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on the approval of the assessment of the Ukraine Plan

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EXECUTIVE SUMMARY

Ukraine's reconstruction, recovery, and modernisation: scene setter

Russia's full-scale invasion of Ukraine in 2022 has brought significant humanitarian, social and economic consequences. The humanitarian and demographic crisis on the back of significant human casualties and approximately one third of people externally or internally displaced is exacerbated by the large-scale destruction of infrastructure and production capacities, a gaping hole in the public finances and a heavy reliance on external support. The economy contracted by 29.1 % in 2022 and rebounded only mildly in 2023. Estimates from the third Rapid Damage Needs Assessment (RDNA3) suggest that direct damage has reached almost EUR 140 billion, requiring an estimated EUR 448 billion for recovery and reconstruction. Economic outlook continues to depend on the course of war, evolution of exports and international donor support.

While the economy has proven to be resilient, it still has a difficult path ahead. Ukraine's reconstruction will require a large-scale capital mobilisation from both the public and private sectors, domestic and foreign, calling for a careful prioritisation of funding. The size and quality of human capital is a critical factor in Ukraine's economic prospects, putting the social and labour market aspects of the recovery in the spotlight. The government's capacity will need reinforcements to ensure optimal absorption of capital and implementation of much-needed reforms, starting from addressing rule of law issues that have plagued the business and investors community long before the war. The overall management of the recovery, reconstruction and modernisation efforts will need to ensure that transparency and accountability will be upheld at all stages.

Ukraine's future is firmly linked to its EU path. In December 2023, EU leaders opened EU accession negotiations with Ukraine following the recommendation of the European Commission. The decision to open accession negotiations with Ukraine is a confirmation of the EU's firm support to Ukraine and its people, and an important step on the road towards a secure and prosperous future.

Overall impact of the Ukraine Plan

On 20 March 2024, Ukraine officially submitted the Ukraine Plan, following several months of preparation and consultations. In accordance with the Regulation (EU) 2024/792 of the European Parliament and of the Council of 29 February 2024 establishing the Ukraine Facility (hereinafter 'the Regulation'), the European Commission needs to prepare an assessment of the Ukraine Plan. The Commission's assessment covers the parts of the Ukraine Plan that are linked to EU support under the Pillar I of the Ukraine Facility. However, the measures discussed in this staff working document are part of a broader effort of the Ukrainian authorities to identify reform priorities and investment needs beyond the Pillar I of the Facility. These reforms and investments will guide the Pillar II (Ukraine Investment Framework) and Pillar III, which will help mobilise private investments and accession assistance and other supporting measures helping Ukraine on its path to future EU membership.

The Ukraine Plan is the country's main tool for ensuring the recovery, reconstruction, and modernisation of the country, while mobilising stable and predictable funding from the EU. The overall objective is to ensure a major reform and investment agenda, while aiding the government to continue the provision of essential public services. These reforms and investments were selected and designed based on the needs, priorities, and capacity of the Ukrainian state. They aim to support economic growth and Ukraine's convergence towards EU income levels and economic, social and environmental standards, ultimately supporting the country on its path towards the Union membership. The Ukraine Plan's goal is to bring together international partners, mobilise donors and private investors, support synergies and facilitate coordination.

The steps identified in the Plan constitute a balanced and well-targeted response to Ukraine's needs, amplifying the country's growth potential in the medium-to-long term. According to the European Commission's simulations, if all proposed reform and investment steps are fully implemented, they have the potential to lift GDP level of the Ukrainian economy by 6.2 % by the end of the Facility and by 14.2 % by 2040. On top of this, a significant part of the funds will be directed for budget support, which is expected to contribute to sustaining macroeconomic stability. These projections are contingent upon Ukraine exclusively benefiting from the implementation of reforms and investments under the Ukraine Facility, isolated from the support from other international donors. The implementation of reforms and investments as part of Ukraine's cooperation with other donors should further accelerate economic growth beyond the scope of current simulations. The Ukraine Plan, serving as "one plan" endorsed by the government, sets out the reform and investment priorities for all donors engaged with Ukraine, providing insight into the supplementary measures Ukraine intends to undertake to lift its economy.

The Facility is expected to contribute to ensuring Ukraine's fiscal sustainability. Internal simulations by the European Commission project that public debt to GDP would be lower by about 10 percentage points compared to an alternative scenario without the Facility. The reforms outlined in the Ukraine Plan aim to increase investments, improve total productivity and economic resilience and, ultimately, boost growth, which will put the economy on a sounder footing. Together with the highly concessional terms of funding which would lower interest payments and debt servicing, this will help support fiscal and public debt sustainability.

Summary of the assessment of the Ukraine Plan

The Plan identifies critical reform and investments steps to boost economic growth, attract investments, and will, if implemented, contribute towards the general and specific objectives of the Ukraine Facility as described in Article 3 of the Regulation. In total, 146 steps (or 151 including those allocated to the exceptional bridge financing) are defined by the European Commission and the Ukrainian Government across 15 growth-enhancing areas that Ukraine will need to fulfil in view of accessing the financing from the Facility's Pillar I. These areas include: i) the highest growth enabling sectors such as energy, agriculture, transport, critical raw materials, and the management of state-owned enterprise; ii) key cross-cutting areas including business environment, financial sector, green transition and environmental reforms and the digital transformation, iii) human capital as a foundational sector with essential elements supporting the broader economic and societal development; and iv) areas needed to ensure core values and good governance including the justice sector, anti-corruption and anti-money laundering, public administration, public financial management and decentralisation and regional development. Each area is described as a standalone chapter in the Plan, containing detailed descriptions of each proposed step, together with a summary table with key information. For each of these sectors, the Plan also proposes an economic narrative explaining the selection of the respective reform area as a major driver for economic growth, a comprehensive reform agenda for the next 4 years, and an overview of the investment needs in the relevant chapters. This narrative will also guide the Facility's Pillars II and III and can guide other international partners in their donor support and in the mobilisation of the private sector. In addition, Pillar I is expected to contribute to increased investment activity through a limited number of targeted public investments in the amount of at least EUR 5.2 billion in the fields of human capital, energy, transport, agri-food, business environment and decentralisation and regional policy.

The Plan is consistent with the general principles described in Article 4 of the Regulation and the principles for financing described under Article 16 of the Regulation. It reflects a whole-of-government approach to key reforms and investment priorities, reflecting reconstruction and modernisation needs in a balanced and holistic way, while staying mindful of being complementary to support provided by other international partners. The Plan proposes several steps to strengthen climate and environmental standards in the country in the dedicated chapter and suggests some form of mainstreaming such actions across several other areas, with a clear goal to ensure compatibility with green transition standards in the Union as well as Ukraine's commitments under international conventions and the 'do no significant harm' principle, to the extent possible in a war-torn country. To achieve these goals, Pillar III under the Ukraine Facility can support Ukraine with technical assistance. There is also a strong focus on social measures, inclusivity and supporting vulnerable groups, guided by the 'leaving no one behind' principle. The Plan also allocates 20 % of the non-repayable financial support referred to in Article 6 of the Regulation amount to the recovery, reconstruction and modernisation needs of Ukraine's sub-national authorities, in particular local self-government. Mirroring the comprehensive approach to the Plan, this allocation to sub-national authorities will be achieved through a combination of the dedicated sub-national steps and the sectoral public investments (energy, transport, human capital), from which parts will be delivered through sub-national authorities, using same principles as set out in the investment and recovery architecture of the Plan.

The reforms and investments envisaged in the Ukraine Plan adequately respond to the general and specific objectives of the Facility Regulation. They aim to address the dire social, economic, and environmental consequences of Russia's war of aggression, while fostering a sustainable reconstruction, stronger resilience, integration of Ukraine in the European and global markets and economic, social, and environmental convergence towards the EU standards. Through its focus on adopting and implementing the political, institutional, legal, administrative, social, and economic reforms it aims to help modernise Ukrainian economy, with a view to future Union membership. The reforms envisioned under the Ukraine Plan also contribute to eight mutually re-enforcing, specific objectives.

The proposed steps are aligned with and reinforce Ukraine's EU accession path and consistent with the objectives of the EU-Ukraine Association Agreement and the Deep and Comprehensive Free Trade Area. The reforms and investments proposed under the Plan aim to foster economic growth. As such, they complement and reinforce the recommendations of the 2023 EU Enlargement report. Most of the chapters have a broad or a partial complementarity with the recommendations set out in the enlargement report. In certain areas, the proposed reforms and investments go beyond the enlargement report, highlighting the growth-enhancing focus of the Plan. The Plan is aligned with the objectives outlined in the Association Agreement with the Deep and Comprehensive Free Trade Agreement, as it helps create the necessary conditions for Ukraine's integration into the EU single market.

The Plan provides a guidance framework for the country to reconstruct, modernise, and recover. *First*, strengthening the pre-war efforts, the Plan drives the modernisation of Ukraine's legal, economic, and political institutions, by strengthening the institutional set up, fostering a green and digital transition, and advancing much-needed structural transformation of the economy. *Second*, it includes a variety of reform measures to ease the business environment and support the private sector and facilitate the integration of Ukrainian businesses into international value chains, critical in sustaining and scaling up the recovery. *Third*, the Plan recognises the critical focus on Ukraine's labour force and human capital, contributing to a sustainable revitalisation of the country's social fabric, aiming to strengthen respect for human rights, including the rights of persons belonging to minorities and gender equality and to produce a more integrated and inclusive society. *Fourth*, the Plan supports the strategic reconstruction of a limited number of destroyed or partially damaged infrastructure assets in key sectors, guided by carefully developed strategic documents and rooted in robust public financial and audit management. *Fifth*, the Plan fosters Ukraine's reconstruction and recovery by integrating environmental, governance, and social elements and ensures, to the extent possible in a context of war or post-war recovery and reconstruction, that all efforts are considering the Do No Significant Harm principle.

For the implementation of the Plan, Ukraine proposes adequate mechanisms and arrangements to protect the financial interests of the EU. The Ministry of Economy, through a dedicated internal structure, will ensure an effective implementation and monitoring of and reporting on the Ukraine Plan. The Ministry of Finance and its structures will provide additional assurance that funds have been used in a way that ensures an adequate level of protection of the financial interests of the EU. The proposed mechanisms should allow the authorities to prevent, detect and correct irregularities, fraud, all forms of corruption, including high-level corruption, conflicts of interest, or any other illegal activities and to effectively investigate and prosecute offences affecting the funds provided under the Facility. The Ukrainian authorities will also ensure due involvement of the Verkhovna Rada and all other relevant stakeholders throughout the implementation of the Plan.

Extensive consultations were held with various stakeholders through the preparation of the Plan. To ensure that whole-of-government priorities are reflected in the Plan, the Ukrainian authorities set up an inter-agency working group coordinated by the First Deputy Prime Minister and Minister of Economy which led the design and development of the Plan. The Ukrainian authorities consulted with key stakeholders and in various formats throughout the various stages of the Plan development, including the Verkhovna Rada, central executive government bodies, regional stakeholders, business sector groups, and civil society organisations. The consultations were extensive and attracted strong participation from the stakeholders. The Ukrainian authorities also consulted with international partners through the Multi-Agency Donor Coordination Platform, dialogues with representatives of the EU Member States during Senior Officials' Meeting and associated expert groups. Consultations have been instrumental in the pursuit of synergies and effective coordination.

1. Introduction

This document provides further details on the Commission's assessment of the relevance, comprehensiveness and appropriateness of the Ukraine Plan submitted to the European Commission on 20 March 2024. The criteria described in Article 18 of Regulation (EU) 2024/792[1] have guided the Commission's assessment of the Ukraine Plan in its entirety as well as in the assessment of the underlying reforms and subsumed reform steps. The context on which the Ukraine Plan was designed is presented in Section 2. The summary of the overall impact of the Plan, including the expected impact on growth, is explained in Section 3. The details on the assessment of the Ukraine Plan are in Section 4.

1 OJ L, 2024/792, 29.2.2024, ELI: http://data.europa.eu/eli/reg/2024/792/oj.

2. Context

This section lays out the context in which the Ukraine Plan has been prepared. It discusses the devastating consequences of Russia's war of aggression as well as its impact on international and Ukrainian strategic priorities, including the Ukraine's EU future and the critical role of international support. It then details the macroeconomic developments since the start of the war, followed by a brief outline of the short-term economic outlook. The last part of section one provides an overview of far-reaching challenges linked to the Ukraine's recovery, reconstruction, and modernisation, part of which the Ukraine Plan aims to address.

2.1 Impact of the war of aggression of Russia

On 22 February 2022 Russia launched an unprovoked and unjustified military aggression against the territorial integrity of Ukraine. Russia's full-scale invasion of Ukraine marked the escalation in an eight-year aggression that began with Russia's annexation of Crimea in 2014, leading to devastating humanitarian, social and economic consequences. To this day, intense fighting, heavy artillery shelling and airstrikes keep causing significant civilian casualties and damage to critical infrastructure and productive assets.

Ukraine's population has been severely affected by the full-scale invasion. Over 20 000 civilian casualties have been reported, including over 10 000 killed according to the UN High Commissioner for Human Rights[2]. As of January 2024, UNHCR data account for 3.7 million internally displaced people and more than 7.3 million Ukrainians who fled the country. More than 6.3 million people have crossed into neighbouring countries including Poland, Romania, Hungary, Slovakia, and the Republic of Moldova. UNHCR estimates that about 14.6 million people in the country will need humanitarian assistance in 2024 to access health and protection services[3]. The large-scale destruction of infrastructure, including targeting of utility infrastructure, has affected the ability of people to access basic needs, such as electricity, water, heat, food, healthcare, and education.

The war has had a devastating impact on Ukraine's productive capacity and economic activity. Real GDP contracted by 29 % in 2022, the largest contraction in Ukraine's contemporary history, due to the incapacitation of productive capacity in the occupied and areas where combat occurred, and a large-scale displacement of people. Macroeconomic stability came under severe pressure with rapidly deteriorating public finances, surging inflation, and steep drop in foreign currency inflows, mitigated only by the authorities' resolute response and the strong support of the international community. Ukraine's economy recovered to some degree in 2023 with a modest single-digit growth rate, improved foreign exchange reserves, and a sharp decline in inflation. Further details on the economic situation are presented in the next sub-section.

[2] Office of the United Nations High Commissioner for Human Rights, *Ukraine: Protection of Civilianss in Armed Conflict, December 2023 Update,* 15 January 2024.
[3] United Nations High Commissioner for Refugee,, *Ukraine Refugee Crisis : Aid, Statistics and News*, January 2024.

