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Post-Maidan European Union's Support to the Economic Transformation of Ukraine[*]

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After the Euromaidan revolution in Ukraine, many international donor agencies provided financial and technical support for the transition of Ukraine. This paper examines the influence of the European Union (EU) along with international financial institutions such as the World Bank and the International Monetary Fund (IMF) in the economic transformation of Ukraine in the post-Euromaidan period, that is since 2013/14. The study focuses on support in several sectors, namely energy, banking and financial institutions, taxation and agriculture. The support for Ukraine's economic transition is seen as very important, but there are still plenty of shortcomings on the part of the donors and international financial agencies, including the EU, in implementing their plans and recommendations. While plenty of headway has been made in the energy and agriculture sectors, numerous complications and hurdles in the adoption of the plans and policies still persist in other areas, primarily in the banking sector.

Keywords: transition, transformation, reform, taxation, agriculture, deregulation, energy, financial sector.

Introduction

The crisis in Ukraine that broke out in late 2013 was not only the outcome of domestic conflict or a desire to join the East or the West. The deeper reason is associated with Ukraine's complete failure to reform its economic and political system since the country gained independence in 1991. What took place in Kyiv's Maidan Nezalezhnosti, popularly known as 'Independence Square', on the night of 21 November 2013, giving rise to public protests, was seen as public demand to establish closer relations with Europe and be a part of the European Union.[1] Widely known as the 'Euromaidan', the protest was not just about whether Ukraine should be with Europe or with the Russian

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[1] A. Wilson, *Ukraine Crisis: What it means for the West*, London: Yale University Press, 2014, pp. 64–65.

Federation. It was a sudden outburst of all the collective frustration and anger with the country's inability to gain economic and political momentum over the two decades of independence and with the complete failure of transition to a fully functioning state. The Euromaidan was the result of all the pain and suffering, the issues of every common man that had affected their lives in one way or another, felt in every part and region of Ukraine.

Since the protest and the subsequent annexation of Crimea by Russia and the conflict between Russia backed-rebels in the east of Ukraine with Kyiv, the international community has lent a helping hand to support Ukraine's current transition.[2] As in the case of much of the development assistance provided to developing nations, it is argued that international assistance for economic transformation provided to Ukraine also involved deliberate transfer of models from donor countries or practices the donors have applied in other countries where they are regarded as good practice.

This paper examines the influence of external factors on transition in a post-communist state after the dissolution of the Soviet Union. As a case study, this paper analyses the role of international assistance, especially from the European Union (EU), and sheds some light on the role of international financial institutions such as the World Bank and the International Monetary Fund (IMF) in the economic transformation of Ukraine in the post-Euromaidan period, that since 2013/14. This paper focuses in particular on the relationship between the national government of Ukraine and the financial and technical assistance provided by international donor agencies. Therefore, the study will provide an analysis of the economic transformation programmes introduced by the Government of Ukraine with an examination of the impact of external advice on the course of the transformation process. Using various concepts derived from comparative politics, institutional theory and development studies, the paper will analyse and explain the interaction and interrelation between external factors – primarily donors such as the EU, as well as others such as the World Bank and the IMF – and the domestic recipient or the host country: Ukraine.

Ukraine's economic reform after 2014

The immediate challenge faced by Ukraine after the end of Euromaidan was the annexation of Crimea and the war in Donbas, followed by a deteriorating relationship with Moscow, which included Russian economic sanctions over Ukraine. This led to further weakening of the Ukrainian economy. The lack of diversification and overreliance of the Ukrainian economy on Russia coupled with the harshly affected investment climate made things worse. On top of this, the ongoing war in Donbas slowed down the overall economic growth and investment. Under these circumstances, it was very important to diversify, restructure and to adopt EU standards to expand the

[2] Ibidem, pp. 159–160.

Ukrainian market beyond Russia and post-Soviet countries. However, in order to do this, Ukraine had to be able to implement and accept EU market rules and regulations.

The situation of Ukraine, which kept getting worse in the shadow of the war in Donbas, forced the government to invest more in its defence and security. After the Euromaidan, the annual budget deficit was forecast at 10 per cent of GDP.[3] Under these circumstances, the deficit would be unsustainable for any economy and more vulnerable at the time of political instability and uncertainty. At this point in time, it was hard for Ukraine to find creditors to give it money at a reasonable interest rate. Ukraine needed to take immediate measures to balance its economy with the necessary budget. Ukraine is not a poor country given its vast amount of resources and market potential, but due to its unstable government, its mismanaged economy, the lack of proper investment, corruption, taxation policies, an unfavourable business environment and many other internal and external circumstances, it has been unable to uplift its economy.[4] Therefore, in order to restructure its economy and to become self-sufficient, it needed many internal reforms as well as support from external communities, such as the EU, the IMF, etc.

