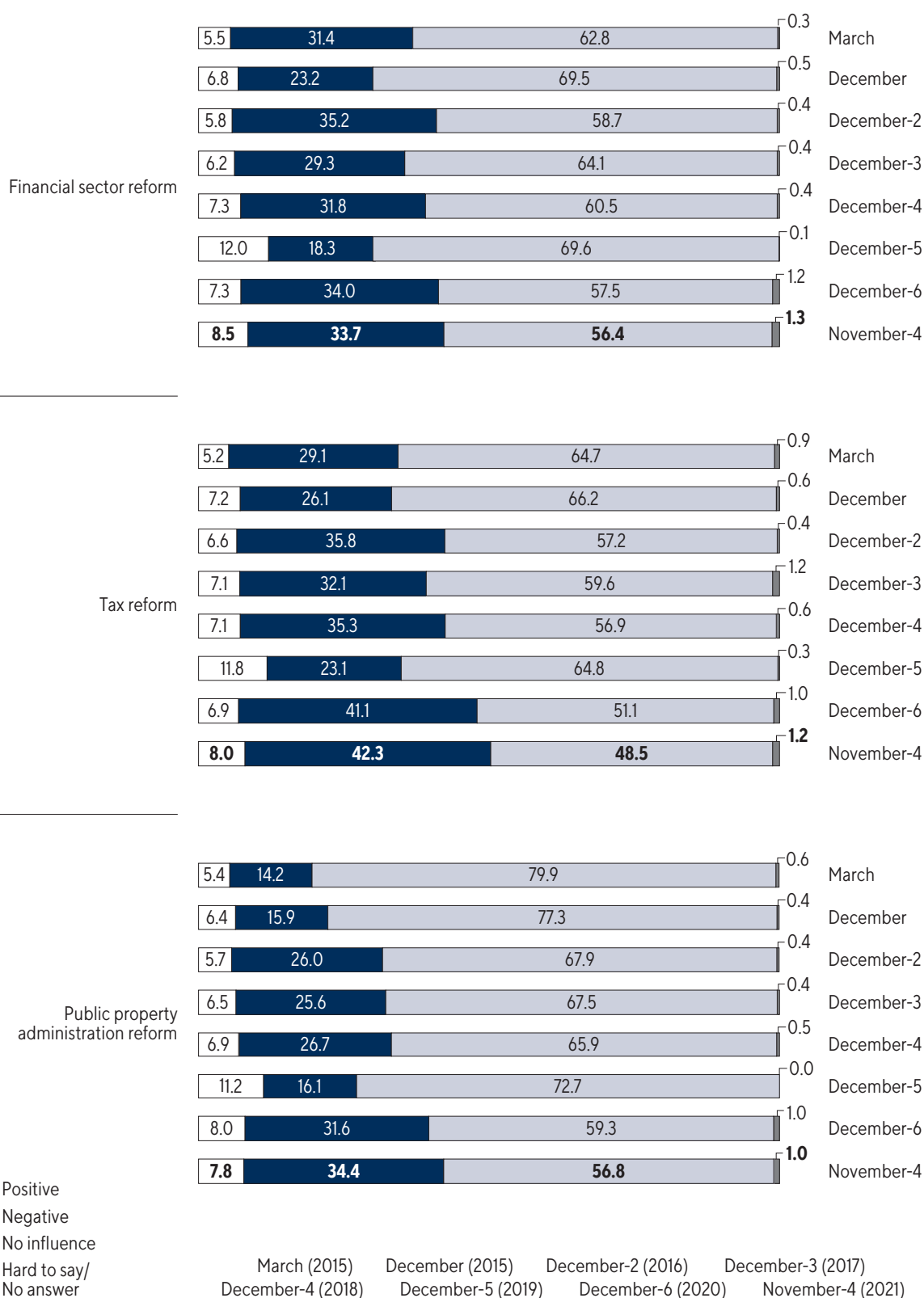
March (2015)    December (2015)    December-2 (2016)    December-3 (2017)  
 December-4 (2018)    December-5 (2019)    December-6 (2020)    November-4 (2021)