Despite these challenges, Ukraine's economy has showcased a remarkable resilience. This is attributable to authorities' rapid response, willingness to pursue politically difficult reforms, significant perseverance of Ukrainian people and strong international support. The financial sector has been particularly strong, helped by the National Bank of Ukraine's (NBU) actions to curb external pressures and maintain stability of the exchange rate, and supported by hard-won structural reforms before the war. As a result, the financial sector remained stable and a run on the banks was contained. As most banks continued their business activities with little functional limitations to their operations, businesses were able to access crucial financing. Public services, albeit more limited in coverage due to more limited capacity in the public administration, were able to continue their operations, as tax- and social security payments continued. Notwithstanding these positive developments, much remains to be done to ensure a prosperous recovery.

The economic legacy of the war will be felt in the short to medium-term. In February 2024, the World Bank together with the Ukrainian authorities, the European Commission and the United Nations presented the updated assessment of damages covering a full year of the Russian aggression. The assessment found that the estimated overall reconstruction needs of Ukraine in 2024-2033 amount to EUR 448 billion.

Restoring the many levels of the country's social fabric and living standards will be the key tasks for years to come. On one side, the Russian aggression has contributed to the solidification of a sense of national identity and community. On the other side, it led to severe social disruption caused by military conscription, large-scale displacements inside and outside the country, impact of collective trauma and its unequal distribution, and severely deteriorated living conditions for major segments of the society. According to recent estimates, poverty has increased from 5.5 % to 24.1 % in 2022, pushing an additional 7.1 million people into poverty, with greatest effects felt by women, children, people with disabilities and the elderly[4].

Russia's war of aggression has had a global impact. The invasion led to a deterioration of the world macroeconomic outlook and sent shockwaves across financial and commodity markets. The European energy markets were affected by rapidly increasing prices, leading to a reorientation of global natural gas flows and a renewed push towards energy diversification. Supply chains disruption and severe price shocks in food, energy, and fertilizer markets triggered a food security crisis in developing, countries dependent on Ukrainian agricultural exports. In this context, the EU and Ukraine established the vital Solidarity Lanes[5] aimed at facilitating Ukraine's agricultural export and entered into an agreement to temporarily allow bilateral transport rights to Ukrainian and EU road hauliers to each other's territories[6]. By facilitating two-way trade, Solidarity Lanes have helped not only to safeguard global food security but to lay the foundations for enhanced connectivity, developing new transport routes to access global markets. Since May 2022, these alternative logistics routes via rail, road, and

[4] The World Bank, The Government of Ukraine, The European Union, The United Nations, Ukraine Rapid Damage and Needs Assessment, February 2024

[5] Commission Communication An action plan for EU-Ukraine Solidarity Lanes to facilitate Ukraine's agricultural export and bilateral trade with the EU COM/2022/217 final

[6] Agreement between the European Union and Ukraine on the carriage of freight by road, ST/10151/2022/INIT, OJ L 179, 6.7.2022

inland waterways have been a lifeline for Ukraine's economy. The cumulative trade value via the Solidarity Lanes during the period to February 2024 is estimated at approximately EUR 143 billion. Ukraine's exports via the Solidarity Lanes amounted to approximately EUR 47 billion, highlighting the resilience of the country's export sector.

The EU's priorities were also reviewed following the return of war to the European continent. Russia's invasion of Ukraine led to a considerable increase in defence spending and production throughout the Member States, as well as a renewed interest for a strengthened European security architecture. As a first emergency response, the EU adopted two programmes to increase Member States cooperation on common procurement of the most urgent and critical defence products and to urgently support the ramp-up of EU's manufacturing capacities for artillery ammunition and missiles. Building on these achievements, the Commission proposed to continue providing financial support for the reinforcement of the European Defence Technological and Industrial Base until 2027 through the European Defence Industry Programme (EDIP). In this context, and as a part of the EDIP Regulation, the EU also proposed to establish a defence industrial cooperation programme with Ukraine with the view to recovery, reconstruction and modernisation of the Ukraine Defence Technological and Industrial Base (the Ukraine Support Instrument).

The European Council has granted Ukraine EU candidate status and decided to open accession negotiations. Several days after the start of the invasion, Ukraine applied for EU membership. The European Council granted Ukraine candidate status in June 2022, upon the fulfilment of the conditions specified in the Commission's opinion on the membership application. In December 2023, EU leaders decided to open accession negotiations with Ukraine following the recommendation of the European Commission. The decision to open accession negotiations with Ukraine is a confirmation of the EU's firm support to Ukraine and its people, and an important step on the road towards EU membership.

The international community, led by the G7, strengthened efforts to improve coordination of international assistance to Ukraine. The Multi-agency Donor Coordination Platform for Ukraine (MDCP) was established in January 2023, co-chaired by Ukraine, the US, and the European Commission. The Platform's mandate is to coordinate support for Ukraine's immediate financing needs and future economic recovery and reconstruction across different sources and established instruments for financing in a coherent, transparent, and inclusive manner, complementing existing tracks. The MDCP brings together Ukraine, the G7 countries and the EU as well as partners from international financial institutions and organisations. As of February 2024, it includes four additional temporary members (Republic of Korea, the Netherlands, Norway, and Sweden) as well as six observers (Denmark, Estonia, Latvia, Lithuania, Poland, and Spain).

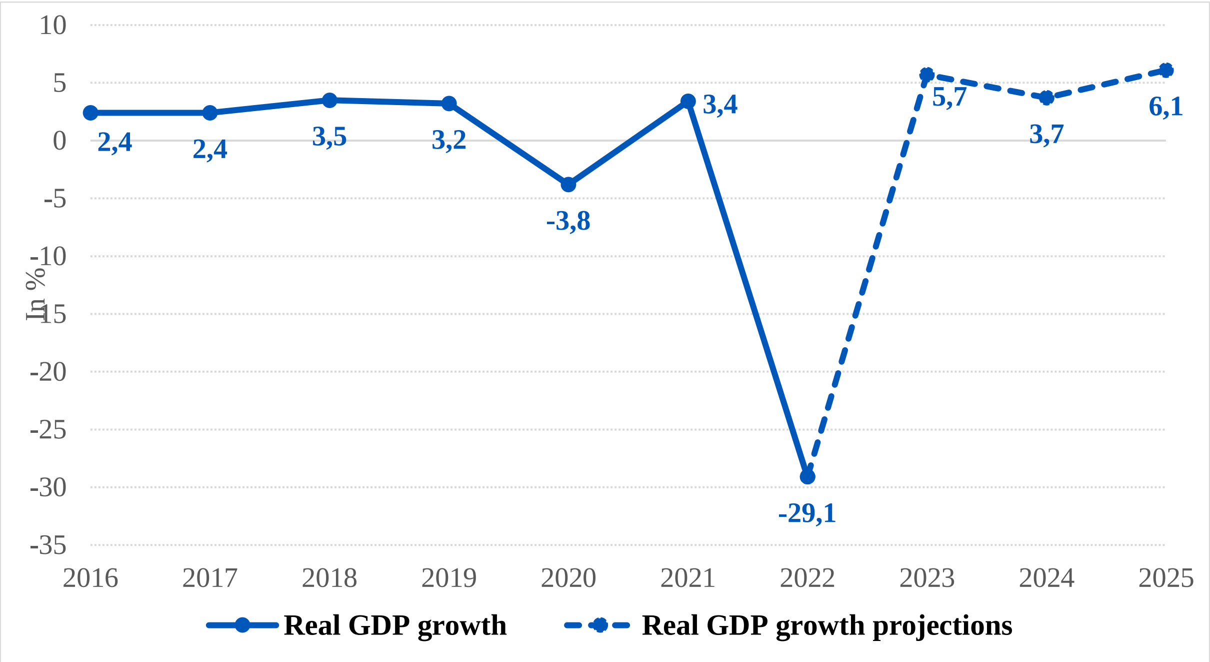
International support was critical in ensuring the stability of the country. Since the beginning of the war until early April, international partners have committed around EUR 75 billion in concessionary budget financing, out of which the EU contributed with around EUR 31 billion from the EU budget. The EU support was done through various instruments, including macro-financing assistance of various forms, financing under the Neighbourhood, Development and International Cooperation Instrument – Global Europe and a first tranche of exceptional bridge financing under the Ukraine Facility. At the onset of the Russian's aggression, Ukraine, and the International Monetary Fund (IMF) agreed a 48-month Extended Fund Facility (EFF) with access to USD 15.6 billion. In addition, international partners have committed significant amounts in project financing and technical assistance.

2.2 Macroeconomic outlook for Ukraine's economy

The pre-war economic growth was mild because of the pandemic. Following a recession of -3.8 % in 2020, GDP grew by only 3.4 % in 2021. Unemployment rate in 2021 slowly grew to 9.9 %, while nominal wages moderated their annual growth to 19 % by the end of the year. The inflation rate hiked and reached 9.4 % up from 2.7 % a year earlier. The general government deficit dropped from 5.2 % of GDP in 2020 to 3.4 % in 2021. Gross public debt reached 47.7 % of GDP, down from 60.6 in 2020, largely reflecting a denominator effect according to the European Commission 2023 Autum Forecast[7]. The large current account surplus in 2020 of 3.3 % turned into a 1.9 % deficit in 2021. Official reserves started declining in mid-November 2021 due to cumulative foreign exchange interventions in support of the domestic currency. Nonetheless, the outlook of credit ratings remained unchanged throughout 2021.

Russia's war of aggression has had a devastating impact on the economy. The economy contracted by 29.1 % in 2022 (see *graph 1*), albeit lower than forecasted at the onset of the invasion. The drop in output was particularly severe in the first half of 2022, before a relative stabilisation towards the end of the year. The reduction in GDP in 2022 was primarily linked to the incapacitation of productive resources within territories either occupied or adjacent to the frontlines as well as to the large-scale displacement of people, industry, trade, agriculture, and transportation suffered the largest decline in economic output sector-wise.

Graph 1: Real GDP growth and projections



Sources: National Bank of Ukraine (2024), European Economic Forecast (Autumn 2023)

Most components of the GDP have seen a major drop in 2022. Against the backdrop of population displacement, high inflation, and reduction of the labour force, private consumption

[7] European Commission, European Economic Forecast Autumn 2023, Institutional paper 258, November 2023, ISSN 2443-8014

and investment dropped by some 30 % and 35 % in 2022, respectively[8]. Net exports also worsened due to logistical bottlenecks on exports and by refugees' spending abroad, which cushioned the fall in imports. Only public consumption, stimulated by war-related expenditure, had a small positive contribution. Although the construction sector suffered the most with a 68 % decline in output, the hardest blows came from the major contractions in industry (38 %), trade (31 %), agriculture (28 %), and transport (44 %). Military actions, magnified by the obstructions at seaports and electricity shortages, led to a 35.2 % decrease in exports of goods, reducing foreign exchange earnings. Imports also experienced a significant decline of around 18.4 %.

Both inflation and unemployment increased significantly after the invasion. The labour market remained weak and inefficient in matching demand and supply. A lot of workers left Ukraine and the deficit of skilled labour have become one of the most acute problems for local firms. The unemployment rate almost doubled year-on-year to 18.6 % in 2022. Inflation reached 22.6 % in December 2022, driven by supply chain disruptions and rising food and energy costs. Due to the anti-crisis measures of the national central bank it was possible to ensure relatively moderate inflationary dynamics and to maintain price and financial stability. The NBU introduced a fixed exchange rate regime, sharply raised the key policy rate to 25 % from 10 %, and imposed restrictions on the FX market, banning most cross-border foreign currency payments to balance the economy and to protect financial system.

Public finances deteriorated markedly in 2022 following Russia's unjustified invasion, both due to the cost of the conflict and its impact on economic activity. The 2022 budget deficit reached 25 % of GDP (excluding foreign grants). Thanks to the latter, which represented around 9.4 % of GDP, the general government borrowing was contained to 15.7 % of GDP in 2022. Driven by skyrocketing spending on defence and public order, overall public expenditure increased by 55 % in 2022. While tax revenues contracted slightly, total public revenues increased by 31 %, primarily thanks the large inflow of foreign grants. Driven by sizeable borrowing and reflecting the steep drop in nominal GDP, total public debt reached 78.5 % of GDP in 2022.

The banking sector was resilient in the face of war. Thanks to swift emergency measures the sector remained stable, liquid, and profitable, though risks remain significant. While the loan portfolios shrank, deposit growth has been positive, contributing to the liquidity of the sector. Deposits recovered quickly and ended up the year growing by 46 % compared to February 2022. Loans decreased by 10 % and only started recovering in June 2023. Losses of banks due to invasion were moderate. The share of non-performing loans (NPLs) increased markedly but 60 % of the financial difficulties of borrowers were not directly caused by the occupation or destruction. About 75 % of the NPLs are concentrated in the state-owned banks according to the data of the National Bank of Ukraine.

Since 2023, the Ukrainian economy has been recovering mildly. The rapid revival of the energy system that had been particularly targeted in Russian drone and missile attacks, as well as some resilience in the labour market, boosted real GDP. Thanks to government stimulus,

[8] European Commission, European Economic Forecast Spring 2023, Institutional paper 200, May 2023, ISSN 2443-8014

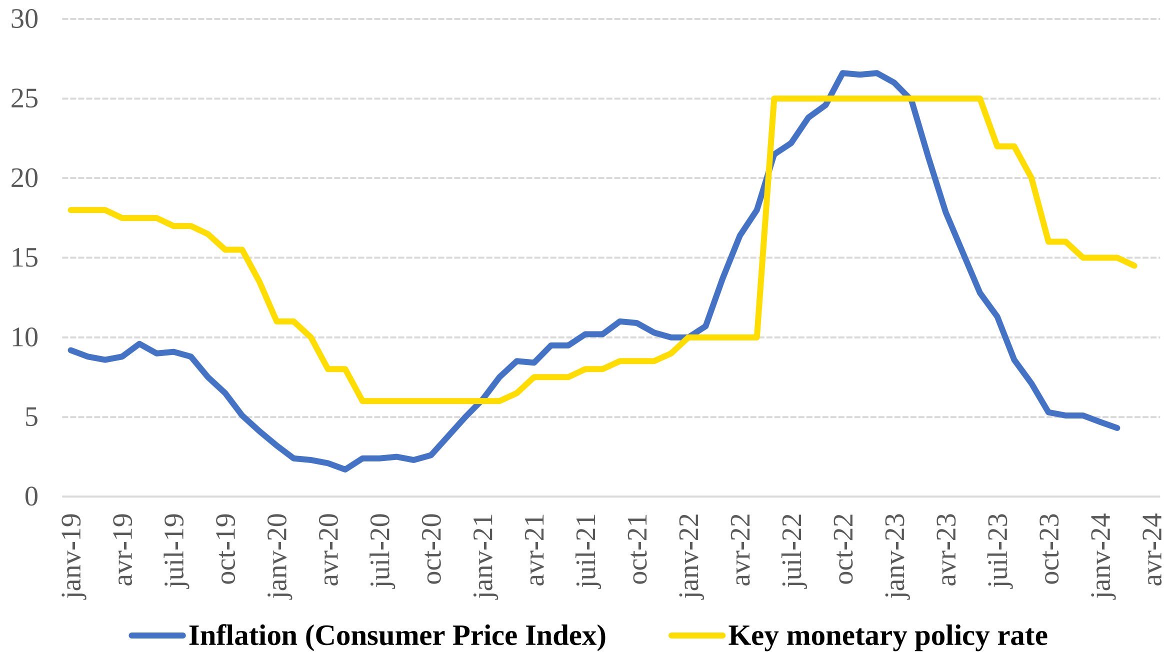
falling inflation, an exceptionally good harvest and measures taken to improve export routes, real GDP grew by around 5.7 % in 2023. In early 2024, however, the Ukrainian economy is showing some moderate signs of a slowdown. In December 2023, the NBU's index of business expectations[9] (BAEI) dropped significantly to 41.0, from 49.1 in November 2023, significantly below the 50-mark threshold, on the back of the re-escalation of the Russian attacks and growing business pessimism, however in February 2024 the BAEI was 47.5, up from 41.0 in January.