In this state of affairs Ukraine has to go through radical economic reform before external donors agree to provide it with any financial support. Therefore, before giving Ukraine access to international loan facilities, the IMF demanded drastic reform.[5] The most urgent changes needed were a reform of the financial sector as well as the restructuring of the National Bank of Ukraine and Naftogaz – the state-owned gas supplier. It was also very important to restructure the state-owned enterprises (SOEs) as 7 per cent of GDP of Ukraine was used to re-capitalise them.[6] Even though Ukraine was at war, the amount spent on SOEs was more than its expenditure on national defence. What is more, most of the SOEs are enormously unproductive and inefficient, only few of them were easy to privatise.

Under President Viktor Yuschenko, and later under President Yanukovych, the EU-Ukraine Association Agreement was negotiated. Trade and economic issues formed the core of the deal, but there were also other issues beside economic ones that were emphasised, namely common EU values such as human rights and reform of the judiciary.[7] However, the Euromaidan had changed many things, and the reform process needed to address much more than just some economic issues. While in the beginning most of the efforts focused on trade negotiation, eventually state building and

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[3] G. Gressel, *Keeping up Appearances: How Europe is supporting Ukraine's transformation*, European Council on Foreign Relations, 2016, p. 51.

[4] Ibidem.

[5] International Monetary Fund, *Ukraine Special Focus: A Roadmap for Urgent Macroeconomic and Structural Reforms*, IMF, April 2014, http://www.worldbank.org/content/dam/Worldbank/document/eca/52ukraine/ua-focus-april-2014-en.pdf (accessed on 10.01.2017).

[6] G. Gressel, op. cit., pp. 42–43.

[7] Ministry of Foreign Affairs of Ukraine, *3rd Joint Progress Report – Negotiations on the EU-Ukraine Association Agreement*, http://mfa.gov.ua/en/page/open/id/781 (accessed on 07.02.2017).

reforms of state institutions became the central tasks under the Association Agreement. First, because the Ukrainian society demanded deep reform of what it perceived as a Russian-controlled state and second, because the post-Maidan Ukraine suddenly became a contested state, divided almost into two equal halves.

The initial reaction of Brussels to the Ukrainian reforms was belated. As it was in other cases, the EU wanted Ukraine to first set its reform agenda by itself, which led to a delay in efforts and effective actions as Ukraine was in active war at the time. Political institutions were afforded no time to consider the actual reform efforts in detail. Therefore, Ukraine's initial reform agenda comprised 62 different areas of reforms but did not have any priorities or timelines and no precise working agenda.[8]

In December 2014, the Ukrainian government established the National Reform Council (NRC) with the objective to coordinate the support work of international donors and supporters in Ukraine.[9] Since the establishment of the Council, the reform work has been better coordinated, with 18 different working groups acting under the Council to review drafts, develop programmes, coordinate reform efforts across the government, and evaluate progress on reforms. Each of the working groups is composed of Ukrainian and international officials, including representatives of the civil society and of the parliament.

EU support in Ukraine's reforms

In March 2014, the European Commission announced an indicative support package of EUR 11.2 billion to Ukraine, which includes EUR 8 billion in loans from the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) to support the reform process in 2014–2020.[10] Here is the overview of the support in some key branches of the economy:

Taxation

Tax reform is one of the vital steps taken by the Ukrainian government to ensure fiscal stability. In the situation of shadow economy in Ukraine, where it is estimated that it makes up between 50 to 60 per cent of GDP, tax evasion is another major issue.[11] The tax reform that was rushed through in December 2015 was mainly aimed at increasing the proportion of people in formal employment who have a defined salary. The rate of personal income tax was set at 18 per cent, social security was decreased

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[8] Ibidem.

[9] National Reforms Council, *Key reforms – progress in tasks completion for 2015*, http://www. reforms. in.ua/en/skorkardy (accessed on 07.02.2017).

[10] European Court of Auditors, *EU assistance to Ukraine*, Special Report No. 32, 2016, p. 12.

[11] The Economist, *Why is Ukraine's economy in such a mess?*, http://www.economist.com/blogs/free-exchange/2014/03/ukraine-and-russia (accessed on 25.01.2017).

from 40 per cent to 22 per cent, and the Value Added Tax (VAT) returns were brought in line with the European standards.[12] As Ukraine reforms its tax policy, the decrease in tax revenue in the medium term should be offset by an increase in revenue. This higher revenue is to come from: lower production, lower employment costs, increased domestic consumption and exports, a higher number of people in formal employment who have a declared income and therefore pay tax. According to some reports, some of these effects are already visible.[13] Although the tax reforms that have been put in place have already received some positive feedback from international experts, further work on reforming other taxes and tariffs along with simplification of tax declarations are yet to be implemented. Moreover, the overregulation of investment is a much greater hurdle than overtaxation, which is hampering economic growth.