**WHAT IS THE INFLUENCE OF REFORMS AND GOVERNMENT ACTIONS  
IN DIFFERENT AREAS ON YOUR PERSONAL CIRCUMSTANCES?**

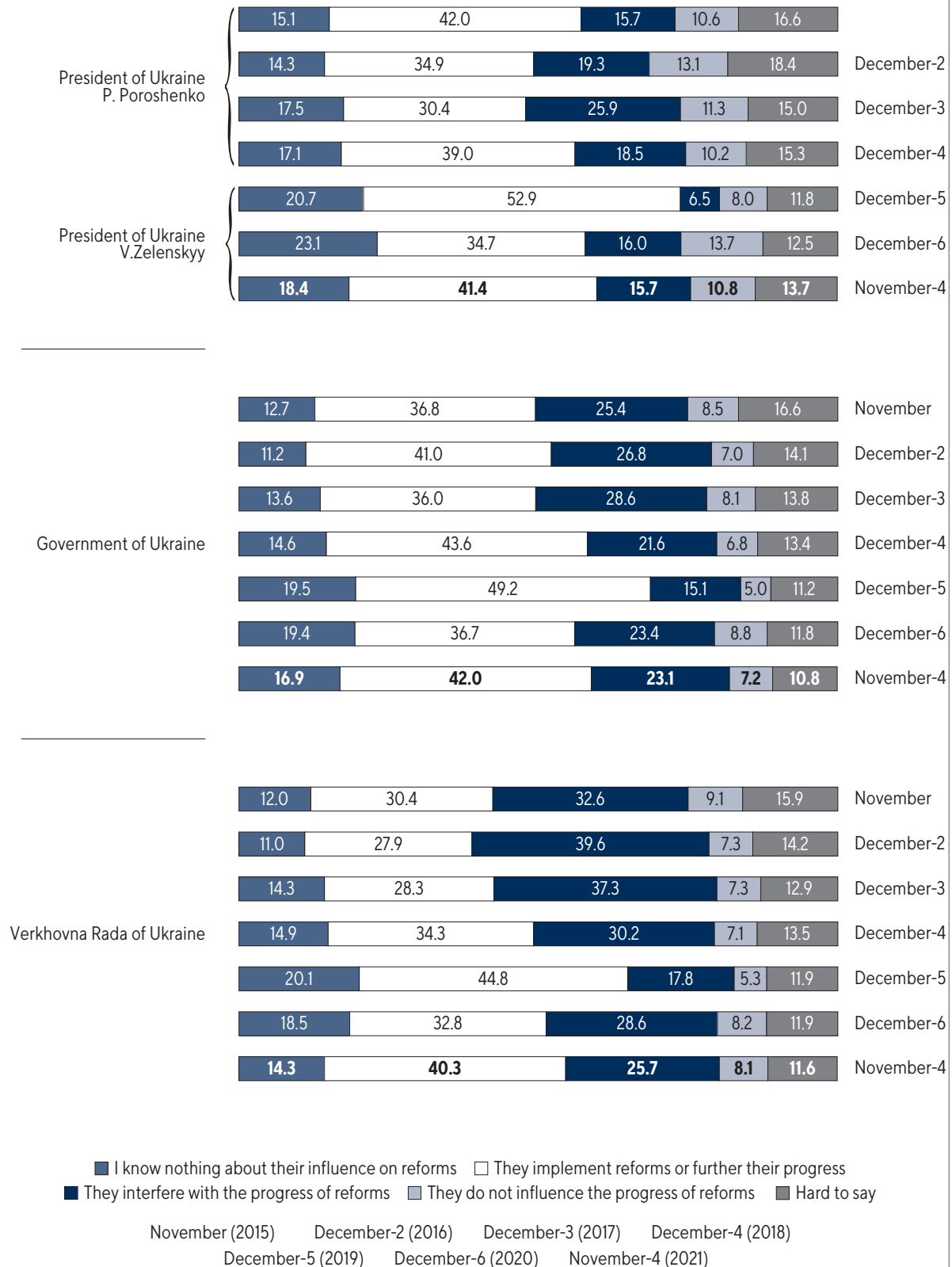
(continued)

% of respondent



### ACTIONS OF WHICH AUTHORITIES OR POLITICIANS FURTHER THE PROGRESS OF REFORMS, AND WHICH INTERFERE WITH IT?

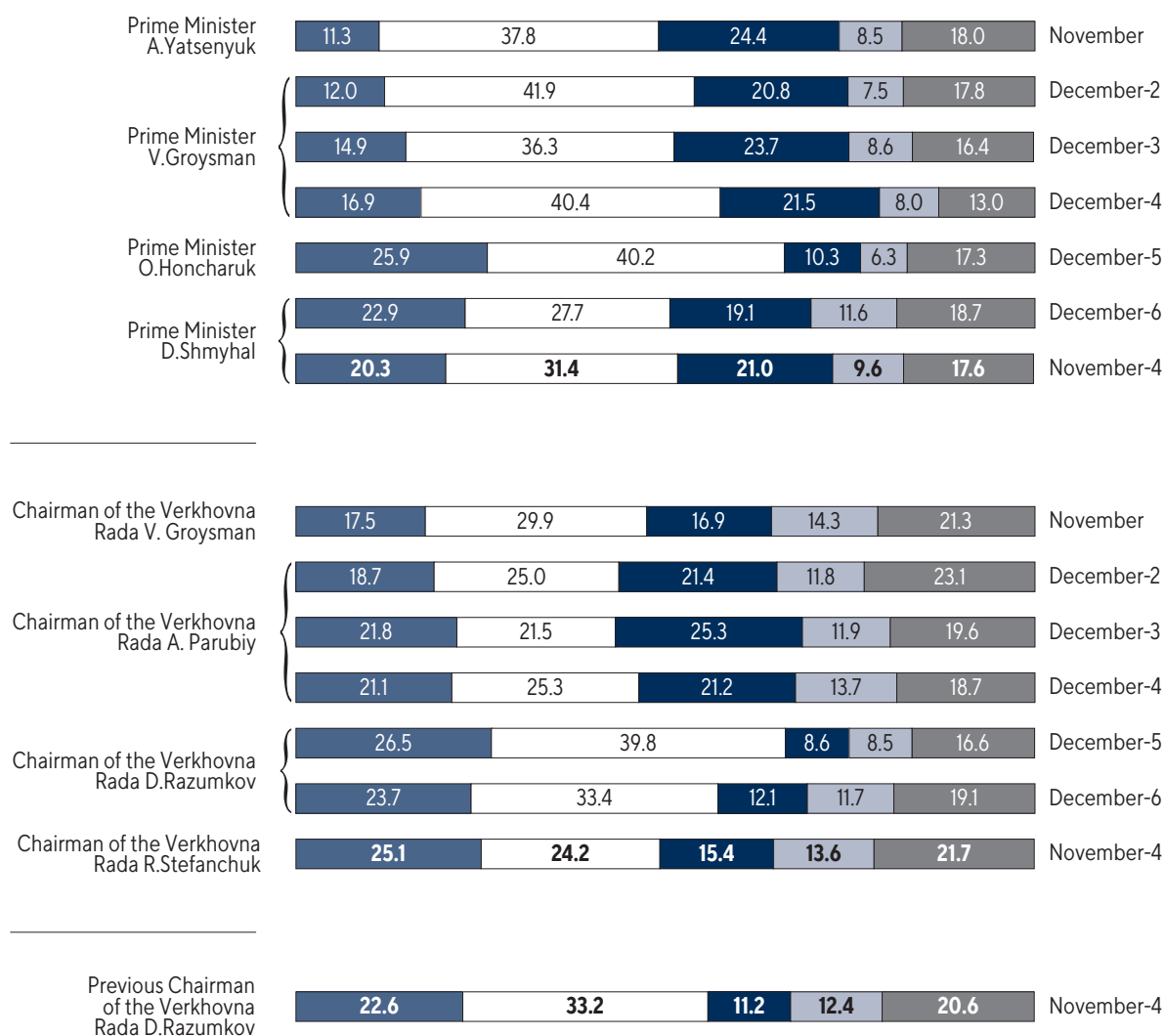
% of respondent



# ACTIONS OF WHICH AUTHORITIES OR POLITICIANS FURTHER THE PROGRESS OF REFORMS, AND WHICH INTERFERE WITH IT?

% of respondent

(continued)