Mismatches in the labour market keep the unemployment rate high. The labour market has seen signs of stabilisation since the beginning of 2023, amid lower net migration outflows and a partial return of internally displaced persons. Nevertheless, the still high level of displaced people abroad and within Ukraine continue to put pressure on the labour market and lead to mismatches across regions and sectors. According to the European Commission 2023 Autumn forecast the unemployment rate is expected to remain high due to further destruction of production facilities, especially in those regions where hostilities are taking place. However, it should decline to around 14.5 % by 2025. Labour shortages and a decline of inflation should lead to some recovery in real wages, particularly in 2025.

Inflation has eased visibly, partly thanks to decisive policy action by the National Bank of Ukraine. Consumer price inflation eased considerably throughout 2023, reaching a two-year low of 5.1 % in December 2023, down from 26.6 % in December 2022. This decrease was mainly driven by slower growth in food and transport prices. Core inflation also moderated to 4.9 % in December 2023, from 22.6 % in December 2022, driven by strong base effects, a restrictive monetary policy by the NBU, and more contained inflation expectations amid a stronger hryvnia exchange rate. These positive developments allowed the NBU to start easing monetary policy from 25 % in July 2023, to 14.5 % from 15 March 2024 (see also *graph 2*), and to gradually remove some of the foreign exchange restrictions introduced in the aftermath of the invasion. As of 2 October 2023, the NBU shifted to a managed float system for the hryvnia[10].

[9] Press release by the National Bank of Ukraine, 1 February 2024 Businesses Downgrade Their Expectations for Their Economic Performance – Business Outlook Survey in January Businesses (bank.gov.ua)
[10] Press release by the National Bank of Ukraine, 2 October 2023 *NBU Introduces Managed Flexibility of Exchange Rate to Strengthen Resilience of the economy and the FX Market* (bank.gov.ua)

Graph 2: Evolution of inflation and of the NBU Key Monetary Policy Rate



Source: National Bank of Ukraine

The current account turned into a sizeable deficit in 2023 after posting a record surplus in 2022. Despite a sizeable trade deficit of EUR 12.9 billion, the current account recorded a surplus of almost EUR 7.4 billion (5.4 % of GDP) in 2022, thanks to sizeable positive net income from abroad. In 2023, the current account turned into a deficit that reached almost EUR 8.3 billion reflecting a sizeable deterioration in the goods trade balance, which recorded a deficit of EUR 23.6 billion due both to a sustained increase in imports and a fall in exports, which remains 60 % below pre-war levels. Exports were affected by disruptions to the export routes in the Black Sea, particularly after Russia terminated the Black Sea Grain Initiative.

The country's international trade deficit is increasing, thereby challenging short-term recovery and long-term sustainability. In 2022, external trade in goods and services deficit increased to around EUR 24 billion, up from EUR 2.5 billion in 2021. With domestic consumption mostly catered to by foreign goods and services, there is limited room for domestic companies to build up their businesses. These higher costs of entry, paired with uncertainty and labour shortages, challenge the ability of domestic firms, particularly SMEs, to scale up domestic production. In the long-run, unsustainable net exports could imply losses in domestic productivity and, ultimately, competitiveness.

The deficit continued to increase in 2023 on the back of higher defence expenditure. Budget deficit reached close to 19 % of GDP in 2023. Higher revenues from both tax and non-tax revenues in 2023 were more than offset by soaring expenditures, particularly on defence. Revenue growth was driven by non-tax revenues, including income from property and business activities, and a return to pre-war excise duty and VAT rates for motor fuels starting from July. Public debt reached around 87 % at the end of the year.

Having lost access to international debt markets, Ukraine continues to rely on foreign assistance. Net budget financing in 2023 comprised EUR 28.4 billion in external (loan) financing (17.5 % of GDP), and EUR 14 billion through the domestic bond market, which increased markedly towards the end of the year. Total grants from third countries and international institutions amounted to roughly EUR 11 billion (6.8 % of GDP). Public gross financing needs were estimated at around 25 % of GDP in 2023 and 2024, before decreasing to less than 20 % of GDP by 2025. Since 2022, Ukraine has not resorted to monetary financing, which has a been an important factor driving the fall in inflation. In 2023 international reserves increased by 42 % compared to 2022 thanks to unprecedented financial assistance from international partners[11].

The short-term economic outlook largely depends on the course of the war, evolution of exports, and donor support. Under the assumption that conditions are in place for reconstruction efforts to start from the beginning of 2025, including the reforms and investments underpinning the Ukraine Facility, the European Commission 2023 Autumn Forecast projects real GDP growth to remain moderate in 2024, at 3.7 %, before significantly picking up to 6.1 % in 2025. Private consumption will likely become the main growth driver, especially in the short term, as consumers continue to adapt to the war environment and falling inflation provides some support to real incomes. Private investment is expected to remain subdued, but funding made available through the Ukraine Facility and Ukraine’s EU candidate status could improve this outlook. A surge in public investment to kickstart the reconstruction will likely lead to strong total investment growth, particularly in 2025. As supply disruptions ease and Ukraine expands the use of alternative export routes, exports are projected to gradually increase but net exports are set to contribute negatively to growth due to the surge in domestic import-driven demand. The general government deficit is expected to decrease to 15.7 % of GDP in 2024 (20.4 % of GDP excluding grants), and to further decline to 8.1 % of GDP in 2025 (10.2 % excluding grants), on the back of reduced war-related expenditures and higher nominal GDP growth. Public debt is expected to reach around 98.5 % by 2025.

[11] Press release by the National Bank of Ukraine, 5 January 2024 *Ukraine’s International Reserves Increased by 42 % to over USD 40.5 Billion in 2023* (bank.gov.ua)

2.3 Challenges linked to Ukraine's recovery, reconstruction, and modernisation

The reconstruction and recovery path of Ukraine should lead the country towards a modernised and sustainable nation. While the country's economy has proven to be very resilient and starts recovering, it still has a difficult path ahead. In parallel to fighting the war, the country will have to engage in comprehensive reform efforts and extensive reconstruction. Many challenges must be overcome, with the support of the European Union and the other international partners.

External funding is needed to sustain the basic functions of the Ukrainian State. With war-related expenditure comprising of a large fraction of Ukraine's state budget, not enough is left for maintaining the functioning of governmental institutions and public services. Non-defence related budgetary needs for external financing for 2024 alone are estimated to be close to EUR 38 billion in 2024, including expenditures on education, social protection, and public administration. This includes, amongst others, salaries for state employees, debt repayment and other administrative costs. Consistent inflow of foreign funds and crucial for maintain the functioning the Ukrainian State.

Ukraine's reconstruction will require a large-scale capital mobilisation. Recent estimates suggest that recovery needs up to 2027 amount to roughly EUR 448 billion[12]. With the fiscal deficit deep in double-digit, public debt close to 90 % of GDP and financing dependent on foreign grants and concessional loans, the fiscal envelope is too tight to cover the reconstruction bill. The domestic private sector is weakened by the war and foreign capital inflows are limited as private investors are not equipped to cope with the continuous destruction and uncertainties of war. Against this backdrop, Ukraine's ability to finance its own recovery needs is limited. While the EU, alongside international partners, is providing a comprehensive financial support package, reconstruction at a scale and long-term recovery will require significantly higher funding, both from the public and the private sectors.

Recovery efforts require an increased labour force. Due to the war, many Ukrainians have been displaced, losing their homes to destruction. Many others, particularly young men, fight against the Russian aggressor. A large number has also fled the country, many of whom are women and children, benefitting from the temporary protection within the European Union. These factors significantly reduce the available labour force, resulting in limited implementation capacities and a potential triaging of reconstruction efforts. On top of this, some of those remaining in Ukraine may first require support for physical injuries or mental health issues, thus reducing the overall productivity of the labour force. Nevertheless, those remaining will have to shoulder the majority of ongoing reconstruction efforts, while long-term recovery of the country critically depends on returns of the population and increasing the labour market participation of women and other traditionally less active parts of the active population. Introduction of modern technologies and more efficient production processes would also help enhance productivity in lieu of the missing labour.

[12] The World Bank, The Government of Ukraine, The European Union, The United Nations, *Ukraine Rapid Damage and Needs Assessment, February* 2024.

Ukraine's labour force faces a scarcity of skills required for Ukraine's recovery, reconstruction, and modernisation process. Even before the war, Ukraine's labour market has faced significant challenges, including skills mismatches, low women labour force participation, and outdated education and training systems. The war has further exacerbated and complexified the issue, having drastically changed the structure of the population and the labour market. While the level of unemployment is higher than pre-war, there are unfilled vacancies in key sectors and private businesses point to the shortage of skilled workers as their primary challenge. In addition to a pre-war structural qualifications mismatch, this is also attributable to emigration of skilled workers, military drafting, and internal displacement as internally displaced persons (IDPs) don't always find jobs in their area of expertise. Furthermore, the education system has not yet adjusted to the change in the market demands – a smooth economic recovery will require the training or re-training of many specialists in sectors such as construction, manufacturing, ITC, agro-industry, energy, transport, or the military-industrial sector. At the same time, education and training institutions at all levels need to provide adequate and labour-market relevant vocational education and training, including by ensuring adequate conditions including shelters, improving their outdated equipment, teaching methods, and recruitment of qualified teachers. Thus, there is a large need for upskilling programmes and large-scale education reforms, in particular by tapping into the potential of women in the labour market.

The government's capacity to implement reforms will be key and will need reinforcements. Despite showing resilience during the war, public sector reforms haves slowed, particularly in merit-based recruitment and selection, job classification and salary reform. This slowdown was an impact of war, as around 18 % of public sector vacancies have remained unfilled, creating large human resource constraints. This, in turn, significantly reduces the government's absorption capacity for reforms. It also increases dependence on foreign donor-funded structures embedded in the public administration, which is not sustainable in the long-term. These challenges also extend to sub-national governments, state-owned enterprises, and other public bodies outside the central government. Therefore, there is a need for expertise and technical assistance to increase capacity at all levels of administration and help all public authorities advance and implement reform.

Despite significant improvements in the recent years, the rule of law situation in the country is described as one of the key weaknesses impeding a swift economic growth. Since the Revolution of Dignity in 2014, Ukraine undertook a series of reforms in the justice sector aimed at the consolidation of the rule of law and making the judiciary more independent, transparent, and efficient. However, multiple challenges remain, and they are further exacerbated by the ongoing Russian military aggression. The judicial system suffers from shortage of judges, low levels of public trust, poor management of resources and insufficient uniformity of court practice. E-justice solutions, enforcement of court decisions and use of modern insolvency tools need significant improvement. Ukraine has taken various anti-corruption measures which have already started delivering results. However, further progress in anti-corruption and anti-money laundering is needed for Ukraine's successful recovery, reconstruction, and modernisation. A strong institutional and an enforceable legislative framework to effectively prevent and combat corruption and an effective anti-money laundering system are paramount for tackling economic crimes, preventing fraud and mismanagement of funds in the context of reconstruction and maintaining financial and political stability. The independence and capacities of the key anti-corruption institutions in Ukraine need further strengthening capacities to ensure full institutional anchoring and their long-term and sustainable performance.

Ukraine will need to ensure an inclusive and sustainable reconstruction. The reconstruction will require an efficient co-ordination and cooperation between different levels of government in a whole-of-government approach with a clear distribution of roles and responsibilities between all institutions involved in the reconstruction process at national, regional, and municipal level. In the wake of the decentralisation reform, territorial communities have taken on several key responsibilities for essential functions and services. Hence, the territorial communities will be key drivers of Ukraine's reconstruction and modernisation, and they will need to have a leading role in the recovery process.

Planning and decision-making of the recovery, reconstruction, and modernisation need predictability. Currently predictability in planning is constrained by a high number of uncoordinated strategic planning documents at all government levels, and particularly at the local one. The roles and responsibilities of the stakeholders in the reconstruction process are also not clearly defined. The Ukrainian authorities are currently undertaking important steps to resolve these challenges: an updated State Regional Development Strategy as the main vehicle for a coordinated approach to regional and local growth and reconstruction and a Public Investment Management Roadmap outlining the institutional set-up of the recovery and reconstruction process. Further efforts are needed to define the roles and responsibilities of territorial communities and increase their capacity.

Prioritisation of funding will be critical. For large-scale reconstruction projects of national and regional importance, Ukraine will need to prioritise the limited funding according to objective needs, policy preferences and project maturity. This will require putting in place structures with an appropriate prioritisation methodology (e.g., a sectoral single project pipeline). Such a methodology should integrate relevant EU standards and regulations on key areas such as environmental and social impact, sustainability, inclusivity, and accessibility to mitigate the risk of creating stranded assets as Ukraine advances in its EU path. The requirements set down by this methodological approach will also have to be reconciled with the urgency of immediate reconstruction needs in the context of the ongoing war.

Transparency and accountability will need to be upheld at all stages of the reconstruction effort. This requires robust monitoring and control arrangements, but also sustained participation of civil society at national and sub-national level. One of the main challenges in this regard is to create interconnected systems that ensure open access and the ability of institutions and citizens to monitor. Building on the country's proven strength in digital innovation, Ukraine is currently developing a digital ecosystem which aims at meeting all these requirements using a single platform.

While martial law is necessary in the context of the war, it should not be a reason not to uphold high standards. A prolonged application of the martial law beyond the timeframe deemed necessary by the evolution of war would reduce business certainty, thereby posing challenges for Ukraine’s recovery. While the martial law is still in force, sustainable reforms should be conducted in alignment with EU standards, that is, via democratic procedures, and ensuring the full alignment with EU values and standards.