It is to be noted that almost all of Ukraine's major reforms, such as the reform of the gas market and the financial reform, including the independence of the Central Bank, were the outcome of the conditionality or the direct pressure from the World Bank and the IMF. Furthermore, the EU has also tied its micro-finance assistance to Ukraine to assistance provided by the IMF; consequently, if the IMF provides a grant support to Ukraine, the EU does so as well. This means that satisfying the conditions of the IMF also means satisfying the conditions of the EU. However, the IMF imposes conditionality more openly in public than the EU does. Regardless of the political difficulties Ukraine faced in March 2014 with the dismissal of Arseniy Petrovych Yatsenyuk, who served as the 15th Prime Minister of Ukraine, the IMF has not stopped its financial assistance to Ukraine. However, the EU is hesitant about making use of micro-financial assistance as political leverage, irrespective of the fact that it is the most direct and largest assistance provided by the EU to Ukraine.

Agriculture

The reform in the agriculture sector is yet another change that has taken place after the Euromaidan revolution. Beside the vast opportunities in the agriculture sector supported by Ukraine's vast amounts of fertile and unused agricultural land, the success of this reform is credited to the willingness of the Ukrainian government to implement it and to the support from the international community. Under the current Minister of Agriculture, Oleksiy Pavlenko, owing to efficient and effective coordination with the donors the reform has led to success, with the agriculture sector becoming one of the main sources of Ukrainian economic growth.

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[12] Ministry of Revenues and Duties of Ukraine, *Ukraine Personal Income Tax Rate 2004−2017*, www.tradingeconomics.com/ukraine/personal-income-tax-rate (accessed on 25.01.2017).

[13] R. Kirchner, P. Engler, *Auswirkungen der Senkung der Sozialversicherungsbeiträge*, Deutsche Beratergruppe Ukraine, July 2016, http://www.beratergruppe-ukraine.de/wordpress/wp-content/ uploads/2016/07/Newsletter_93_2016_Deutsche-Beratergruppe.pdf (accessed on 10.01.2017).

Owing to this, the agriculture sector was able to become more attractive to the international donor communities. Some donors, for example the United States Agency for International Development (USAID) and the EU, focused their operation on the policy level on the reform of regulations, while others, such as the IMF and the World Bank, were actively involved in facilitating the reform in political terms. Whereas the IMF, the EBRD and the International Financial Cooperation (IFC) work on a larger scale to reform larger agricultural enterprises, Canada, Switzerland and the EU are working on programmes that link agricultural policies with sustainable rural development.[14] In order to achieve this result, small farms were granted access to the regional market and to processing facilities. Furthermore, this also helps small farmers access financial products and competitive insurance. Consequently, the achievement of sustainable growth in agriculture and rural development is possible only if small and medium farms can generate profit from their limited investment in agriculture.

The contribution from the donors to support the agricultural reform ranges from farmland services to the point of sale at the agriculture market. This includes financing multiple farmers with small-scale contributions for shared-processing machinery, cooperating with the market (local supermarkets and distributors) and coordinating with financial institutions such as banks and insurance companies in order to develop new financial products. This is also important in the context of the implementation of the EU-Ukraine Deep and Comprehensive Free Trade Area (DCFTA),[15] which is to eventually lead to a transformation of the agriculture sector in Ukraine. The DCFTA will not only open the Ukrainian agriculture sector to the European export market, but through the DCFTA, which implies adoption of EU standards across the agriculture sector, it will also open the gates of the Ukrainian agriculture sector to exports to other markets, such as Asia and the Middle East. However, it is not an easy task for Ukraine to implement these standards in its regulatory framework.

In order to prepare for this agricultural sector transformation of Ukraine, the donors are tackling three major areas: deregulation, competitiveness and rural development.[16] A National Strategy and Action Plan for Agriculture and Rural Development has been drafted through the NRC and is currently being implemented.[17] Canada, the United States and Europe are coordinating closely with international support and advice to carry out this action plan. In this coordination, the EU plays a vital role as EU rules and standards will be implemented in all of these programmes. As huge amounts of investment are required to set new production facilities, adjusting to EU standards is

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[14] G. Gressel, op. cit., pp. 53–54.

[15] The Deep and Comprehensive Free Trade Areas (DCFTA) are three free trade areas established between the European Union and Georgia, Moldova and Ukraine respectively. The DCFTAs are part of each country's EU Association Agreement.

[16] Ibidem, pp. 57–60.