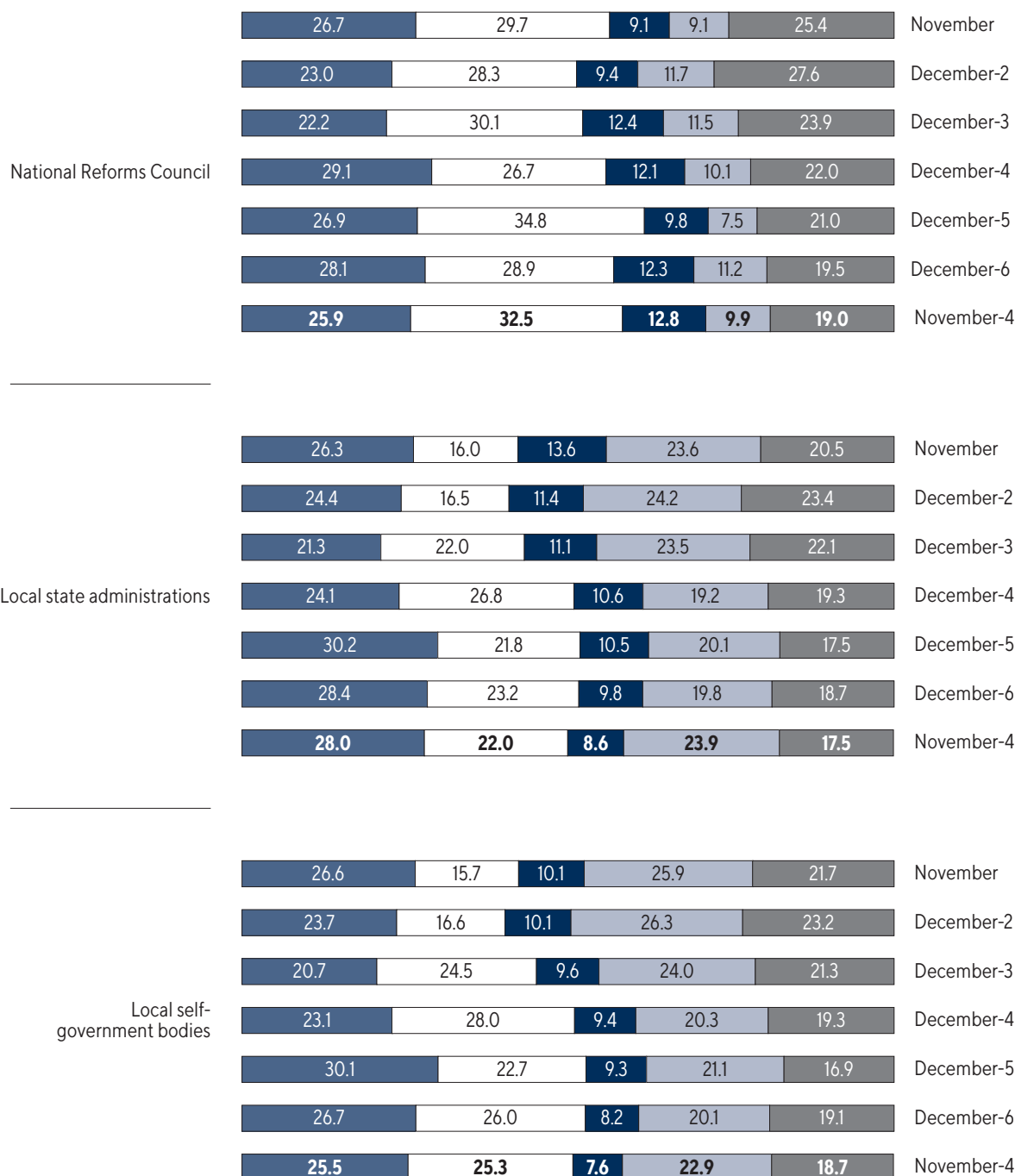
■ I know nothing about their influence on reforms □ They implement reforms or further their progress  
 ■ They interfere with the progress of reforms ■ They do not influence the progress of reforms ■ Hard to say

November (2015) December-2 (2016) December-3 (2017) December-4 (2018)  
 December-5 (2019) December-6 (2020) November-4 (2021)

### ACTIONS OF WHICH AUTHORITIES OR POLITICIANS FURTHER THE PROGRESS OF REFORMS, AND WHICH INTERFERE WITH IT?

% of respondent

(continued)



☒ I know nothing about their influence on reforms  
 ☐ They implement reforms or further their progress  
☒ They interfere with the progress of reforms  
 ☐ They do not influence the progress of reforms  
 ☐ Hard to say

November (2015)   December-2 (2016)   December-3 (2017)   December-4 (2018)  
 December-5 (2019)   December-6 (2020)   November-4 (2021)