3. Overall objective of the Ukraine Plan

The Ukraine Plan is the government's main tool for ensuring the recovery, reconstruction, and modernisation of the country, while mobilising stable and predictable funding from the EU. The Plan is designed as a driver of the government's growth-enhancing reform agenda over the next four years. As reconstruction and recovery cannot wait for the war to finish, there is a need to move from short-term emergency support to a medium-term funding and recovery strategy. Predictability and stability of EU funding, a key anchor for Ukraine's geopolitical and economic future, will not only demonstrate the EU's steadfast support, but also serve as a point of stability in a highly uncertain environment. In 2021, before the war, Ukraine's living standard was at 29 % of the EU average.[13] The Plan has the potential to drive economic growth in the next years and help Ukraine catch up peer countries in the short-term and converge towards the EU average in the medium-term. To this end, the reforms and investments proposed in the Plan are not only to? be feasible, but also ambitious enough to facilitate structural transformation of the economy to support Ukraine's EU future.

Pillar I of the Ukraine Facility makes available to Ukraine a total amount of EUR 38.27 billion over four years, including via exceptional bridge financing. The exceptional bridge financing is provided to Ukraine through a different financing instrument. To receive that funding amounting to up to EUR 6 billion, Ukraine committed to 5 policy conditions and certain reporting requirements; the first instalment disbursed in March amounted to EUR 4.5 billion, while a next tranche of EUR 1.5 billion is expected to be disbursed to Ukraine in April, subject to the fulfilment of the conditions established in the Memorandum of Understanding concluded between the European Commission and the Government of Ukraine. To receive the rest of the funding under Pillar I, as described in the Plan, Ukraine proposes 146 quantitative and qualitative steps calibrated over four years. The EUR 32.27 billion, out of which EUR 5.27 billion in non-repayable support and EUR 27 billion in loans, will be disbursed through pre-financing and 15 payment instalments until 2027, the latter being contingent on fulfilment of the relevant steps.

The overall objective is to ensure a major reform agenda while aiding the Ukrainian authorities to continue the provision of essential public services. As of December 2023, based on conservative estimates of GDP growth, Ukraine's uncovered external funding needs (i.e., not covered by donors or institutional investors) in 2024-2027 stand at EUR 72 billion, while the government's external funding needs amount to EUR 57 billion[14]. The Ukraine Plan and the funding attached to it are critical to ensure the basic public services are provided in the short term. At the same time, the Plan will ensure the implementation of key, forward-looking reform and investment activities that will support a sustainable economic growth while helping Ukraine advance on its EU path. It will help Ukraine transition towards a functioning market economy with the capacity to cope with competition and market forces, while ensuring the

[13] European Commission, DG Neighbourhood and Enlargement Negotiations, *EU Enlargement Package – Ukraine*, 2023
[14] International Monetary Fund, *Ukraine Country report n.23/399*, Second review, December 2023

stability of institutions guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities.

Ukraine has proposed carefully calibrated and sequenced reforms and investments to achieve the Plan's objective. These reforms and investments were selected, designed, and distributed throughout the four-year timeframe of the Plan, based on the needs, priorities and capacity of the Ukrainian state, and its vision of a future Ukraine as member of the Union. The Plan is expected to contribute positively to GDP growth, stimulate economic activity and set Ukraine on a path to longer term sustainable prosperity.

The Ukraine Plan aims to reinforce the country's needed efforts in the enlargement track. The key focus of the reforms and investments proposed in the Ukraine Plan is to spur economic growth. As such, they are meant to complement the recommendations under the EU Enlargement report and, at times, reinforce the critical steps. The same approach is taken with respect to the reforms proposed by the other international partners in their financing agreements with Ukraine. The Ukraine Plan is also consistent and reinforces the objectives of the EU-Ukraine Association Agreement.

The proposed reforms and investment have a significant growth-enhancing potential. If implemented timely and in line with the provisions of the Plan, these reforms and investments will lead to: i) an increase in business activity, including exports, as a result of a more dynamic private sector, direct support to firms and increase in the level of investments; ii) an increase in the labour force, as a result of initiatives such as early childhood education and care, investments in safe and quality education, and skills upgrading programmes, including for the displaced persons outside Ukraine, and supported by a more buoyant private sector; iii) an improved infrastructure as a result of the implementation of investments under the Plan, and better planning and prioritisation of priorities in the transport sector; iv) an improved energy sector integrated with the EU Single Market; v) an increased fight against corruption and money laundering, and a more efficient judicial sector; vi) improved capacity and governance in the public administration and state-owned enterprises. The proposed investments are directed towards key sectors driving the economic growth, such as business environment, human capital, energy, and transport. The Plan's reforms and investments will have an immediate socio-economic effect but will also influence Ukraine's growth beyond the timeframe of the Facility.

The Ukraine Plan seeks to bring together international partners and help channel support to the whole-of-government priorities in a coordinated fashion. By avoiding duplication in the Plan preparation process and presenting a single integrated Plan, Ukraine hopes to facilitate a clear communication of its priorities as well as effective coordination and implementation. The fulfilment of the reforms and investments in Plan unlock financial support under Ukraine Facility but the Plan includes broader reform priorities and highlights the need for additional capital mobilisation beyond the Ukraine Facility. These reform commitments and investment priorities are the result of a whole-of-government approach, also reflecting the reform priorities of the key international donors. Therefore, the Plan can be used to ensure synergies across the international partners in providing support to Ukraine.

Growth potential of the Ukraine Plan

The reforms and investments in the plan constitute a balanced and well-targeted response to Ukraine's recovery and reconstruction needs, amplifying the country's growth potential in the medium-to-long term. The reforms included in the plan aim to enhance administrative efficiency, improve government effectiveness, and foster a more conducive business environment – all of which have the potential to contribute to Ukraine's recovery and reconstruction, while addressing Ukraine's pre-existing bottlenecks to economic growth. In addition, the Plan includes investments in human capital, including on safe and quality education, as well as targeted measures to revitalise the agricultural, energy and transport sectors. According to internal simulations[15] by the European Commission, the reforms and investments have the potential to boost the Ukrainian economy by 6.2 % already by the end of the duration of the Facility, under the assumption that all the reforms and investments are fully implemented by then. In the medium term, GDP could increase by 14.2 % in total by 2040, when compared to a scenario without the Ukraine Plan (the 'no-Plan' scenario), as the impact of the reform measures takes hold. Additionally, a significant part of the funds will be directed for budget support, which is expected to contribute to sustaining macroeconomic stability but has not been directly accounted for in the simulations.

Measures to enhance the judicial system and strengthen the anti-corruption framework together with, range of business-friendly measures are expected to have a positive effect on economic growth and the business environment. Long-standing weaknesses in the business environment, including high levels of corruption, inefficient contract enforcement and the prevalence of market dominance, have contributed to weak private investments and entrepreneurship already before the war, hampering economic growth. The plan aims to tackle some of these challenges, in particular by strengthening the role, capacity and efficiency of key anti-corruption institutions. The judicial system is also set to benefit from streamlined judicial selection processes and efficiency improvements, which should contribute to transparency and legal certainty – key aspects of a well-functioning business environment. Additionally, the plan is expected to take steps to reduce state ownership in key sectors such as banking, which is characterised by a strong state footprint, as well as to continue improving the governance of SOEs. The regulatory framework is set to be improved by continued deregulation efforts, improvements in the state-aid legislation, as well as through measures to align the legal framework with the EU, particularly in relation to public procurement rules. These reforms

[15] The simulations are based on a growth-accounting framework, adding a Real Business Cycle (RBC) style general equilibrium feedback mechanism. The framework decomposes GDP into inputs, namely private and public capital, labour, and productive efficiency, also known as total factor productivity (TFP). By adding these factors together, and particularly the impact of the plan on these factors of production in the future, we estimate the impact of the plan on Ukraine's economy until 2040. Due to methodological complexities, not all policy areas from the Ukraine Plan are not part of the modelling, despite their potential to increase GDP.

The main impact of the Plan on GDP growth comes from the reforms, which raise TFP and labour supply. These are expected to increase GDP by 5.3 % by 2027, and 13.7 % by 2040, under the assumption of their full and timely implementation, including those reforms related to strategies or action plans. This effect is primarily driven by reforms that impact indicators related to Government Efficiency, Regulatory Quality and Control of Corruption, accounting for over 11 % of the overall GDP boost. Additionally, public investments in the Plan raise GDP by 0.9 % relative to the no-plan scenario by the end of the duration of the Facility. This effect (due to having expanded the supply capacities of the Ukrainian economy) persists long after public spending from the Facility ends, being still at 0.5 % in 2040. The implied cumulative public investment multiplier (i.e., without the TFP and labour supply shows), is 2.8 after 10 years, and 4.6 after 15 years.

collectively aim to create a more transparent, dynamic, and competitive business environment that is conducive to economic growth.

Reforms to enhance government effectiveness are expected to increase the transparency, efficiency and responsiveness of public administration, fostering an environment more conducive to public and private investment. Ukraine's public administration has struggled to improve its inefficiency and transparency, which has weighed on investor confidence, regulatory quality, and the allocation of resources. The plan aims to improve government effectiveness by aligning the Ukrainian legislation with the OECD principles of good public administration, as well as by enhancing merit-based recruitment at different levels of government. In addition, several reforms in the plan aim to improve the management of government finances by introducing spending reviews, establishing a medium-term state debt strategy, improving public investment management, and introducing audits of budgets (for SOEs, local authorities, and off-budget funds), thereby increasing the transparency and reducing opportunities for mismanagement that have historically eroded economic performance. The reforms in the plan also aim to improve the governance and effectiveness of key institutions such as the Economic Security Bureau of Ukraine (ESBU), as well as introduce measures to improve digital / ICT uptake in the government sector, including by developing e-government services, which can decrease costs of doing business and create a more attractive investment landscape.

The Plan includes measures that aim to tackle both long-standing weaknesses and immediate consequences of the war on human capital and the labour market. Investments across education sectors, are expected to contribute to the rebuilding some of the destroyed educational infrastructure following Russia's invasion, ensuring safe conditions in educational institutions. This will lay the groundwork for a restoration and modernisation of Ukraine's educational system. In particular, investments in pre-school education infrastructure can contribute to enhance early childhood development and provide the basis for stronger educational outcomes and reduce educational disparities, thereby enhancing future productivity growth. Additionally, investments in Vocational Educational Training infrastructure can directly help increase labour market participation and boost labour supply, in particular by reducing skill mismatches and encourage labour market participation of underrepresented groups – long-standing challenges to growth that have particularly been exacerbated following Russia's war of aggression. Several reforms in the plan also aim to encourage the return of displaced persons, which may help counteract the impact of Russia's invasion on labour supply. Moreover, reforms on improved cultural development will strengthen the Ukrainian identity and contribute to Ukraine's economic and societal development.

The measures related to the energy sector aim to help restoring Ukraine's damaged energy infrastructure, enhance renewable energy and lower energy intensity and dependency, fostering a more resilient and competitive economy. The full-scale war has had a strong impact on Ukraine's energy sector, resulting in much of its electricity generating capacity and grid being damaged or destroyed. Investments aimed at enhancing renewable energy capacity are expected to increase the energy supply and its stability, diversify Ukraine's energy mix, bolster its energy independence and provide the foundation for further investments in sustainable energy projects. Flanked by supporting reforms, such as shortening permitting procedures, investing in renewables has the potential to drive new employment and increase innovation and technological development. Investments in energy efficiency, backed by relevant reforms, is expected to help economic growth by creating new jobs and providing cost savings to businesses and consumers. Already before the full-scale invasion, Ukraine had one of the most energy and resource intensive economies in Europe and therefore a large potential for energy savings. Moreover, energy efficiency improvements can help increase competitiveness of businesses through reduction of demand and associated costs, freeing up capital for productive investments. It will also tackle energy poverty of vulnerable households. Improving the functioning of the energy and electricity market in Ukraine can increase competition, facilitate integration of renewable energy and attract investment.

The reforms and investments aimed at Ukraine's transport sector are poised to play a role in the country's economic recovery and growth in the post-war period. Transport infrastructure plays a pivotal role as an enabler for reconstruction, ensuring seamless access and efficient delivery of materials and equipment. The plan outlines measures to help restructure the significantly damaged transport infrastructure and strengthen transport connectivity, with a focus on the Trans European Transport Network (TEN-T). Enhancing cross-border connections with the EU will be of particular importance to facilitate trade flows, reduce transportation costs, thereby boosting economic growth and job opportunities. Additional productivity effects are expected from reforms of the railway market, although such effects will likely occur only in the longer term.

The agri-food measures in the Plan prioritise demining of agricultural land to render it productive again. Estimates by the Ukraine's Ministry of Defence and Ministry of Agriculture estimate that between 470,000 and 2.5 million hectares have been made unsuitable for use due to landmines and other explosive artifacts[16], representing up to 7.6 % of total agricultural land. Because of the presence of landmines, these areas have been excluded from agricultural production, resulting in operational losses. The measures aim to rebuild the strategic and operational capacity for demining operations (in particular the governance and implementation of survey, clearance and land-release operations), with a view to restoring agricultural land for productive use. Given the large share of the agri-food sector in Ukraine's economy, estimated at around 10 % of gross value added, this could significantly contribute to restore Ukraine's production capacity and boost economic growth.

The Facility is expected to contribute to ensuring Ukraine's fiscal sustainability. Internal simulations by the European Commission project that debt would be lower by about 10 percentage points of GDP, compared to an alternative scenario without the Facility, with public debt-to-GDP decreasing from 2026 onwards and going below 80 % of GDP by 2033. This will be reflected through three main channels: first, by supporting the reconstruction and the modernisation of the country, the Facility (including its grant and loan components) would boost investments, improve total productivity and ultimately raise real GDP growth, as documented in the previous section. Second, the favourable financing conditions offered by the

[16] From the Ground Up: Demining Farmland and Improving Access to Fertilizer to Restore Ukraine's Agricultural Production (csis.org)

Facility would lower interest payments and debt servicing, compared with an alternative scenario without the Facility. Last, these two channels - favourable from a debt dynamic perspective - would be slightly mitigated by the additional spending linked to the loan component of the Facility. Overall, these channels combined would lead to a significant debt-reducing effect over the medium term.

The economic modelling included in the Ukraine Plan includes the indirect leveraged impact of the Plan[17]. It presents two scenarios under which the Plan would mobilise additional financing of USD 100 billion, respectively USD 300 billion mostly through capital investments. These scenarios take as basis the Plan's reforms, additional concessional financing from other donors, and an assumption that the majority of IDPs would return to Ukraine by 2026. Full economic recovery to 2022 GDP levels is expected in 2028 in the more positive scenario and in 2030 in less positive one. By 2033, GDP is expected to be at 138 %, respectively 125 % of 2021 GDP levels.

[17] Due to the differences in the assumptions and methodology, the results of this assessment cannot be directly compared to the modelling used within the Ukraine Plan.