[17] Ministry of Agrarian Policy and Food Ukraine, *Single and Comprehensive Strategy and Action Plan for Agriculture and Rural Development in Ukraine for 2015*, 26 October 2015.

not easy for small scale farms but is considerably easier for large agro-businesses. On the other hand, it is more difficult for small and medium farms than for large agriculture enterprises to gain access to financial services, which is required for investment to set up new production facilities. Large farms are already used to exporting their goods to Russia and to European markets, but small farms are only used to exporting to Russia. However, the exports of small farms to Russia collapsed after Russia had imposed an import ban in January 2016.[18] Under these circumstances, it is more vital to provide grants to small farms in order to help them gain access to new export markets, and EU support is crucial for achieving this objective.

Deregulation

Another important area of the DCFTA that the EU is trying to support is the investment and expansion of trade between Ukraine and Europe. To some degree, deregulation is dependent on the success of the trade agreement. One of the major drawbacks of the Ukrainian market is the excessive regulation of business and services, and under the DCFTA it is required to adopt EU regulations especially in the private business area. Three years ago, the Better Regulation Delivery Office (BRDO) financed by the EU was established in Kyiv to support and coordinate this process, and in order to draft the necessary reforms, a committee composed of 70 experts and lawyers was formed.[19] Apart from the EU, a similar programme was also operated by Canada. Ukraine has made considerable progress in the adoption of the new technical regulations, but still a lot more needs to be done in the area of capital market regulations, certification, services, inspections and control. Many experts believe that the climate was favourable and constructive for most of the reforms in the ministries of economy, finance, and agriculture under the Yatsenyuk government.[20] Given the fact that massive changes are needed in Ukraine, the reform process is rather slow, but it is steadily making progress. As the regulatory framework of Ukraine improves with time and effort, Europe, in turn, could reinforce its support for the economic transition of Ukraine in other areas as well. One issue highlighted by experts is the limited access of small and medium enterprises (SMEs) to capital due to constraints and uncertainties in the banking sector.[21] Under these circumstances, one solution could be the provision of loan guarantee funds to SMEs. Financial support could also take the form of providing start-up financial services to sectors with potential for growth, such as Information Technology. On the other hand, east Ukraine is suffering from instability and continuous war, which

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[18] Radio free Europe/Radio Liberty, *Russia To Ban All Food Imports From Ukraine*, 18 November 2015, http://www.rferl.org/a/ukraine-russia-food-import-ban/27373599.html (accessed on 20.01.2017).

[19] Better Regulation Delivery Office, *About us*, http://en.brdo.com.ua/about-us/ (accessed on 20.01.2017).

[20] A. Wilson, *Survival of the Richest: How Oligarchs Block Reform in Ukraine*, London: ECFR, 2016.

[21] I. Koriakin, R. Kirchner, *Improving SME Access to Finance in Ukraine*, German Advisory Group, February 2016.

makes investors reluctant to invest. Therefore, the EU should provide special support programmes to boost the economy of that area.

Ukrainian exports to the EU grew again in 2015/16 in real terms.[22] Beside the fact that there is a drastic downfall in commodity and food prices, reforms and the DCFTA implementation efforts are slowly but steadily gaining momentum. Therefore, Ukrainian elites are supporting the implementation of reform policies and adaptation of regulations and practice that is required under the DCFTA. Ukraine is slowly benefiting from the adoption of the DCFTA and will benefit more in the coming future. But for Ukraine to achieve sustainable growth and development, the EU should also focus on supporting SMEs, rural and regional development programmes.

Energy sector

The state-owned gas company Naftogaz's deficit was an increasing drain on state finances, growing from 1.9 per cent of GDP in 2013 to 5.7 per cent in 2014, when it was higher than the overall government deficit of 4.6 per cent.[23] After the winter of 2014/15, the gas market was finally liberalised and consumer gas prices rose up to the market level. But this was done in critical circumstances and facing major challenges. Although the reform was widely regarded as a success, it was difficult for poor people. Nevertheless, the restructuring of communal heating and services was carried out using the special fund that was introduced to support poor consumers, especially pensioners. Liberalisation of the Ukrainian energy market also opened Naftogaz to foreign investment, but the government continued providing subsidies in the coal sector. The war in Donbas was also an obstacle to reforming the coal sector as the region of Donbas is well known for its coal industry.

The dramatic events that have taken place in Ukraine since February have once again put the question of the security of gas supply to Europe high on the political agenda. The debate about Europe's energy security and in particular the security of gas supply to Europe has focused on Russian aggression towards Ukraine and its willingness and ability to use energy as a coercive measure against Ukraine and, by extension, Europe.[24] EU support for Ukraine's energy reforms has focused on issues concerning the deregulation and restructuring of Naftogaz — both of which are important to fully integrate Ukraine in the European Energy Community (EEC).[25] After the Euromaidan, the European Commission was active in negotiating the 'winter package', the contract

[22] R. Giucci, M. Ryzhenkov, V. Movcha, *Ukrainische Exporte in die EU: Positive Wirkung des DCFTA?*, Deutsche Beratergruppe Ukraine, June 2016.