HOW DID THE FOLLOWING UKRAINIAN SECTORS CHANGE DURING THE YEAR? % of respondent																														
Improved						Deteriorated						Did not change						Hard to say						Balance*						
December-2	December-3	December-4	December-5	December-6	November-4	December-2	December-3	December-4	December-5	December-6	November-4	December-2	December-3	December-4	December-5	December-6	November-4	December-2	December-3	December-4	December-5	December-6	November-4	December-2	December-3	December-4	December-5	December-6	November-4	
Ukraine's defence capability	39.8	38.9	40.9	30.6	17.1	28.2	21.3	21.3	24.5	14.5	29.8	27.2	25.8	25.6	21.4	43.8	39.5	32.7	13.1	14.1	13.2	11.1	13.6	11.8	18.5	17.6	16.4	16.1	-12.7	1.0
Ukraine's international image	27.4	24.0	32.3	30.8	17.3	21.4	32.0	34.5	28.1	20.9	37.7	35.6	27.0	27.7	27.8	37.5	33.1	31.8	13.6	13.8	11.9	10.8	11.9	11.1	-4.6	-10.5	4.2	9.9	-20.4	-14.2
Relations between nations	15.9	13.4	17.4	18.8	10.2	13.1	23.6	30.5	29.7	14.6	28.5	29.3	46.1	42.6	40.1	54.4	49.0	45.3	14.4	13.6	12.9	12.2	12.3	12.4	-7.7	-17.1	-12.3	4.2	-18.3	-16.2
Healthcare	3.6	4.6	9.1	11.2	7.0	9.2	53.6	61.3	57.3	45.7	71.8	64.8	35.9	26.9	26.2	37.2	16.0	21.0	6.9	7.2	7.3	6.0	5.1	5.1	-50.0	-56.7	-48.2	-34.5	-64.8	-55.6
Education	4.9	7.6	13.9	13.4	8.0	8.4	36.4	42.3	38.9	25.5	51.1	50.0	43.4	38.4	32.9	46.3	26.5	27.9	15.3	11.8	14.3	14.7	14.4	13.6	-31.5	-34.7	-25.0	-12.1	-43.1	-41.6
Situation of Ukrainian-speaking population	5.7	6.9	7.9	7.3	4.1	8.4	15.6	19.7	20.3	10.2	19.9	16.8	69.6	64.1	62.2	74.0	68.5	66.9	9.1	9.2	9.5	8.5	7.4	8.0	-9.9	-12.8	-12.4	-2.9	-15.8	-8.4
Freedom of speech	11.7	11.8	11.0	14.7	6.2	7.3	30.4	36.9	38.1	19.8	26.4	38.9	48.8	43.9	43.1	58.2	58.5	45.7	9.1	7.4	7.8	7.3	8.8	8.1	-19.4	-25.1	-27.1	-5.1	-20.2	-31.6
Observation of citizen rights and freedoms	8.1	8.1	8.9	10.5	6.6	6.9	32.5	39.2	39.4	18.4	33.5	40.4	46.5	40.1	41.5	58.4	48.6	40.4	13.0	12.5	10.2	12.7	11.4	12.3	-24.4	-31.1	-30.5	-7.9	-26.9	-33.5
Civil servants' compliance with the law	5.9	4.9	7.9	9.8	5.0	6.5	43.2	46.8	44.0	22.8	46.0	43.8	36.9	33.4	34.5	54.7	35.7	36.0	14.0	14.9	13.6	12.8	13.3	13.7	-37.3	-41.9	-36.1	-13.0	-41.0	-37.3
Pension	3.9	22.5	7.6	8.0	5.4	6.3	49.5	39.1	56.0	32.5	50.3	57.0	38.0	26.1	25.8	48.4	32.2	26.4	8.6	12.3	10.6	11.0	12.1	10.3	-45.6	-16.6	-48.4	-24.5	-44.9	-50.7
Social protection (social benefits, assistance, subsidies, etc.)	11.6	14.7	7.7	7.9	5.7	5.4	48.7	49.9	60.5	43.5	56.6	62.2	30.0	26.5	24.6	40.0	28.0	23.6	9.6	8.9	7.2	8.5	9.8	8.8	-37.1	-35.2	-52.8	-35.6	-50.9	-56.8
Crime	6.2	6.0	7.0	7.7	3.6	5.3	61.7	61.4	52.5	29.3	49.2	44.1	23.6	26.1	32.5	53.4	38.4	41.4	8.5	6.5	8.0	9.6	8.9	9.2	-55.5	-55.4	-45.5	-21.6	-45.6	-38.8

\* Difference between answers «changes for the better» and «changes for the worse».



## % of respondent

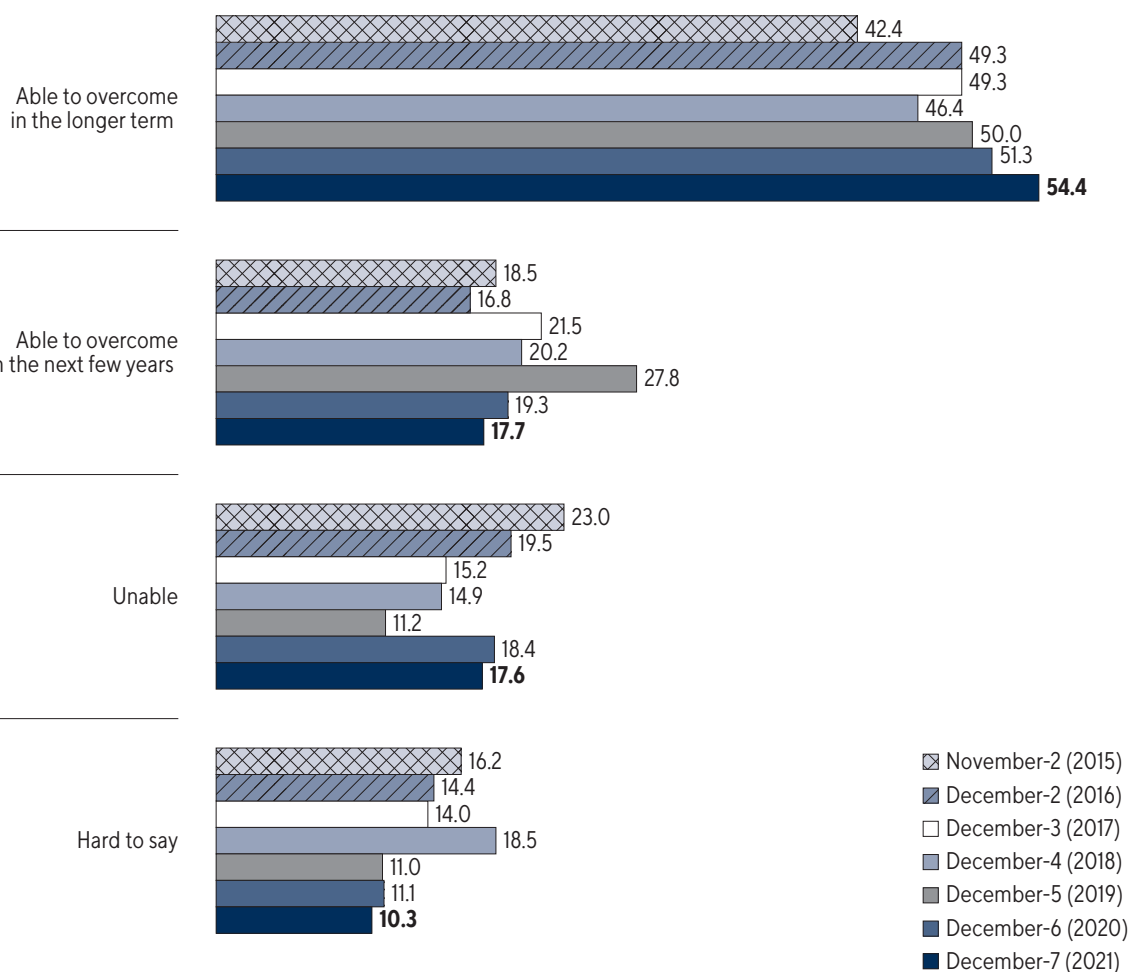
(continued)