4. Assessment of the Ukraine Plan

The Commission's assessment of the Ukraine Plan is positive. The Commission has assessed the content of the Plan in line with Article 18 of Regulation 2024/792 and found that it addresses relevant challenges stemming from the war and those identified in the context of Ukraine's accession path. The Plan is relevant to Ukraine's reform priorities, and it contributes to addressing the objectives and challenges that are foundational to Ukraine's reform efforts. The reforms proposed under the 15 chapters are comprehensive, covering a wide range of thematic areas. The Commission has also assessed the Ukraine Plan against the general and specific objectives laid out in Article 3 of Regulation 2024/792, as well as against its contribution to a green and inclusive recovery, reconstruction, and modernisation of Ukraine. The Commission found that the reforms of the Plan appropriately address these objectives. Finally, while the reforms presented in the Ukraine Plan broadly address the challenges presented in Section 2.3, additional efforts will be needed to ensure a complete recovery, reconstruction and modernisation.

4.1 Reforms and investments and the linked qualitative and quantitative steps

The Ukraine Plan proposes 69 reforms and 10 investments accounting for 146 qualitative and quantitative steps. Reforms are proposed in all 15 sectoral chapters, while investments are proposed in six chapters. There are 130 steps linked to reforms and 16 steps linked to investments. An additional 5 steps included in the Ukraine Plan, all linked to reforms, were included as policy conditions for the exceptional bridge financing.

	Reforms		**Investments**		**Total no. steps for reforms and investments**
	No. of reforms	**No. of steps**	**No. of investments**	**No. of steps**	
Public Administration Reform	3	5			5
Public Financial Management	5	9			9
Judiciary	4	14			14
Fight Against Corruption and Money Laundering	3	10			10
Financial Markets	4	6			6
Management of Public Assets	4	9			9
Human Capital	9	11	5	8	19
Business Environment	6	9	1	2	11
Decentralisation and Regional Policy	3	6	1	2	8
Energy Sector	7	17	1	1	18
Transport	4	6	1	1	7
Agri-Food Sector	6	8	1	2	10
Management of Critical Raw Materials	3	6			6
Digital Transformation	2	4			4
Green Transition and Environmental Protection	6	10			10
TOTAL	**69**	**130**	**10**	**16**	**146**

Reforms under the Ukraine Plan

Graph 3. Reforms under the Ukraine Plan

The Public Administration chapter aims at strengthening the capacity and efficiency of the Ukrainian administration and the gradual alignment of the rules, standards, policies, and practices with the EU *acquis*. The chapter includes three reforms and five associated steps. For improving the civil service renumeration system, Ukraine will adopt legislation introducing remuneration based on the functional classification of positions, providing a clear separation of wages into fixed or guaranteed and variable parts and ensuring the reduction of seniority supplement from 50 % to 30 %. This reform will contribute to the transparency and fairness of the remuneration system and to increasing the competitiveness of salaries of civil servants. This will help to attract new talent, mitigate the trend of high turnover and outflow of civil servants, and increase the capacity of the public administration system. To advance the merit-based recruitment and selection procedures for the civil service, the Ukrainian authorities will amend existing legislation to improve the procedure for entering, passing, and terminating civil service and gradually reinstating merit-based recruitment in the civil service for all civil service categories. These steps are essential for building trust and transparency in the civil service, for attracting talent and preventing nepotism and corruption in the civil service. Digitalisation of civil service and human resources management focuses on the restoration and modernisation of the Unified Civil Service Vacancies Portal (career.gov.ua) and ensures that the human resources management information system (HRMIS) is operational and used in all operational active public institutions at national and subnational levels. This will ensure the provision of accurate data for better decision-making and policy-making process. Overall, the reforms in this field contribute to a well-run and effective public administration, which is essential for the ease of doing business in the country, for attacking investment, for boosting economic growth and alignment with EU standards.

The Public Finance Management chapter aims to enhance Ukraine's macro-economic and financial resilience, ensure efficient use of public funds, align with EU standards, and promote sustainable growth. The chapter includes five reforms and nine implementation steps. In view of improving revenue management, authorities will adopt a National Revenue Strategy, improve personal income taxation, bring VAT and excise taxation rules in line with the EU standards, ensure the sustainability of the social benefits system, and address tax expenditures and exemptions. The Ukrainian authorities will introduce annual spending reviews, aligned with best OECD practices, and amend the legislation defining the procedure for fiscal risk management at local level. To build the foundation of debt sustainability, the government will adopt an updated medium-term state debt strategy providing targets for debt sustainability and measures to develop the domestic bond market. To improve public investment management, an action plan for the implementation of the Roadmap for reforming public investment management will also be adopted. Moreover, authorities will develop and implement the necessary digital management tools for the reconstruction of Ukraine, enabling better monitoring and coordination of reconstruction efforts. Finally, the audit and financial control systems will be improved by amending the resolutions of the Cabinet of Ministers on state financial control, enabling the State Audit Service to ensure it has the means to protect the financial interest of the EU in line with international audit standards. . .

The Judiciary chapter aims at increasing the capacity, accountability, integrity, efficiency and transparency of the judicial system which is crucial for ensuring the rule of law and

the protection of human rights in Ukraine as well as for the swift recovery, economic growth and attraction of investment. The chapter includes four reforms and fourteen implementation steps. For enhancing the accountability, integrity and professionalism of the judiciary, Ukraine committed to resume the transparent and meritocratic selection of judges, qualification evaluation of sitting judges and a strong disciplinary responsibility system, along with the establishment of a new administrative court to handle cases involving central government agencies and reinforcing existing judicial integrity tools. Authorities will also introduce legislation on the improvement of insolvency regime in line with EU *acquis* and the legislation for simplified insolvency procedures for Micro, Small, and Medium Enterprises in line with EU *acquis.* Enforcement of court decisions will be enhanced through improved legal, institutional and IT framework. Authorities will put in place new IT solutions based on the roadmap for the modernisation of the Unified Judicial Information and Telecommunication System. For reforming the Prosecution Service, Ukraine will introduce legislation for enabling transparent and merit-based selection of management-level prosecutors, for improving the disciplinary system for prosecutors and increasing the capacity of the Qualification and Disciplinary Commission of Prosecutors and will put in place an e-Case Management System in the criminal justice. These reforms contribute to boosting judicial integrity, increasing the trust towards the judiciary, enhancing the efficiency of insolvency and enforcement procedures and thus, improving Ukraine's international reputation as a reliable jurisdiction for doing business.

The chapter on the Fight against corruption and money laundering aims at reinforcing the key anti-corruption agencies and updating the legal framework to increase the overall effectiveness of the anti-corruption framework to prevent and combat corruption and the implementation of the state's anti-corruption policy. The chapter also focuses on addressing the shortcomings related to asset recovery and management and on alignment of Ukrainian legislation with EU *acquis* and FATF standards in the field of anti-money laundering enabling to better tackle economic crime and to improve the overall business climate in Ukraine. The chapter includes three reforms and ten implementation steps**.** To develop the institutional capacity of the anti-corruption framework, Ukraine committed to increasing the human resources of the Specialised Anti-Corruption Prosecutor's Office (SAPO) and of the High Anti-Corruption Court (HACC) and to appointing a new head of the National Agency on Corruption Prevention (NACP). The authorities will amend the Criminal Code and the Criminal Procedure Code to improve provisions on plea bargains, cancel the pre-trial investigation period from the time of the registration of the criminal proceedings until the notification of the suspicion, and to allow the adjudication of certain cases by a single judge of the High Anti-Corruption Court. The reform also addresses the shortcomings related to asset recovery and management at institutional and procedural levels and improves the legislative framework reforming the Asset Recovery and Management Agency (ARMA). To enhance the anti-money-laundering measures, Ukraine will conduct the next risk assessment, amend the legislation for a unified registry of bank accounts in accordance with EU standards and will put in place the necessary software and hardware for the unified registry of bank accounts. The reforms in this chapter shall increase the overall effectiveness of the anti-corruption and anti-money laundering framework and the implementation of the state's anti-corruption policy, reducing corruption risks and practices, which is crucial for improving the business climate and boosting the economic growth.

The Financial Markets chapter aims at realising the potential of the financial markets to support economic growth, starting with maintaining financial stability. The chapter includes four reforms and six implementation steps. The banking sector reforms start by assessing the health of banking system via a resilience assessment of the largest banks in in terms of assets, with stress testing under adverse scenario. Proposed reforms aim to reduce state ownership in the banking sector, by developing a reform strategy for SOBs, setting up the gradual reduction of state ownership, ensuring financial stability, enhancing the governance and operational efficiency of these banks, among other. This will increase the level-playing field in the banking sector and improve competition in the market. There will also be a new strategy for NPLs focusing on strengthening prudential requirements and improving the framework for NPL recognition and resolution, followed by any required legislative amendments to address the recommendations of this strategy. Reforms in the non-bank sector focus on improving the capacity of the National Securities and Stock Market Commission as a financial supervisory authority and improving the state regulation for capital markets and organised commodity markets.

The Management of public assets chapter aims to improve governance, management and legal set up of the state enterprises, while ensuring the level playing field with the private sector. It includes four reforms and nine implementation steps. The reform agenda will be guided by the state-ownership policy, reflecting long-term and whole-of-government priorities, public policy objectives that state-owned enterprises (SOEs) which will remain in the state ownership are required to achieve as well as implementation arrangements and responsibilities. The reform of the SOEs will advance through legislative changes to bring corporate governance standards closer to international standards as well as transformation of top strategic SOEs. Ukraine’s largest SOEs will have corporate governance structures set up to ensure they operate at arm’s length from the state and their legal form will be modernised. Consolidating the ownership of SOEs will diminish the space for conflict of interest, help insulate their management from unconstructive political pressures. Better governance of SOEs supports better performance of those enterprises, while consolidated ownership can help increase focus on commercial success. Finally, given the size of the sector, it is important to record financial support to SOEs and ensure public resources are not used to distort competition with the private companies. Therefore, the Ukrainian authorities will pursue further reforms to ensure: i) separation of accounts between commercial and non-commercial activities in SOEs ii) harmonisation of the law on the state aid control with the EU *acquis* and approval of rules related to Services of General Economic Interest to ensure budget support to SOEs due to Public Service Obligations (PSOs) is recognised as state aid and as such recorded, iii) restored application of the state aid law.

The reforms in the human capital chapter aim to halt recent years’ erosion of human capital and create conditions that will help bring both human capital and the economy back on a growth path. The chapter includes nine reforms and eleven implementation steps. The reforms will be guided by and linked with already on-going and further reforms, including modernisation of labour and occupational health and safety legislation in consultation with social partners, ensuring proper implementation and enforcement of labour rights through a well-functioning labour inspections system, the healthcare reform, as the implementation of the Strategy for the Development of Higher Education in Ukraine for 2022-2032, and the New Ukrainian School Reform, as well as ongoing initiatives aimed at improving social security and protection services. Reforms in the field of education, including vocational education and training, will help address the increasing demand for skilled labour for Ukraine's re-construction process; the need for better access to quality early childhood education and care services, that also will provide caregivers with the opportunity to join the labour force, and the need for ensuring the safety of children while attending school through shelters and safe transport. The need to modernise the education system with new, inclusive teaching methods and digitalisation is relevant for all educational levels. In higher education, modernisation and strengthening of the higher education system and capacity is also important to prevent brain drain. To facilitate a better transition from military service to civilian life, Ukraine will establish rehabilitation-, medical care-, training- and financial support services aimed at helping veterans re-integrate with society and participate in the economy. To address long-standing challenges with institutionalised care, Ukraine will reform psychoneurological- and other residential institutions, and de-institutionalise the alternative care of children, persons with disabilities and the elderly. In addressing the growing need for social housing, Ukraine will develop a housing policy aimed at improving access to housing for the most vulnerable and establish a social housing fund to ensure a sufficient supply of social housing projects. With a view to improve the functioning of the labour market, Ukraine will develop a Population Employment Strategy that will create favourable conditions for employment, and a broader Demographic Development Strategy aimed at overcoming negative demographic trends such as migration and creating the conditions for IDPs to return home as well as addressing the challenges of premature mortality. Finally, the reforms in the human capital area includes initiatives to promote Ukrainian culture through the development and implementation of a Strategy for the Development of Ukrainian Culture, as well as investments in the creative and cultural sectors.

The reforms in the business environment chapter aim at facilitating a recovery and reinvigoration of Ukraine's business environment as well as facilitating a smooth integration with the EU internal market. The chapter includes six reforms and nine implementation steps. With a view to ease the burden on businesses to comply with rules, regulations, and administrative procedures, Ukraine will review and remove overlapping regulations, take measures to deregulate economic activities and digitise administrative procedures. In parallel authorities will implement reforms to improve access to finance and markets with particular focus on SMEs and the development of capacities to compete in the EU and global markets. Ukraine will continue the adoption of European standards to further deepen cooperation and Ukraine's participation in the EU's Single Market. Initial focus will be on the standards relevant for the restoration and development of Ukraine and sectors covered by the ACAA, such as machinery, electromagnetic compatibility of equipment, and low-voltage electrical equipment. Authorities will also address issues related to late payments through alignment of legislation with the EU directive on late payment in commercial transactions. Ukraine will also relaunch the Economic Security Bureau and safeguard its effectiveness through the provision of a clear mandate, scope for investigative powers, and adequate and competent staffing. To achieve better alignment with the EU *acquis*, Ukraine will also pursue reforms of national procurement procedures. The process will include addressing concessions on public-private partnerships and is expected to result in increased participation in public procurement processes.

The reforms in the field of decentralisation and regional policy aim to establish the legal, regulatory, and financial basis required for regional and local government entities to take on a more active role in the recovery and reconstruction process. The chapter includes three reforms and six implementation steps. To advance the decentralisation process, Ukraine will reform the territorial organisation of the executive authorities in the country in accordance with international best principles. The authorities will also publish a study on the necessary measures to grant legal personality to municipalities and will put in place legislation to ensure a better distribution of powers between local governments and executive authorities. Ukraine will also improve the public consultations on public policy. For enhancing the development and implementation of regional policy the authorities will amend the State Strategy for Regional Development for 2021-2027 and the legislation for development of urban planning at the local level.

The Energy chapter is focused on advancing structural reforms to advance legal approximation and support green transition, electricity integration with the EU, independence of the regulator and energy efficiency in the critical sectors, including district heating. It includes seven reforms and seventeen implementation steps. To ensure appropriate strategic planning and a holistic approach to the formation of energy and environmental policies as well as to establish national climate neutrality objectives, Ukraine will adopt an Integrated National Energy and Climate Plan. Increasing the share of renewable energy will be facilitated by the introduction of a market-based legislative and regulatory framework, improvements to the renewable energy surcharge system and the permitting procedures needed for investments. In terms of the energy market reform, Ukraine will speed up electricity integration via legal approximation, implementation of legislation on wholesale energy market integrity and transparency (REMIT) and improve the independence of the national energy regulator. Addressing financial imbalances and ensuring sustainability of the system will require a gradual liberalisation of gas and electricity prices that will be undertaken once the conditions allow, all while ensuring adequate protection of vulnerable households. This will be carefully planned through a dedicate Roadmap precising the steps to take and the associated timeline. Ukraine will also improve energy efficiency in key areas such as district heating, buildings, and public procurement, with the goal of improving affordability and accessibility of energy and reducing financial pressures.