[23] W. Konończuk, *Reform #1, Why Ukraine has to reform its gas sector*, OSW Commentary, https://www.osw.waw.pl/en/publikacje/osw-commentary/2015-09-02/reform-1-why-ukraine-has-to-reform-its-gas-sector (accessed on 20.01.2017).

[24] Chi Kong Chyong, *Why Europe Should Support Reforms of the Ukrainian Gas Market-or Risk a Cut off*, European Council on Foreign Relations, 2014.

[25] G. Gressel, op. cit., pp. 52–53.

between Naftogaz and the Russian-owned Gazprom – the price, mode of payment, and delivery of natural gas before the winter of 2014/2015. This deal was crucial to ensure supply of gas to Ukraine for that period. However, at that point it was not possible to immediately turn away from Russian gas. Still, Ukraine's medium term goal is to become independent from Russian gas by increasing its own production as well as revenue flow from other countries such as Poland, Hungary and Slovakia. Reduced consumption due to decreased industrial production and increased domestic production will make up the difference, granting Ukraine energy independence.[26]

Ukraine's finances have stabilised and have improved their resilience after the reduction of gas imports, price competitiveness and diversification in gas. However, Naftogaz has to be privatised in order to finalise the gas market reform, and competition in the market should be increased. To further strengthen EU support for Ukraine's energy transition, it is important to effect liberalisation in energy pricing, especially in the renewable energy sector. Although Ukraine has a huge potential of biogas from its vast agriculture sector, which can provide the country with cheaper energy, the EU has not come up with any concrete plans or proposals to provide support in this area.

Financial sector

The National Bank of Ukraine (NBU) ordered Ukrainian banks to carry out a 'stress test' in order to assess the financial health and liquidity of the banking sector after the Euromaidan.[27] This was performed in connection with the need for a major structural reform in Ukraine's financial sector, as demanded directly by the IMF. Results came after the 'stress test', and they showed that Ukraine's financial sector was more depressed than had been anticipated. As a result, the NBU was given more power and liberty to intervene by increasing its power to inspect, order tests, and if necessary even to liquidate the banks. After this step, the Ukrainian banking sector has experienced steady but slow growth towards stabilisation. By the end of 2016, banks were required to balance their capital reserve ratio, and after three years they are expected to build at least 10 per cent on their capital reserve ratio.[28]

As per the requirement under the DCFTA, the regulations to supervise the Ukrainian banking sector were brought in line with EU standards, along with the establishment of the deposit guarantee. International donor organisations have created a deposit guarantee fund for Ukraine, with the EBRD as the principal donor, particularly involved in the financial security committee. Further guidelines for international donors and financial institutions were provided by the recommendations and analysis from the

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[26] G. Zachmann, D. Naumenko, *Evaluating the options to diversify gas supply in Ukraine, Policy Paper Series 01/2014*, German Advisory Group, February 2014.

[27] *National Bank of Ukraine launches the diagnostic exercises for banks and the assessment of risks arising from asset-side transactions with related parties (bank insiders)* [Press Release], 20 April 2015, http://www.bank.gov.ua/control/en/publish/article?art_id=16631926 (accessed on 23.01.2017).

[28] G. Gressel, op. cit., pp. 53–54.

United States Treasury and the European Union Directorate-General for Financial Stability. Thus international financial organisations such as the IMF and the World Bank implemented these recommendations in their respective programmes and bilateral donors such as the UK and Germany have actively implemented bilateral rescue and restructuring programmes for the financial sector. The EU supports Ukraine's effort to implement common standards of the financial sector regarding: foundation, management, ownership, asset securitisation, resolution of credit disputes, credit monitoring, harmonising leading practices, oversight and control of private banks through the Vienna Initiative.[29]

Among many other projects, one of the biggest EU projects in Ukraine supervised by the EU Directorate for Financial Stability is the reform and restructuring of Ukraine's state-owned banking system. Under Yanukovych, the funds of state owned banks were abused rampantly, mainly by lending funds to the president's associates.[30] These funds failed to pay interest or the principal and are considered to be unreturned investment for the banks, generally known as default financing. The aftermath of this abuse of funds resulted in serious financial problems for the banking sector. After the reform, the state owned gas sector became the biggest default sector for the government money. In 2015 only, between EUR 685 million and 850 million had been invested in the state-owned banking sector, and in 2016 it was another EUR 550 million.[31] However, this amount will just be able to cover the losses of the banks, and it will not be possible to use it for any other active programmes. It needs to be noted that 5 to 6 per cent of Ukraine's GDP had been used to re-liquidate the state owned banks after the collapse of the steel market in the aftermath of the economic crisis in 2008.[32]