	Improved				Deteriorated				Did not change				Hard to say				Balance*													
	December-2	December-3	December-4	December-5	December-6	November-4	December-2	December-3	December-4	December-5	December-6	November-4	December-2	December-3	December-4	December-5	December-6	November-4	December-2	December-3	December-4	December-5	December-6	November-4						
Salary of labour	3.4	14.7	7.4	9.7	5.0	5.0	54.5	48.9	58.4	30.6	55.8	61.1	34.3	26.9	26.7	50.2	29.7	26.3	7.8	9.5	7.5	9.4	9.5	7.6	-51.1	-34.2	-51.0	-20.9	-50.8	-56.1
Level of democracy	10.8	9.4	10.1	13.0	4.8	4.9	31.8	37.9	39.7	17.8	30.1	38.4	45.8	44.4	41.6	61.5	56.1	48.2	11.6	8.3	8.6	7.7	9.0	8.5	-21.0	-28.5	-29.6	-4.8	-25.3	-33.5
Government's treatment of citizens	2.8	4.2	4.8	17.7	5.0	4.6	58.9	59.9	59.2	23.8	56.3	57.5	29.0	27.4	28.1	49.2	30.4	30.6	9.2	8.5	7.9	9.3	8.3	7.2	-56.1	-55.7	-54.4	-6.1	-51.3	-52.9
Overall situation in the country	3.1	3.8	5.4	14.1	3.4	4.5	73.4	69.3	67.0	29.3	70.7	69.8	17.0	18.8	22.0	47.0	19.8	18.7	6.5	8.1	5.6	9.5	6.1	6.9	-70.3	-65.5	-61.6	-15.2	-67.3	-65.3
Situation of ethnic and religious minorities	2.6	3.4	5.8	5.2	2.2	4.0	14.7	19.7	23.6	7.9	15.7	16.3	64.0	58.8	57.5	72.3	67.4	62.8	18.7	18.1	13.0	14.6	14.6	16.9	-12.1	-16.3	-17.8	-2.7	-13.5	-12.3
Your family's wellbeing	3.5	4.6	7.0	8.0	2.8	3.9	73.0	63.1	59.2	30.6	64.4	59.4	20.5	29.4	30.9	58.5	30.1	34.0	3.0	2.8	2.9	2.9	2.7	2.6	-69.5	-58.5	-52.2	-22.6	-61.6	-55.5
Economic situation in the country	3.6	4.1	6.4	9.7	1.9	3.5	77.0	71.8	67.6	27.5	76.4	70.4	15.9	20.2	23.0	57.8	18.6	21.9	3.4	3.9	3.0	4.9	3.1	4.2	-73.4	-67.7	-61.2	-17.8	-74.5	-66.9
Situation of Russian-speaking population	1.8	2.3	3.3	4.9	3.9	3.0	17.1	24.0	26.2	11.4	21.4	23.6	68.9	59.8	60.0	72.7	64.9	63.0	12.3	14.0	10.5	11.0	9.8	10.3	-15.3	-21.7	-22.9	-6.5	-17.5	-20.6
Level of stability	2.1	2.9	4.2	12.1	2.4	3.0	75.0	71.8	67.4	32.5	73.7	70.5	16.1	19.5	22.8	47.0	18.4	20.2	6.7	5.8	5.6	8.4	5.5	6.3	-72.9	-68.9	-63.2	-20.4	-71.3	-67.5
Citizens' confidence in the future	2.2	3.6	3.9	12.6	2.2	2.8	73.9	67.5	65.1	35.6	68.8	68.4	16.3	21.0	23.9	42.2	23.2	21.7	7.6	7.9	7.0	9.5	5.8	7.1	-71.7	-63.9	-61.2	-23.0	-66.6	-65.6
Citizens' attitude to government	2.4	3.7	4.2	19.9	3.3	2.7	72.4	68.9	64.8	25.3	64.4	67.5	17.3	20.7	23.6	44.4	25.5	22.8	7.8	6.8	7.4	10.3	6.9	7.0	-70.0	-65.2	-60.6	-5.4	-61.1	-64.8
Prices and tariffs	1.2	2.0	2.8	5.6	0.9	1.2	88.5	86.6	85.0	60.9	81.2	87.1	7.7	8.3	9.8	29.4	15.0	9.2	2.5	3.0	2.4	4.0	2.8	2.5	-87.3	-84.6	-82.2	-55.3	-80.3	-85.9

\* Difference between answers «changes for the better» and «changes for the worse».