The reforms in the transport chapter aim to improve connectivity and enhance efficiency in the transport sector. The chapter includes four reforms and six implementation steps. Ukraine will adopt a revised National Transport Strategy as well as a Strategy for Developing and Expanding the Border Infrastructure with EU Member States and the Republic of Moldova. The former will provide a framework for an efficient, safe, sustainable transport system to enable a swift reconstruction and post-war economic recovery and development, with particular emphasis on stronger integration into the Single Market The latter will ensure the efficiency of border infrastructure and ensure seamless and well-coordinated traffic of passengers and freight. As effective capacity of border infrastructure relies on resources and operational procedures on both sides of the border, planning capacity increases must involve cooperation with neighbouring EU Member States and Moldova. Ukraine will amend the legislation to ensure liberalisation of the domestic railway market. It will also adopt a new legislation compliant with the EU Port Services Regulation. Both reforms shall create a fair, open, and transparent non-discriminatory framework which shall enable enhanced competition. Also, in the field of merchant shipping and to increase the efficiency of service provision in seaports, Ukraine will adopt a new legislative framework to foster further development of the state safety navigation system, improve the qualification level of Ukrainian seafarers, ensure the proper level of security for vessels and ports and safety of life at sea, thus aligning with multilateral international treaties in this field.

The Agri-food chapter is focused on adjusting the legislative and governance set up of the sector to that of the EU pre-accession countries and addressing challenges of special Ukrainian concern such as land reform, irrigation, and war recovery. It includes six reforms and eight implementation steps. Ukraine will adopt a Strategy for agriculture and rural development until 2030 and outline the national priorities in the sector, focusing on harmonising the legislation and the governance. As a follow up, it will operationalise a Farm Sustainability Data Network, system which allows tracking in the agricultural sector and helps the authorities in making informed decisions regarding the allocation of state support to agricultural producers. Important step will be taken to ensure a functional land market, which is a pre-condition for a sustainable development of farming, investments, and access to credit. New regulations to improve the set up for managing public support and investment programmes and the official public electronic farm register will increase governance standards, transparency, efficiency of channelling state support as well as support formalisation of producers. A long-term plan for the development of the irrigation system will provide a long-term vision and planning for the improved and sustainable use of water resources for irrigation purposes, bearing in mind the economic benefits and environmental protection. Finally, adoption of a mine action strategy and basic principles of prioritisation of territories to be demined will be the first steps to ensure demining of agricultural land and other areas.

The Critical raw materials chapter aims to modernize Ukraine's extraction and processing of critical raw materials, attract investments, ensure sustainability, and integrate with EU and global markets, while aligning with environmental and governance standards. The chapter includes three reforms and six implementation steps. Ukraine will strengthen strategic planning and improve administrative procedures to ensure an optimum framework for strategic investors in critical raw materials. It will amend the National Programme for the Development of the Mineral Resources Base of Ukraine to 2030 to provide the appropriate legal and financial instruments for investment promotion. A verification and re-assessment of critical raw materials reserves using international classification system will be conducted and results will be made available to investors. A pipeline of investments projects for extraction of critical raw materials will be complied and published. International tenders for production sharing agreements (PSAs) will be launched and published, using model agreements developed by the Ukrainian authorities. Open access to the terms of the PSAs shall be given, which shall ensure transparency of tendering. The launch of an Electronic Cabinet of a Subsoil User will allow for the gradual digitalisation of administrative services for issuing subsoil user permits. Such Cabinet shall be connected to investors data room providing free and unhindered access to digitalised/scanned geological reports, and relevant data. Ukraine will also publish a study assessing the current legislation on ESG reporting for the mining and extractive sector, proposing recommendations on what legislative gaps need to be covered.

The Digital transformation chapter aims to modernise Ukraine's electronic communications infrastructure, further digitalise public services and the economy, and strengthen cybersecurity and data protection. The chapter includes two reforms and four implementation steps. Reforms include measures aimed at contributing to regulatory approximation of Ukrainian legislation to EU law, with the objective of contributing to obtaining internal market treatment. Those include contributions to harmonisation of Ukrainian legislation in the field of electronic communication and radio frequency, which will support future development of 5G in Ukraine, as well as alignment to EU cybersecurity standards, paving the way towards the implementation of the EU's 5G Security Toolbox, and facilitate integration into the EU Digital Single Market. Cyber security is a prerequisite for all the digital transformation efforts, particularly in the context of the ongoing Russian hybrid aggression. Ukraine will also increase the number of available electronic public services and prioritise mutual recognition of electronic identification, authentication, and trust services, by modernising its integrated electronic identification system ID.gov.ua and aligning it with the new Digital Identity and Trust Services framework (amended eIDAS Regulation). Both measures shall further increase Ukraine's digital transformation.

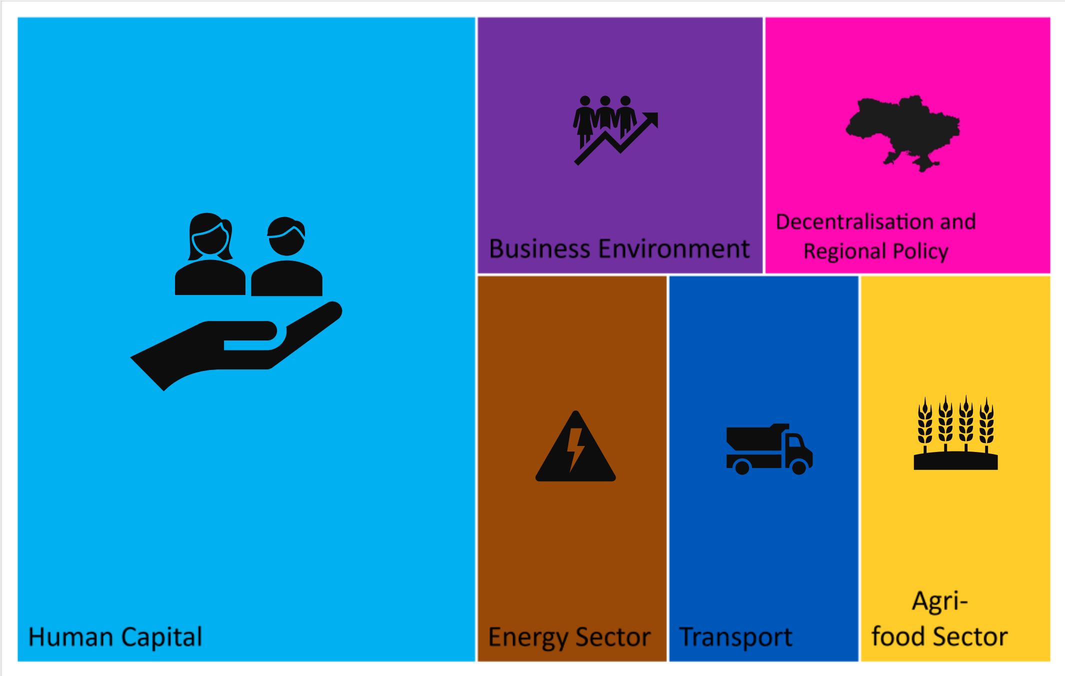
The Green transition chapter aims to support transition to climate neutrality, environmental recovery and circular economy. It includes six reforms and ten implementation steps. To enable the transition to climate neutrality, Ukraine will adopt several key measures and policy documents, including a Framework Climate Law, the second Nationally Determined Contribution under the Paris Agreement, and an Action Plan for the Establishment of a Greenhouse Gas Emissions Trading System. In parallel, Ukraine will also resume the compulsory nature of the monitoring, reporting and verification (MRV) system, part of the progress towards an emissions trading system, which will enhance competitiveness and lower the carbon-intensity of the economy in a cost-efficient way. The National Energy and Climate Plan of Ukraine is also relevant for the green transition chapter and from a mainstreaming point of view. To prevent environmental pollution and stimulate environmental recovery, Ukraine will enact legislation on prevention, reduction, and control of industrial pollution and adopt measures to reduce illegal logging and other issues that lead to deforestation and forest degradation. To help rebuilding and reconstruction, Ukraine will adopt a Strategy for implementing the principles of the Circular Economy and related Action Plan as well as a National Waste Management Plan. At the same time and following a public consultation, Ukraine will develop a note defining the scope of derogations from rules on the application of the Environmental Impact Assessments and Strategic Environmental Assessments.

The reform agenda of the Ukraine Plan is significantly wider than the steps linked to the financing under the Facility. While the reforms linked to the EU financing under the Facility are comprehensive and directly impacting Ukraine's recovery and path towards the EU, the Ukraine Plan refers to several other reforms that are needed in the country to ensure a harmonisation with EU standards and transition towards the EU's economic standards of living. While these reforms are not attached to the EU funding, the Ukrainian authorities commit to at least aim to roll them out, including in the context of financing instruments with other donors.

Such wider reforms are proposed under most chapters of the Plan and reinforce Ukraine's s ambitious reform agenda. For example, in Public Finance Management, Ukraine aims to further align VAT and excise tax legislation with the EU acquis, and the public sector accounting with international standards, and introduce an integrated IT platform for public sector accounting. In financial markets, authorities will adopt further measures towards aligning with the EU banking regulation as they wish to prepare early for integration with EU financial markets. In the management of public assets, in will record state aid above certain thresholds in a state aid registry until the state aid control is relaunched, relaunch the large-scale privatisations once the conditions allow, continue liquidating non-operational SOEs as well as start looking into resolving long-standing issues such as debt moratoria for SOEs and municipally owned enterprises. In digital transformation, authorities aim for steps towards a full alignment with EU roaming legislation as well as taking measures to improve the independence of the regulatory authorities. In green transition, Ukraine will adopt legislation to continuing aligning with the acquis in water and waste. In public administration, Ukraine commits to start applying evidence-based policy making, improve the standards and quality control of legislation and ensure its regulatory impact assessment. To enhance Rule of Law reforms, Ukraine should fill the open vacancies in the Constitutional Court of Ukraine take measures to address the corruption risks in the Supreme Court, reform the legal education system, and propose measure to reform the Bar of Ukraine. In the energy sector, Ukraine will implement further efforts to develop renewable energy sources, including introducing a system for issuing guarantees of origin for electricity produced from renewable energy sources, the net billing system and creating a regulatory framework for biogases. In human capital, Ukraine will complement on-going reforms in the labour market, health and education sectors, with actions empowering authorities to address new challenges, such as those related to IDPs, people with physical and mental traumas, adults in need of marketable skills, and children in need of remedial education. In addition, reforms such as the de-institutionalisation of care, increasing the quality of education, and strengthening of professional education respond to direct recommendations in the 2023 Enlargement Report. The business environment reforms reinforce the strategic priorities outlined in the National Recovery Plan, including the call for urgent measures and investments to support economic recovery, modernisation, and growth.

Investments under the Ukraine Plan

Graph 4. Investments under the Ukraine Plan



Under Pillar 1 of the Facility, the Ukraine Plan includes ten investments and 16 implementation steps amounting to at least EUR 5.2 billion or 16 % of the financing made available. The investments are designed with a view to address identified challenges that have emerged as a direct consequence of the war, while contributing to reconstruction and modernisation needs, including those of sub-national authorities, in particular local self-government.

Investments cover Ukraine's needs in human capital, business environment, energy, transport, agri-food, and decentralisation and regional policy. Investments in the human capital target improving access to safe and quality education, including preschool, compensation to people whose house has been damaged, compensation to veterans with disabilities for house rent, strengthening healthcare services and infrastructure, construction/re-construction of damaged social infrastructure. The investments under business environment will provide support to micro-enterprises and SMEs, in particular processing entities, with a view to strengthen their resilience and facilitate an increase in business activity and creation of associated employment opportunities. Transport investments will target key priorities identified in the National Transport Strategy of Ukraine until 2030 in railways, maritime and inland shipping, roads, aviation border crossing points and other strategic areas. Investments in the energy sector will improve energy efficiency in district heating and the building sector, including via topping up the Energy Efficiency fund, physical protection of the energy infrastructure and supporting the development of renewable energy sources, aligned with the new market-based framework for renewable energy. Investment in the agri-food sector support demining through established national schemes.

Investments also cater for the needs of the sub-national authorities, in particular local self-government. The amount equivalent to 20 % of the non-repayable financing support under Pillar I of the Ukraine Facility (EUR 1.05 billion) is allocated to the recovery, reconstruction and modernisation needs of Ukraine's sub-national authorities, in particular local self-government, by the end of 2027. Ukraine will establish a transparent mechanism to ensure financing of the recovery, reconstruction and modernization needs of subnational authorities, in accordance with their local development strategies. The sectoral pre-allocation of funds through investment indicators reflects an estimate of the investments needs at local level, without prejudice to the actual needs and priorities of sub-national authorities, as defined in their local development strategies.

Furthermore, investments contribute to environmental and climate objectives. At least 12 % of all investments financed under the Pillar I will contribute to the climate change mitigation and adaptation, environmental protection, including biodiversity conservation, and green transition, or to addressing the challenges resulting therefrom. This will contribute to the Regulation's requirement to allocate at least 20 % of the overall amount corresponding to support under the Ukraine Investment Framework and to investments under the Ukraine Plan to measures that contribute to climate change mitigation and adaptation, environmental protection, including biodiversity conservation, and to the green transition, or to addressing the challenges resulting therefrom.

These investments complement the reforms of the Plan and should be implemented based on well-established principles. Appropriate project preparation and implementation will be of paramount importance. It will be critical for the tendering to be carried out based on open transparent competitive procurement procedures and that the selection and design of the assets is aligned with Ukraine's decarbonisation targets and green transition, to the degree possible in a war context. To the extent possible, alignment with sectorial EU *acquis* and other relevant standards, such as TEN-T in the transport sector, will be ensured. Furthermore, in order for Ukrainian SMEs to be competitive on EU Single Market, the investments proposed in the business environment sections will need to be accompanied by actions that will improve SMEs' access to effective business development services, including those related to marketing and networking in an EU single market context.

Beyond the investments covered under Pillar 1 of the Facility, the Plan identifies other investments areas for Ukraine's recovery, reconstruction, and modernisation. The Plan highlights investment priorities over the 2024-2027 period in various sectors: financial markets, human capital, business environment, energy, transport, agri-food, critical raw materials, digital transformation, green transition, decentralisation. In most sectors the range of investments areas identified appears to be broad and comprehensive. Other sectors are more focused, proposing just a limited number of priorities. The potential role of the private sector in certain specific market segments is highlighted, wherever possible. These investment priorities should contribute to guiding investments under Pillar II of the Facility, the Ukraine Investment Framework. The investment priorities as identified by the government in the Ukraine Plan are meant to be used by all other donors and international partners as guidance in their own operations as only a limited number of these priorities will be funded by the Ukraine Facility.