The Ukrainian government will gain no benefit by prolonging the financial liability to maintain the current state of their bank. Two state-owned banks, which are regarded as high priority and economically important, are to be restructured and will be taken over by new management. Two other state-owned banks have been shut down, one will be shut down by end of the year, and the rest are due to be sold.[33] Nevertheless, under current Ukrainian law, the government cannot sell its assets below book value; the sales are therefore highly improbable. Therefore, in order to realise this goal, the Ukrainian government has to make some exceptional changes. At the same time, the EBRD is trying to consider the possible changes to reform and restructure these banks

29 Ibidem.

30 J. Whitman, 'Yanukovych's Ukraine: Family greed fuels a national aspiration', *Geopolitical Monitor*, 20 December 2013.

31 European Investment Bank, *Ukraine Neighborhood SME Financing*, February 2016, http://www.eib.org/attachments/efs/economic_report_neighbourhood_sme_financing_ukraine_en.pdf (accessed on 20.01.2017).

32 EBRD, *EBRD and Ukraine agree on steps to transform major state-owned bank*, 25 November 2016 http://www.ebrd.com/news/2016/ebrd-and-ukraine-agree-on-steps-to-transform-major-stateowned--bank-.html (accessed on 23.01.2017).

33 Ibidem.

by handing over these state-owned banks to new management and selling them off after five years, once they make profit of them.

In order to control the establishment of new banks, new regulations were put forward to increase the minimum capital requirement. This will prevent the oligarchs from investing in the banking sector for their own benefit and taking loans from the controlled banks. Since the Euromaidan, the NBU has closed 70 out of the 180 banks due to lack of capital.[34] Moreover, between 30 and 40 banks will be closed in the coming year. Although this was one of the most effective reform policies conducted by the Ukrainian government, one that protected the taxpayers' money from the oligarchs, in reality the implementation is more difficult than imagined. Almost 30 per cent of the Ukrainian banking market is controlled by one of Ukraine's wealthiest oligarchs, Ihor Kolomoisky, and to cover the losses of his bank he has demanded a large amount from the deposit security fund.[35] On the other hand, 60 per cent of the Ukrainian population receives their salary from accounts in this bank and it is therefore not easy politically to shut these banks down.[36]

After the Euromaidan, the IMF announced to the Central Bank the condition that it has to fulfil to receive funding and support from the international donors. The banking sector has to be wisely governed and has to go through harsh structural reform, laying off 50 per cent of the staff and then paying off competitive salaries to the remaining 50 per cent.[37] Thus, the banks also need to effectively coordinate with the international donors and make them aware of the situation and overlaps in the system. There is also need for effective coordination so that there will not be duplication of the efforts.

Another interesting aspect is the use of Russian banks in Ukraine as a political tool. Although there is not enough proof to verify the fact, some strong indicators support this case. First, former KGB officers manage these banks. Even after losing the majority of their customers, Russian banks were supported and re-capitalised by Moscow. Nevertheless, it is not only the Russian banks that cause trouble in the Ukrainian banking sector. Austria is the only EU Member State whose national bank has no agreement with Ukraine's Central Bank to cooperate on investigations into transnational financial transactions, hence Austria has not helped to investigate the suspicious dealings of its Meidl Bank, which had engaged in dubious business in Ukraine, including the transfer of money from a bankrupt oligarch-controlled bank abroad.[38]

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[34] National Bank of Ukraine, *Banking Sector Review*, October 2016, https://bank.gov.ua/doccatalog/document?id=37796168 (accessed on 21.01.2017).

[35] 'The nationalisation of Ukraine Private Bank: how two oligarchs bankrupted a nation', *Newropeans Magazine*, 2 January 2017, http://www.newropeans-magazine.org/en/2017/01/02/the-nationalisation-of--ukraine-privatbank-how-two-oligarchs-bankrupted-a-nation/ (accessed on 22.01.2017).

[36] Ibidem.

[37] EBRD, *EBRD and Ukraine agree on steps to transform major state-owned bank*, 25 November 2016, http://www.ebrd.com/news/2016/ebrd-and-ukraine-agree-on-steps-to-transform-major-stateowned-bank-.html (accessed on 23.01.2017).

[38] 'Die Millionen aus dem Wilden Osten', *Die Zeit Online*, 14 December 2015, http://www.zeit. de/2015/50/wiener-meinl-bank-treuhandgeschaefte-kiew/komplettansicht (accessed on 10.01.2017).