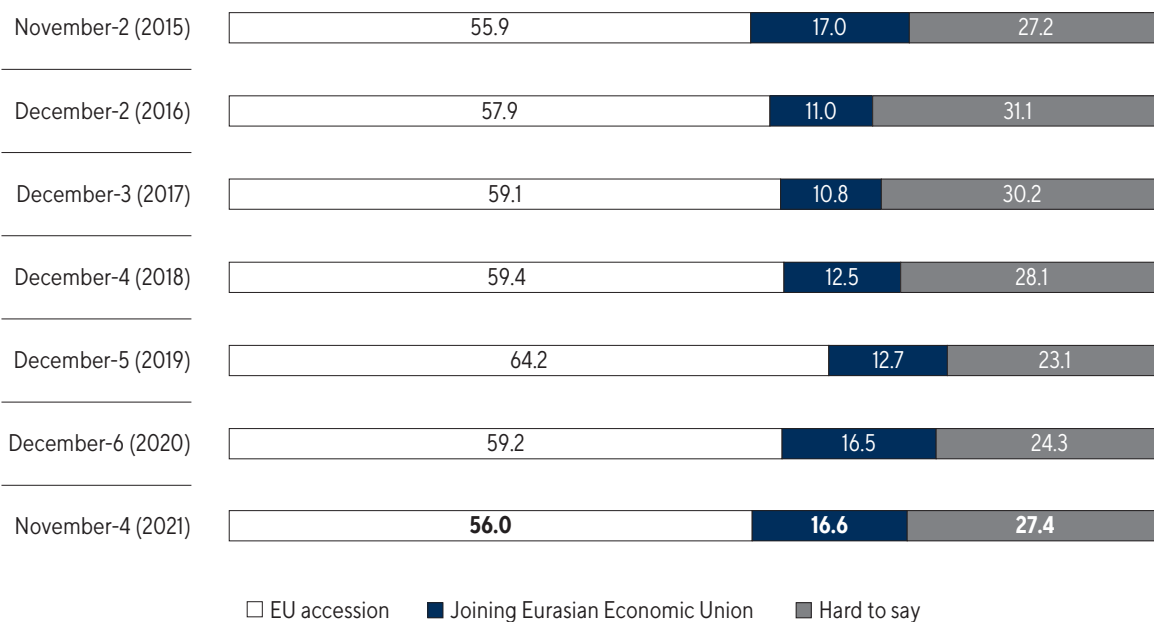
### IS UKRAINE ABLE TO OVERCOME THE EXISTING PROBLEMS AND DIFFICULTIES?

% of respondent



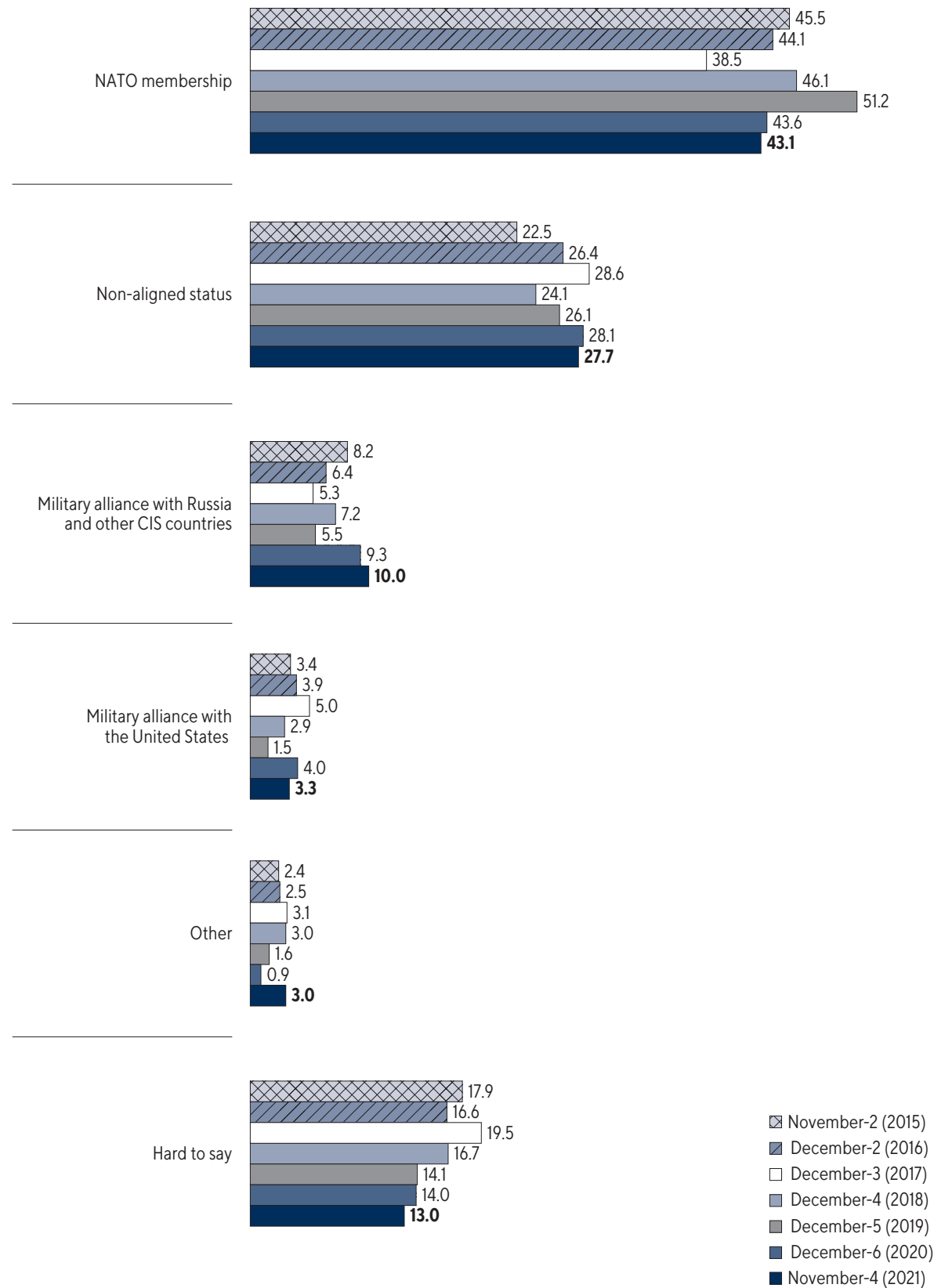
### WHICH INTEGRATION DIRECTION UKRAINE SHOULD TAKE?