4.2 Contribution to the general and specific objectives of the Ukraine Facility

Table 4.2.a: Summary of contribution to the general objectives of the Ukraine Facility

Plan chapter	General Objective 1	General Objective 2	General Objective 3
	address the social, economic and environmental consequences of Russia's war of aggression, thereby contributing to the peaceful recovery, reconstruction, restoration and modernisation of the country and to the post-war recovery of Ukrainian society, including by creating the social and economic conditions for Ukrainian Internally Displaced Persons and persons under temporary protection to return.	foster social and territorial cohesion, and democratic, economic, environmental resilience and progressive integration into the Union and global economy and markets and upward economic, social and environmental convergence towards EU standards.	adopting and implementing the political, institutional, legal, administrative, social and economic reforms required to comply with Union values and to progressively align to Union rules, standards, policies and practices ('*acquis*') with a view to future Union membership, thereby contributing to mutual stability, security, peace, prosperity and sustainability.
Public Administration Reform		●	●
Public Financial Management	●	●	●
Judiciary		●	●
Fight against Corruption and Money Laundering		●	●
Financial Markets	●	●	●
Management of Public Assets		●	○
Human Capital	●	●	○
Business Environment	●	●	●
Decentralisation and Regional Policy		●	●
Energy Sector	○	●	●
Transport	●	●	●
Agri-Food Sector	○	●	●
Management of Critical Raw Materials		●	

Digital Transformation		●	●
Green Transition and Environmental Protection		●	○

● significantly addresses the general objective; ○ partially addresses the general objective

The reforms and investments in the Ukraine Plan fully contribute to the general objectives of the Ukraine Facility. Each chapter of the Plan contributes to at least one of the general objectives either significantly or partially. Five chapters contribute significantly, and two chapters contribute partially to the first general objective aimed at addressing the consequences of the war. All chapters contribute significantly to the second general objective, fostering socio-economic and environmental resilience and progressive integration into the Union and global economy. Eleven chapters contribute significantly and three contribute partially to the third general objective to progressively align to Union rules, standards, policies, and practices.

The Plan makes a significant contribution to addressing the social, economic, and environmental consequences of Russia's war of aggression. The Public financial management chapter sets out measures to improve revenues and debt management and increase administrative capacity to manage public finances to help the public sector respond efficiently to the consequences of the war. The Financial markets chapter addresses the high levels of non-performing loans and includes measures to assess, monitor and improve the overall health of the banks, sector which is critical in ensuring capital flows to fund reconstruction and modernisation efforts. The Business environment chapter aims to improve the regulatory environment, provide financial support to micro, small and medium-sized businesses, and introduces industrial parks as a tool for attracting investments in the de-occupied areas. Investments foreseen under the transport chapter target the reconstruction and upgrade of damaged and destroyed transport infrastructure facilities, while the reform measures will contribute to the creation of effective conditions to ease the return of IDPs. The Human capital chapter significantly contributes to addressing the consequences of war by prioritising vocational education and training to address the demand for skilled labour for reconstruction activities; aiming at improving the functioning of the labour market through the adoption of an employment strategy; improving access to housing for the most vulnerable, so as to provide them with a foundation for re-establishing their lives and participate actively in the economy; improving access to early childhood education and care, thereby providing caregivers the opportunity to join the labour force.

The Plan makes a significant contribution to fostering social and territorial cohesion, democratic, economic, environmental resilience, and progressive integration into the Union and global economy. The proposed reforms and investments go beyond the immediate needs caused by the war and aim at fostering resilience and sustainable long-term growth. Reforms under the Public administration reform chapter aim to modernise the civil service in key aspects, thereby enhancing resilience. The reforms in the Justice and Anti-money laundering and anti-corruption chapters aim to foster both democratic and economic resilience by improving transparency, judicial independence, and strengthening enforcement capabilities, as well as further developing the anti-corruption institutions and legal framework for both the prevention and combatting of corruption. The Public asset management chapter aims to update the government's strategy for state assets, manage better the assets that remain in the state ownership and transform top SOEs, supporting a stronger economic resilience. Strengthening strategic planning in critical raw materials and the creation of an appropriate framework for strategic investors, alongside other reforms foreseen under the Critical raw materials chapter, will support the competitiveness of Ukraine in global markets along the supply chains based on its rich resources. Given the economy's heavy reliance on this sector, the Agri-food chapter aim at increasing the resilience of the sector and convergence towards EU standards to enable further integration into the Single Market. The Energy chapter improves the framework for increasing renewable energy, strengthening energy efficiency in the key sectors supported by a strategic and holistic planning, and conducting key energy market reforms such as strengthening the regulator and taking steps to address the need to liberalise energy prices. Finally, long-term resilience requires forward-looking policy, which is why the reforms to foster digitalisation (e.g. strengthening cybersecurity capabilities) and the green transition (e.g. establishing an advanced circular economy action plan) have a significant contribution.

The Plan makes a significant contribution to guiding the country towards EU membership through the adoption of EU values and fostering alignment with the *acquis*. A majority of reforms in the public sector reform chapters significantly contribute to this aim, including the Public administration reform chapter (e.g. ensuring merit-based recruitment and selection procedure for the civil service), the Public finance management chapter (e.g. digitalisation of tax and customs administrations), the Justice chapter (e.g. reinforcing judicial integrity in alignment with EU principles), the Fighting against corruption and money laundering chapter (e.g. alignment of anti-money laundering and other related anti-fraud legislation with the EU *acquis*), and the Decentralisation and regional policy chapter (e.g. fostering involvement of citizens at local decision-making). On sectoral policy, the reforms and investments proposed in the financial sector (e.g. aligning legislation on capital markets), in agri-food (e.g. introducing an improved EU-like institutional and administrative set up for managing investment programmes, legislation on the state agrarian register and the adoption of the strategy for agriculture and rural development until 2030), energy (e.g. electricity integration package and making energy efficiency criteria mandatory in public procurement) and transport (e.g. adoption of new legislation on railway transport as well as port services), in business environment (e.g. adoption of harmonised standards of non-food products), and digitalisation (e.g. convergence in the area of electronic identification schemes) aim to bring Ukrainian regulatory framework closer to the EU *acquis* in each specific sector.

Table 4.2.b: Contribution to the specific objectives of the Ukraine Facility by chapter

Ukraine Plan chapter	**Specific Objective 1**	**Specific Objective 2**	**Specific Objective 3**	**Specific Objective 4**	**Specific Objective 5**	**Specific Objective 6**	**Specific Objective 7**	**Specific Objective 8**
Public Administration Reform			○	●	●		○	
Public Financial Management	●		○	●	●		○	
Judiciary			○	●	●		○	
Fight Against Corruption and Anti-Money Laundering				●	●			○
Financial Markets	●			●				
Management of Public Assets	○			●	●			
Human Capital	○	●		●	○	○	○	
Business Environment	○	○		●	○	○	○	●
Decentralisation and Regional Policy		○		○	●		●	
Energy Sector	○	○		●	○	●		
Transport		●		●				○
Agri-Food Sector		○		●	○	○		
Management of Critical Raw Materials	○			●	●	○		
Digital Transformation			●	●	●	●		
Green Transition and Environmental Protection				●		●		○

● significantly addresses the specific objective; ○ partially addresses the specific objective

The Ukraine Plan contributes significantly to all the specific objectives of the Ukraine Facility. The first specific objective (SO1) is aimed at easing Ukraine's internal and external financing constraints and maintaining macro-financial stability. The second specific objective (SO2) aims at rebuilding and modernising physical and social infrastructure. SO3 aims at strengthening Ukraine's security against hybrid threats and disinformation and foreign manipulation. SO4 targets boosting Ukraine's economic and social development and foster the transition to a sustainable, climate neutral, and inclusive economy and alignment with EU standards, thereby supporting further integration of Ukraine into the Union's single market. SO5 aims at strengthening the rule of law, democracy, the respect of human rights and fundamental freedoms and equality, as well as supporting transparency, structural reforms, and good governance at all levels. SO6 aims to foster Ukraine's green transition and environmental protection, including demining efforts. SO7 focuses on supporting political and administrative decentralisation and local development. SO8 supports cross-border cooperation with the Member States bordering with Ukraine, provided that Ukraine remains the sole beneficiary of the funding.

Two chapters contribute significantly to SO1, while five other chapters contribute partially. The reforms proposed in the Public financial management chapter aim to strengthen the sustainability of public finances and state debt, increase efficiency of public expenditures, and therefore help authorities maintain Ukraine's macro-financial stability and ease its financing constraints. Reforms also include enhancing public revenue management, ensuring continuity in conducting the spending reviews and the improved medium-term debt strategy. The financial markets chapter aims at strengthening the health of the banking sector and enhancing financial stability, thereby contributing to macro-financial stability.

Two chapters contribute significantly to SO2, while four other chapters contribute partially. The Human capital chapter targets the rebuilding of social infrastructure, such a housing, healthcare facilities, schools, and higher education institutions. The Transport chapter focusses on rebuilding transport infrastructure aiming to modernise the transport network and to further integrate into the single market. The energy chapter aims to build or rebuild new energy infrastructure and pursue further electricity integration with the EU, while the agri-food chapter includes significant de-mining efforts. The business environment chapter aims to attract private investment to support rebuilding efforts, while the decentralisation and regional policy chapter focuses on giving local authorities a bigger role in fostering regional and social cohesion.

One chapter contributes significantly to SO3, while three others contribute partially. The digital transformation chapter includes new legislation on strengthening the cybersecurity capabilities of the state information resources and critical information infrastructure. Other chapters include the development and upgrade of certain IT platforms or tools to help Ukraine fight against hybrid threats.

Thirteen chapters contribute significantly to SO4, and two chapters contribute partially. This is not surprising given the link between economic growth, strengthening of strategic economic sectors and further integration into the EU. A strengthened judiciary and improved enforcement capacities against money laundering and corruption are crucial contributors to a stable investment environment and sustainable and inclusive economy more generally. This is also the case for the financial market reforms that aim to strengthen this key sector and improve access to finance in a bid to foster economic growth. A strong business environment is also a key determinant of a sustainable economy and a stable investment environment. Sectoral reforms building up transport, energy, and critical raw materials infrastructures, and strengthening the agricultural sector, are also crucial contributors to this specific objective. All reforms in the green transition chapter contribute by nature to fostering the transition to a sustainable, climate neutral economy. The digital transformation chapter with measures to modernise the country, and the human capital chapter aiming to, among others, help build back the country’s social fabric, are also key for long-term sustainability and alignment with key EU priorities.

Eight chapters contribute significantly to SO5, and four chapters contribute partially. Most public sector reform chapters significantly contribute to this specific objective. The reforms proposed in the public administration reform chapter reinforce the effectiveness of public administration and support transparency and good governance at all levels. The digitalisation measures for tax and customs administrations and public investment management under the Public financial management chapter strengthen the quality of the public sector and help to curb corruption and tax evasion. Similarly, strengthening enforcement capacities under the Judicial and anti-corruption chapters and anti-money laundering and are very important for enforcing democracy and international justice. Reforms envisioned under the digital transformation chapter further strengthen the effectiveness of public administration, while an increased role of regional authorities under the decentralisation and regionalisation chapter, will further strengthen democratic and inclusive decision-making. The reforms under the management of public assets chapter will lead to improved governance, a more efficient management of SOEs, and develop the state aid framework. The critical raw materials chapter aims to significantly increase transparency in the sector and improve governance standards.

Three chapters contribute significantly to SO6, and four chapters contribute partially. Two chapters of the Plan focus precisely on green transition, environmental protection, and digital transformation. The energy chapter aims to facilitate decarbonisation in line with the overarching climate neutrality objectives, to develop the framework for the renewable energy investments and to improve energy efficiency in various sectors. The agri-food sector has a significant contribution to demining, while the critical raw materials chapter aims to develop the legislation on Environmental, Social, and Governance (ESG) reporting in the mining industry.

One chapter contributes significantly to SO7, and four chapters contribute partially. The decentralisation and regional policy chapter aims to advance the decentralisation reform by increasing the involvement of citizens to decision-making processes at the local level and by enhancing the development and implementation of regional policy. Other public sector reforms such as those under public administration and public financial management partly contribute as well.

One chapter contributes significantly to SO8, and two chapters contribute partially. The reform of the Economic Security Bureau under the business environment chapter will support the fight against international crime, while a number of other reforms will strengthen the capacity of businesses for cross-border trade. The transport chapter includes a reform on expanding the border infrastructure with Ukraine's neighbouring EU Member States.

4.3 Contribution to the green and inclusive recovery, reconstruction and modernisation needs

The Ukraine Plan provides a guidance framework for the country to reconstruct, modernise, and recover. In doing so, it also revitalises reforms commenced by Ukraine before the war, accelerates further alignment with the EU *acquis*, and determines crucial steps towards the country's sustainable growth path, bringing it close to EU accession.

The Plan highlights the reconstruction of destroyed or partially damaged assets as an essential first step. It includes investments on the reconstruction and upgrading of damaged and destroyed transport and social infrastructure. It also proposes reforms and investments on the demining of land and water across the country, a crucial step in the restoration of usable land and water areas. Another major priority is the reconstruction of human capital infrastructure, in particular housing, healthcare facilities, schools, higher education institutions, culture, and research infrastructure.

The Plan acknowledges that reconstruction needs to be done strategically to ensure Ukraine's long-term resilience. To this end, the proposed transport investments are guided by two strategic documents: revision of the National Transport Strategy of Ukraine and the Strategy for developing and expanding the border infrastructure with EU member states and the Republic of Moldova until 2030. This kind of comprehensive planning of the transport sector is a necessary first step to ensure rebuilding of the transport network in a strategic way, reflecting the reorientation of trade and other flows. Similarly, the energy investments reflect the need to address the destruction of energy infrastructure and ensure security of energy supply through multiple angles - protection of energy infrastructure, development of private-sector led renewable energy, as well as increasing energy efficiency in various sectors. In parallel, reconstructing an economy from the ravages of war requires a robust fiscal foundation, putting measures to improve public financial management and audit systems at the centre of the Plan.

The Plan highlights the need for a focus on sustainability aspects, integrating strong environmental, governance and social elements. Examples include the long-term plan for the development of irrigation systems, as well as the strategy and an Action Plan for implementing the principles of a circular economy to help deal with, among others, the challenge of demolition and hazardous waste in the wake of the destruction. Authorities indicated the intent to follow demining with wider decontamination efforts and ecological rehabilitation. On the social side, the Plan includes reforms aimed at improving access to rapid skills up-grading programmes to address the short- and medium-term labour needs and facilitate reconstruction activities, steps to support transition from military service to civilian life, as well as social inclusion measures such as improving social infrastructure system and de-institutionalisation of care. As SOEs dominate sectors critical to Ukraine's recovery like energy, transport and banking, the transformation of these enterprises, as envisaged in the Plan is critical for reconstruction efforts. Finally, continuing decentralisation and regional policy reforms aims to empower local governments to perform their functions effectively and take on the expected role in the reconstruction.