Assessment of EU support for Ukraine

Another major aid donor to Ukraine, next to financial institutions such as the IMF and the World Bank as well as countries such as the United States, Canada and Japan, is the EU. Since the Euromaidan, the following assistance has been provided by the EU, the World Bank, the IMF and the United States, respectively:

Table 1. Donor's financial contributions to Ukraine since 2014

Donor	Euros (billion)	Remarks
EU	3.16	EUR 1.36 billion in 2014 and additional EUR 1.8 billion in 2015/16
IMF	15.4	Under the four-year assistance package programme covering the micro-financial stabilisation programme.
World Bank	2.45	EUR 1.25 billion in 2014 and EUR 1.2 billion in 2015
US	2.495	EUR 1.78 billion in loan guarantees and EUR 715 million in programme funding in 2014 and 2015

Source: G. Gressel, op. cit., p. 61.

In 2014/15, Germany contributed over EUR 700 million, out of which EUR 200 million was to support micro-financial assistance, making Germany the biggest donor among the EU Member States supporting Ukraine. Poland contributed around EUR 100 million, of which EUR 89 million was for micro-financial assistance. With the vast number of more than 400 EU and EU Member State programmes implemented in Ukraine, there are also a number of organisational issues, for example: donor communication and programme organisation, which play a vital role in the effective implementation of the programmes. Therefore, this section will try to address the role of the EU and its Member States in solving these issues and enhancing the reform process.

First, the EU support group that was established after the Euromaidan was unable to keep up to the expectations of Ukrainian reform efforts. What was seen as the biggest shortcoming or drawback was the lack of permanent EU staff from the beginning. It was only in summer 2016 that small numbers of personnel were sent to be headquartered in Kyiv. However, the absence of presence on the ground does not mean that the support provided by the EU was totally useless; instead, the EU adjusted its mission. Therefore, rather than conceiving policies, the support group coordinated bilateral initiatives among and between the Member States to bring them in line with the policy goal of the EU.

Another problematic area is the slow pace of action. The EU has its own set of rules concerning the funding of any activities, and so it is often criticised for responding slowly to urgent needs. The standard procedure for EU funding goes through three months of discussion over the application, three months for programme decision, three months for arranging documents, and eventually the funding is granted after almost a year has passed.[39] Therefore, funds for projects in need of urgent action were rather disbursed via bilateral agencies, private foundations in Kyiv or the Council of Europe. However, Ukrainian policy makers have also realised that the EU cannot change its policy or procedure from the need assessment to the implementation just for Ukraine.

The lack of visibility of EU support measures is another area of concern when we compare it to the visibility of the United States, Japan as well as other international bilateral and multilateral donor organisations. For example, the EU is incapable of delivering development assistance, providing support to Internally Displaced People (IDPs) or offering any other humanitarian assistance by itself. Therefore, the EU contracts international or national aid organisations. As a result, Ukrainians are not aware that the aid is actually funded by the EU. The Deutsche Gesellschaft für Internationale Zussamenarbeit (GIZ), the only German development agency that is actively involved on the ground, is providing direct support to IDPs in eastern Ukraine.[40] USAID, the US development agency, has a wide network on the ground level and can provide support to IDPs and conduct other humanitarian assistance at short notice. This level of ground visibility and quick action is lacking in EU support and assistance on the ground level.

Most of the EU support provided to Ukraine takes the form of Technical Assistance or traditional donor programmes rather than sending experts directly to conduct its activities and provide advice to ministries or institutions. The advantage of having an advisor is that they are involved personally to assist in the effective implementation of the programme, monitor the progress and provide quick feedback.[41] On the other hand, the drawback of this process is that its sustainability comes into question, as once the experts go back home, they take back their expertise with them.

Ukrainian experts insist that the EU should supervise its aid implementation programmes more closely and effectively.[42] Most of the efforts are focused on paperwork rather than the achievement of the programmes' aims. Similarly, despite the fact that there are many training programmes offered by European institutions, most bureaucrats are not able to reap their benefits due to lack of adequate English language skills. Therefore, many of the training opportunities go unused.

Technical expertise and financial assistance is inevitably needed in order to implement various plans and policies for the Ukrainian transformation, but on the other hand, we can also not deny the fact that breaking the political and administrative deadlock is yet another critical issue for the EU that affects the process of EU support to Ukraine's reform. Administrative delays and the interferences with reform are hindering the actual transformation process.

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[39] The period from the submission of the proposed project to the actual granting, called the administrative period, can take from eight months to anywhere around a year.

[40] G. Gressel, op. cit., pp. 61–67.

[41] Ibidem.

[42] S. Solodkyy, V. Sharlay, *How Could the EU Accelerate Reforms in Ukraine?*, Kyiv: Institute of World Policy, available at: http://iwp.org.ua/eng/public/1838.html (accessed on 05.01.2017).