% of respondent



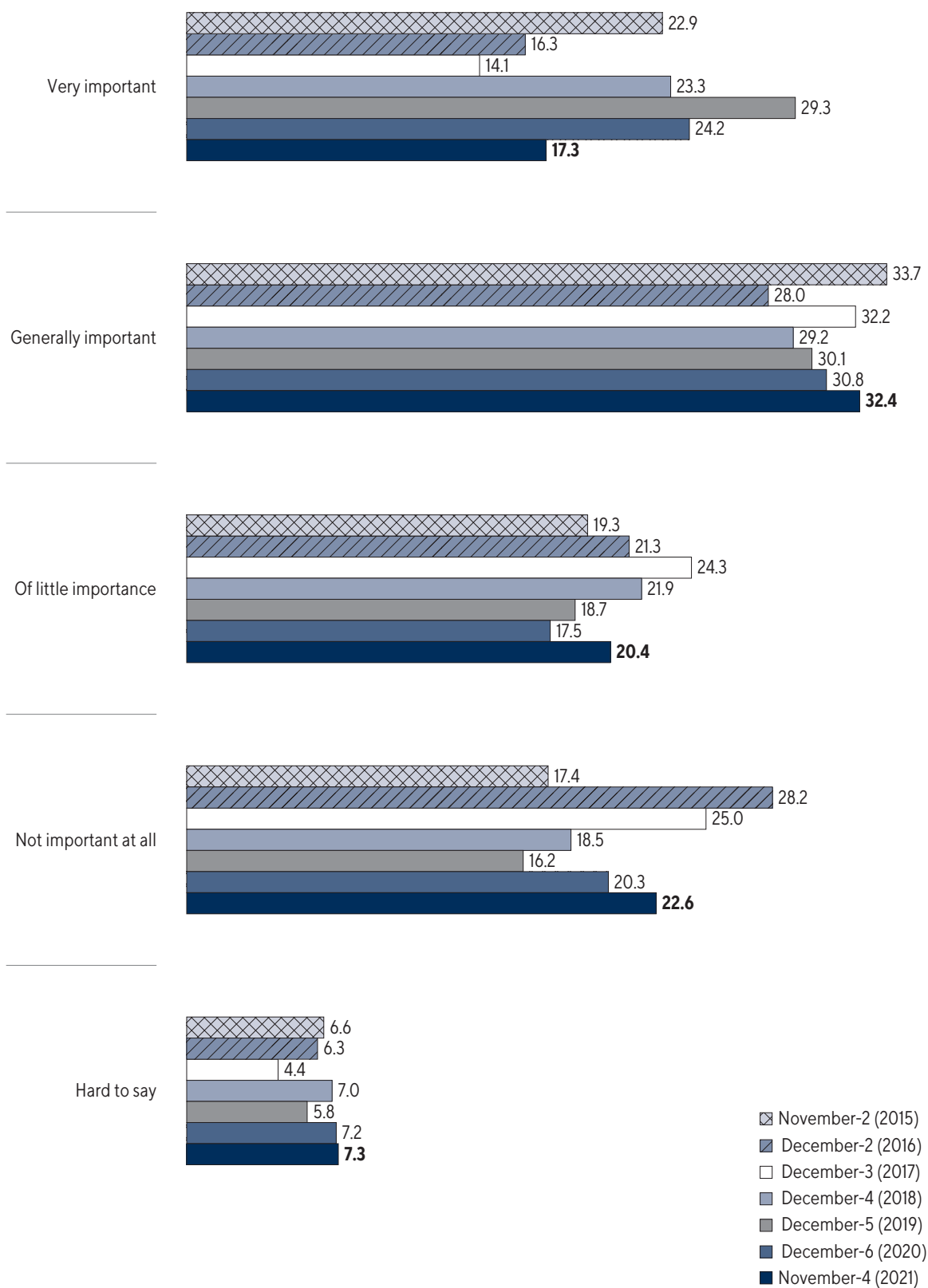
### WHICH OPTION OF GUARANTEEING SECURITY WOULD BE THE BEST FOR UKRAINE?