Due to the limited reach of the EU in the countryside, changes have not been adopted in the local and regional administration, which affects the whole reform process. Therefore, the shortcoming of the implementation is not often reported, and the problems that are linked to certain regions are not addressed (e.g.: issues with IDPs). Another issue Ukrainian experts have raised against the EU is that the EU is often too soft, too polite, and hesitates to criticise the Ukrainian government.[43] The EU has adopted the German model of aid and is hesitant to put direct pressure on Ukraine. It proposes the programmes but does not insist or impose them, and overall gives more priority to the local ownership. The United States and the UK, in contrast, are more direct and apply direct pressure on the Ukrainian government to achieve their goal.

Conclusion

The EU along with several international donors and financial institutions has stepped up and lent a helping hand to Ukraine in the aftermath of the 2013 crisis and Russia's aggressions. Much headway has been made in support of Ukraine's economic transformation. The reforms, diversification opportunities from the EU Member States and the EU's leading role in the negotiation of gas prices have led to a more stable domestic supply of gas. The EU's investment in reform and restructuring of Ukraine's state-owned banking system has for now prevented heavy losses in the banking system. Furthermore, the EU is investing in the reform and transformation of the agriculture sector of Ukraine by providing small farms access to regional markets and processing facilities as well as the crucial access to finances and insurances. In addition, due to the enactment of reforms under the DCFTA, Ukrainian exports to the EU are steadily growing and gaining momentum. Some of the macroeconomic indicators that show growth in terms of percentage contribution to the gross domestic product (GDP) are highlighted below:

Table 2. Ukraine's Macroeconomic Indicators

Macroeconomic Indicators	2013	2014	2015
GDP growth (annual %)	0.0	–6.6	–9.9
Inflation, GDP deflator (annual %)	4.3	15.9	38.4
Agriculture, value added (% of GDP)	10.0	11.7	14.0
Tax Revenue (% of GDP)	17.6	17.3	20.5
Exports of goods and services (% of GDP)	43.0	48.6	52.8
Imports of goods and services (% of GDP)	52.2	52.1	54.8

Source: World Development Indicators. World Bank, available at http://databank.worldbank.org/data/reports.aspx?source=2&country=UKR (accessed on 14.03.2017).

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[43] Ibidem.

Despite the various reform programmes there has been a decrease in annual GDP growth, and the rate of inflation is growing each year – from 4.3 per cent in 2013 to 15.9 per cent in 2015 and 38.4 per cent and 2016, whereas the value added of the agriculture sector has increased from 10.0 in 2013 to 11.7 per cent in 2015 and 14.0 per cent and 2016. Similarly, due to various tax reform policies the tax revenue has increased in 2016 as compared to 2013 from 17.6 per cent to 20.5 per cent. Another remarkable change can be seen in the exports and imports of goods and services. Exports have increased from 43.0 per cent in 2013 to 48.6 per cent in 2014 and 52.8 per cent and 2016. Similarly, the imports of goods and services experienced a small decrease from 52.2 per cent to 52.1 in 2014 and finally steadily grew to 54.8 per cent of GDP in 2016. While all this headway has been made, more needs to be done and there is room for effective implementation of the tools already applied. In order to do so, some of the following points could be considered.

The EU should understand that the support for rural development is necessary in order to achieve economic reform. In the light of the DCFTA agreement and the decentralisation reform, Ukraine's rural area should go through enormous transformation. As the decentralisation reforms get underway, they will close public services and administrative structures. Similarly, when the new business regulations and product certification procedure are adopted, there will be a European food safety standard for the agriculture products from Ukraine, making it more difficult for SMEs to implement those standards. Therefore, the EU programme to support rural development is of vital importance for the development and transition of business in rural areas and for gaining support from the public for the reform process. Hence, programmes for rural development are crucial in order to support the transition of businesses in these regions and to keep up public support for the reform process.

Supporting the SMEs is very important in aiding Ukraine's economic transition. It is also important in the context of effecting the de-oligarchisation. In a situation when there is financial uncertainty in Ukraine, providing loan guarantee funds is one the of the key measures that the EU can easily and effectively implement. This way – by providing financial assistance to the SMEs – the donors can provide assistance without involving themselves in Ukrainian politics.

The EU should stick to the commitments made in return for the reforms. Therefore, when some promises are made by the EU to provide certain benefits to Ukraine in return for its reform progress, the EU should fulfil those promises. Providing visa-free travel through visa liberalisation is one such promise that is scheduled to be fulfilled soon. The EU has to be blunt and straight about the shortcomings of Ukraine's reforms. The EU should be more straightforward in putting its agenda and pointing out the problems on the issues concerning the delay of the reforms. More like the United States does when it has to reach its goal. Therefore, the EU should be more active and assertive in putting the reform process into action.