% of respondent

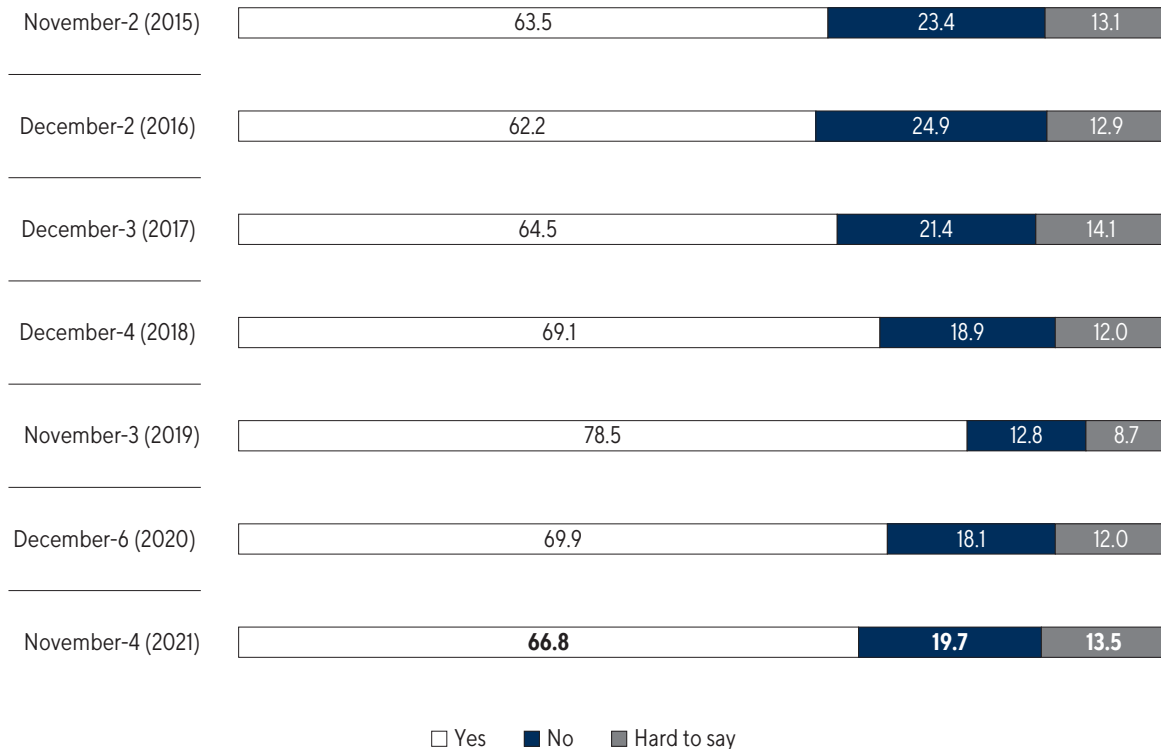


### HOW IMPORTANT TO YOU IS THE INTRODUCTION OF VISA-FREE TRAVEL WITH THE EU?

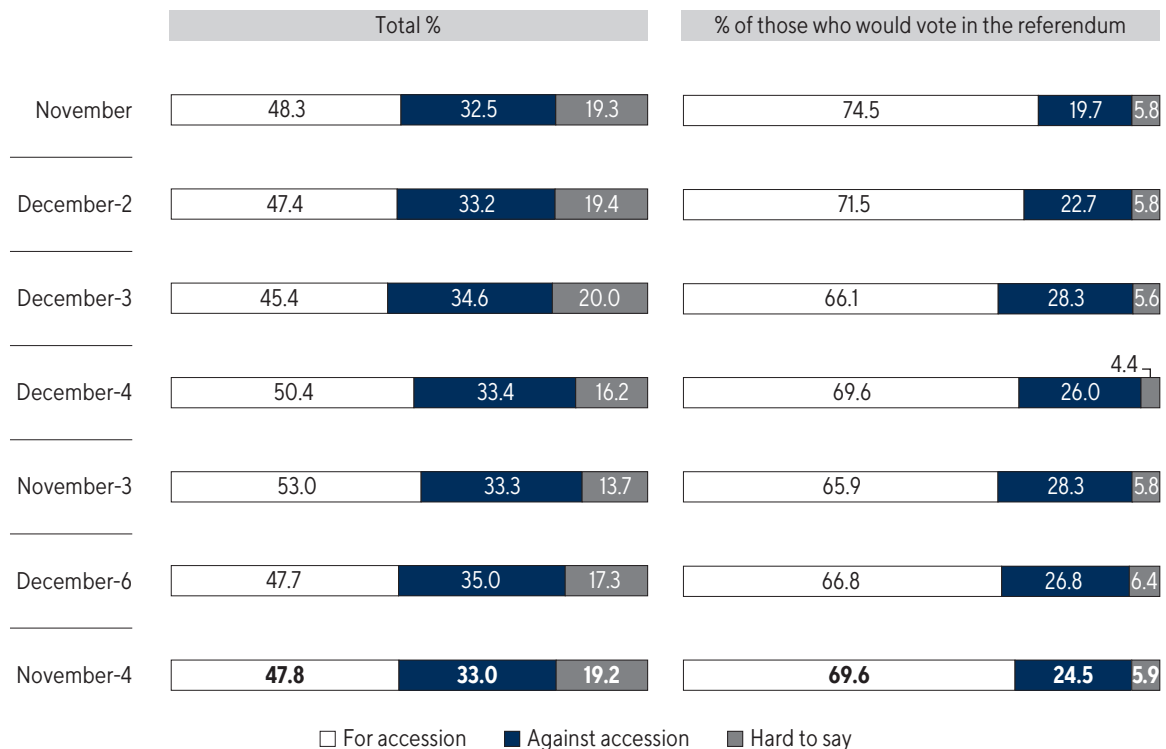
% of respondent



**IF IN THE NEAR FUTURE THERE WAS A REFERENDUM  
ON UKRAINE'S ACCESSION TO NATO, WOULD YOU VOTE?**  
% of respondent



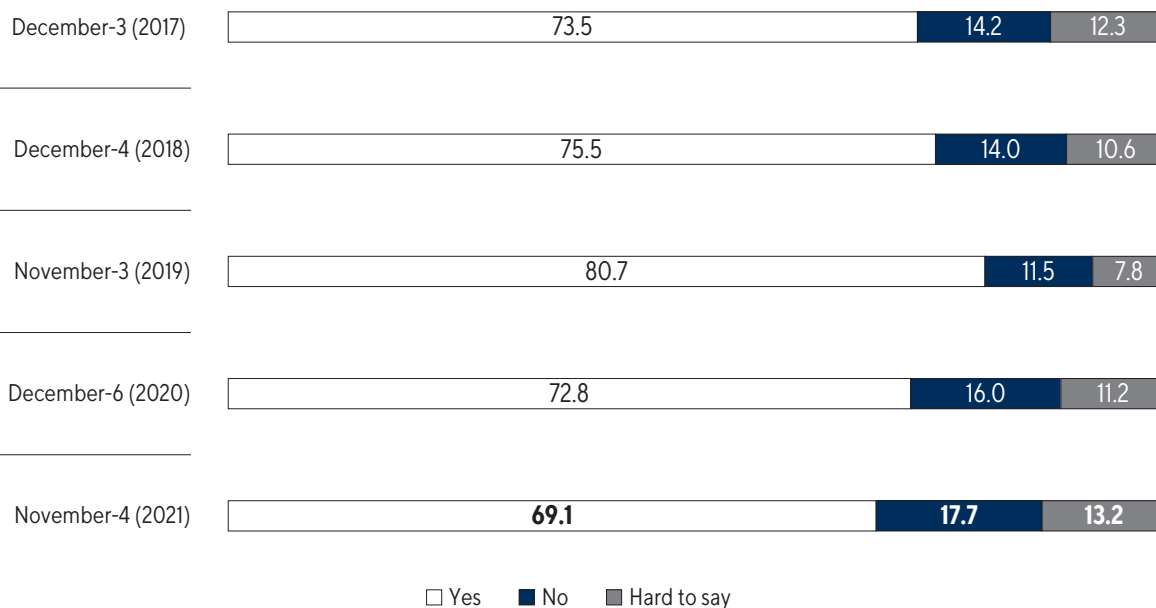
**IF YOU WERE TO TAKE PART IN THE REFERENDUM ON  
UKRAINE'S ACCESSION TO NATO, HOW WOULD YOU VOTE?**





**IF IN THE NEAR FUTURE THERE WAS A REFERENDUM ON  
UKRAINE'S ACCESSION TO THE EU, WOULD YOU VOTE?**

% of respondent



**IF YOU WERE TO TAKE PART IN THE REFERENDUM ON  
UKRAINE'S ACCESSION TO THE EU, HOW WOULD YOU VOTE?**