The Ukraine Plan outlines the alignment of investment and reforms with the "do no significant harm" principle, to the extent possible in a context of war or post-war recovery and reconstruction The Plan includes selected environmental measures and climate policy reforms, supporting Ukraine's alignment with the EU acquis, fulfilment of Ukraine's obligations under multilateral environmental agreements such as the Paris Agreement and the Kunming-Montreal Global Biodiversity Framework as well as increasing ambitions for Ukraine's NDC prior COP30. In addition to reforms aiming at climate change mitigation and adaptation, measures related to conservation of biodiversity, pollution prevention, circular economy and water protection, the Plan includes measures mainstreaming sustainability practices to key sectors such as production of energy and critical raw materials. Energy efficiency measures are planned across selected sectors, which should contribute to Ukraine's climate targets and economic competitiveness. For the measures of the Ukraine Plan to have a lasting impact, Ukraine should strengthen the implementation of environmental legislation, in particular horizontal environmental acquis, notably address environmental assessments, access to justice on environmental matters and environmental enforcement (inspection) requirements. In the Plan, Ukraine commits to develop a note, following public consultation, defining the scope of current derogations from rules on the application of Environmental Impact Assessments and Strategic Environmental Assessments. The note is reflected as a qualitative step under the green transition and environmental protection and will need to be published by Q3-2024. In the respective payment request, the Commission will assess the note to ensure that it is compatible with EU standards and is enforceable and, if needed, will provide further recommendations to the Ukrainian authorities to improve it. At least 12 % of the Pillar I investments are expected to contribute to climate change mitigation and adaptation, environmental protection, including biodiversity conservation, and to the green transition. These include at least 80 % of all investments in transport infrastructure and at least 60 % of all those in energy infrastructure. This will contribute to the Regulation's requirement to allocate at least 20 % of the overall amount corresponding to support under the Ukraine Investment Framework and to investments under the Ukraine Plan to measures that contribute to climate change mitigation and adaptation, environmental protection, including biodiversity conservation, and to the green transition, or to addressing the challenges resulting therefrom. The Plan also indicates intentions to align reforms and investment priorities with the "do no significant harm" principle and provides an economic, social and environmental rationale for the necessity of environmental and climate friendly investments. Throughout the implementation of the Plan and in the assessment of the payment requests the Commission will monitor how these reforms and investments are compatible with the principle of 'do no significant harm', to the extent possible, in a context of war or post-war recovery and reconstruction. Further, for investments in selected areas, the Plan envisages mitigation and offsetting measures to reduce possible negative impacts on the environment and climate which the Commission will monitor throughout the implementation.

The Plan supports the recovery of private sector and its integration into European and global value chains. To this end, the Plan supports the recovery of the country's private sector via strengthening the rule of law, traditionally the main obstacle impeding investments in Ukraine, improving the business environment, and building market institutions. Reforms aimed at improving the functioning of the justice system and the fight against corruption and money laundering are essential to address rule of law issues, including improving the legal framework and developing institutional capacity for a more effective fight against corruption. The reforms of the insolvency regime combined with the enforcement of court decisions should contribute to increasing the debt recovery and enforcement rates, while supporting the health of the financial sector. The reform of the Prosecution Service will be key for ensuring a strong criminal justice system that effectively tackles crime, while preventing pressure on businesses and abuse of power on the side of prosecutors and law enforcement agencies. The business environment chapter presents reforms and investments focused on facilitating recovery of business activity with particular attention to SMEs, de-regulation and the harmonisation of legislation and standards with the EU in key areas that will further open access to the EU market. Reforms in the critical raw materials chapter focus on strengthening the strategic planning as well as improving administrative procedures hopefully leading to an enhanced framework for investments in the sector. Reforms proposed under the chapter on financial markets aim to create optimal conditions for the financial system, more competitive banking, and a stronger non-banking sector, thereby improving access to finance. Restructuring of the management of public assets combined with efforts to optimise the portfolio and increase transparency could facilitate inflow of private capital. Ensuring public resources are not used to subsidise commercial activities and monitoring the state funds channelled to SOEs increases level playing field between public and private companies. Strengthening independence and capacity of market regulators in the financial markets and energy sector, or creating it in the railway sector, is a key ingredient in improving the functioning, transparency, and stability of those markets, with the ultimate goal of attracting private investments and upholding market competition.

The Plan takes a forward-looking perspective to support modernisation of Ukraine's judicial, economic, and political institutions. Strengthening the institutional set up, fostering a green and digital transition, and advancing structural transformation of the economy are key ingredients in modernising outdated structures. For instance, the chapters of public administration, public finance management and rule of law foresee the streamlining and digitalising processes in public administration services, the tax and customs administration, and the judiciary. The green transition chapter includes several measures introducing more sustainability in business practices, curbing greenhouse gas emissions and developing a national Climate Policy framework. Improving educational systems at preschool and vocational education levels will help with long-term skills development. The steps proposed under the management of public assets aim to modernise the approach to state ownership, management and governance, which, given the sheer size of the sector and its legacy issues, could lead to large productivity gains and economic modernisation.

The Plan also proposes measures to modernise the country's social institutions, support the most vulnerable and leave no one behind. The Plan includes measures to help rehabilitation for persons with disabilities and steps to facilitate the transition for veterans from military to civilian life, via, for-instance, psychological counselling and re-skilling programs. Steps to improve early childhood education are in the best interest of children and will also help build the necessary environment to bring back to Ukraine families with children of school age.

Supporting labour market integration of women through dedicated measures within the reform on improving the functioning of the labour market, coupled with improving the quality and accessibility of care services will help empower women and promote higher labour participation rates. Measures on deinstitutionalisation of care aim to support the most vulnerable including children, elderly and disabled. Coupled with the focus to restore and enable access to schools, housing, and other social infrastructure, and strengthen social security and cultural development this will help fundamentally restore the country's social and cultural life, thereby strengthening the country's social fabric advancing inclusivity.

The Plan acknowledges the need to establish a comprehensive state coordination system to ensure effective reconstruction and modernisation processes across all levels of government. To this end, the "Recovery and Investment Architecture" chapter of the Plan outlines the roles and responsibilities of state institutions and agencies, core strategic planning documents and fundamental principles of Ukraine's reconstruction and modernisation processes at the national and sub-national levels. The fundamental principles of the reconstruction process contribute to Ukraine's economic, social, and environmental resilience at all levels of government and facilitate progressive alignment with the EU *acquis*, including through the "build back better" approach, if applied and monitored comprehensively. The capacity of the (sectoral) single project pipeline to ensure a transparent and efficient approach to selecting and implementing reconstruction projects is contingent on the creation and application of a comprehensive prioritisation methodology fully aligned with the fundamental principles of the reconstruction process outlined above. Furthermore, the development of a financial mechanism for the allocation of an adequately substantial share of funding for the sub-national level, in particular territorial communities, will be critical to sustain the positive effects of the decentralisation reform for local self-governance and foster regional development. The Plan also proposes a public investment management (PIM) roadmap, which aims at increasing the effectiveness of Ukraine's finance management system. The establishment of an integrated digital platform will help to ensure civic participation and effective monitoring of the reconstruction process and is therefore expected to prevent, detect, and correct mismanagement and malfeasance. Finally, the public administration reform aims to build trust in the civil service, attract talent and prevent corruption and conflicts of interest through encouraging merit-based recruitment and selection, digitalisation of management operations across public institutions, and a clear and transparent procedural framework.

4.4 Contribution to the EU enlargement process and the Association Agreement

Table 4.4.a Consistency of the Ukraine Plan with the 2023 Enlargement Report

chapter in the Plan	chapter in the 2023 Enlargement report	Degree of alignment
1. Public Administration Reform	cluster 1: Functioning of the democratic institutions and public administration reform	●
2. Public Financial Management	cluster 1: Functioning of the democratic institutions and public administration reform	●
	chapter 16 Taxation	○
	chapter 17 Economic and monetary policy	○
	chapter 29 Customs union	○
	chapter 32 Financial control	○
	chapter 33 Financial and budgetary provisions	●
3. Judiciary	chapter 23 Judiciary and fundamental rights	●
4. Fight against Corruption and Money Laundering	chapter 4 Free movement of capital	○
	chapter 23 Judiciary and fundamental rights	●
	chapter 24 Justice, Freedom and Security	●
5. Financial Markets	chapter 9 Financial services	●
6. Management of Public Assets	chapter 8: Competition policy	○
7. Human Capital	chapter 19: Social policy and employment	○
	chapter 26: Education and culture	●
8. Business Environment	chapter 5: Public procurement	○
	chapter 20: Enterprise and industrial policy	●
9. Decentralisation and Regional Policy	chapter 22: Regional policy and coordination of structural instruments	○
10. Energy Sector	chapter 15: Energy	●
11. Transport	chapter 14: Transport	●
	chapter 21: Trans-European Networks	○
12. Agri-Food Sector	chapter 11: Agriculture and rural development	●
13. Management of Critical Raw Materials		
14. Digital Transformation	chapter 10: Digital transformation and Media	○
15. Green Transition and Environmental Protection	chapter 27: Environment and climate change	●
chapters 2, 4, 5, 7, 8, 10, 11	cluster 1: Economic criteria	●

● broad alignment with recommendations in the 2023 Enlargement Report;
○ partial alignment with recommendations in the 2023 Enlargement Report.

The reforms set out in the Ukraine Plan complement and are consistent with the recommendations of the 2023 Enlargement Report. Both documents provide a framework for reforms that will ultimately bring Ukraine closer to the European Union membership. The Plan is different from, but complementary to the EU accession process, due to the potential to accelerate economic convergence upon successful completion while simultaneously increasing alignment with the EU *acquis* in key areas. As presented in the table above, most chapters either have a broad (steps laid out in the Plan match more than half of the recommendations in the 2023 Enlargement report), or a partial (at least one reform matches the recommendations) correspondence with the recommendations set out in the enlargement report.

There is a strong alignment in some of the areas that are fundamental to the EU accession process, the so-called Cluster 1 in the Enlargement report. This is of crucial importance in light of the close link between economic growth and the areas of the rule of law, such as judiciary, the prevention and fight against corruption and anti-money laundering, and public financial management**.** For instance, the Plan's key reforms proposed in the anti-corruption chapter is broadly aligned with the Enlargement report's recommendations. Both documents recognise the need to, among others: i) allocate resources to the key anti-corruption institutions and ensure transparent appointment procedures for anti-corruption enforcement institutions; and ii) implement the Asset Recovery Strategy for 2023-2025 and initiate reform of the Asset Recovery and Management Agency. One area fundamental to the EU accession process has partial alignment. This refers to the need for alignment of Ukrainian legislation and institutional practices with the FATF Standards. The actions regarding anti-money laundering address partially the recommendations described in the Enlargement report 2023, which refers to the need to align with FATF standards in the broad sense. Ukraine proposes to approve the Action Plan dealing with the risks identified in the third round of the National Risk Assessment and establish a legal framework for the unified registry of bank accounts as a step towards establishing the Register for holders and beneficial owners of bank accounts. Steps (i) and (ii) go in the direction of improving Ukraine's framework to fight against corruption which, consistently with the 2023 Enlargement Report, shall be subsequently strengthened further by revising the Criminal Procedure Code and the Criminal Code to enhance the effectiveness of the judiciary in addressing high-level corruption cases, in particular by introducing reasonable time limits for pre-trial investigations. These are important steps among other actions needed to tackle money laundering and terrorism financing including areas such as virtual assets legislation or adjustments of beneficial ownership register regime.

Furthermore, given the growth focus of the measures in the Plan, nearly all recommendations from the Economic criteria chapter of the Enlargement report are reflected in the various chapters of the Plan.

Strong alignment is also seen in the green transition areas and key sectors such as energy, financial services, and agri-food. A prime example of close alignment is the chapter on energy: both the Plan and the enlargement report recognise the need to: i) continue aligning Ukraine's energy policy with the EU *Acquis*, advance the green energy transition by adopting the Integrated National Energy and Climate Plan, encouraging investments in the production of renewable energy, and implementing energy efficiency measures in key sectors; ii) achieve cost reflective energy pricing; and iii) improve the independence and functioning of the energy regulator. In relation to the green transition, the reform on entry into force of the legislation on prevention, reduction and control of industrial pollution follows up on the enlargement report recommendation to adopt a law on environmental control as well as legislation harmonizing with the industrial emissions *acquis*. Similarly, the entry into force of the legislation on the State Climate Policy aligns with the recommendation to adopt a climate law and initiate the update of its long-term low emission strategy consistent with the EU 2030 framework. Measures in the financial services and the agri-food sector are also broadly aligned with more than half of the recommendations in the dedicated chapters of the enlargement report.

Six chapters have a partial alignment with the recommendations of the enlargement report. The planned reform of legislation on the railway system included in the transport chapter corresponds to the recommendation to align and effectively implement the EU rail *acquis* and set up appropriate administrative structures for rail transport. It also partially aligns with the recommendations on Trans-European Networks. Another chapter that partially corresponds to the enlargement report is digital transformation. The reform on entry into force of the legislation on strengthening the cybersecurity capabilities of state information resources and critical information infrastructure follows up on the report recommendation to further align with the EU directive on security of network and information Systems (NIS) and the EU 5G Cybersecurity Toolbox. The chapter on decentralisation and regional policy includes a step to amend the State Strategy for Regional Development for 2021-2027 and, therefore, aligns with the enlargement report's recommendation to align it with the recovery and reconstruction process, principles of multi-level governance and a territorially based regional policy. Other partially aligned chapters include those on human capital, management of public assets, public financial management and business environment in relation to the public procurement. In addition, the free movement of capital chapter has partial alignment due to the scope of the anti-money laundering steps.

The Plan proposes additional measures not captured in the enlargement report. As an example, the Plan takes the reforms of state-owned enterprises significantly beyond the recommendations in the Enlargement report, particularly in relation to material transformation of top key SOEs. While both the Plan and the enlargement report recommendations refer to improving the management of SOEs, the Plan will also improve the corporate governance principles which will not only be enshrined in the legislative changes, but also implemented in top 15 SOEs through appointments of supervisory boards. Furthermore, top SOEs will be corporatised, addressing a long-standing issue of having an archaic legal form which limits their access to funding. Furthermore, the chapter on critical raw materials does not have a direct correspondence to a particular chapter in the enlargement report. However, it has significant potential to stimulate the economic growth. This illustrates that the Ukraine Plan complements the Enlargement report, jointly providing a framework for reforms that will ultimately guide Ukraine into European Union membership.

Several recommendations from the Enlargement report are addressed in the broader reform agenda of the Plan. Examples include continuing alignment with the EU *acquis* in banking, insurance, and financial sector, the need to achieve full alignment with EU roaming legislation as well as the need to ensure the independence of the regulatory authorities in telecom and media. The wider reform agenda in the green transition chapter also captures other reforms included in the 2023 Enlargement report, namely the need to continue aligning Ukrainian legislation on water and waste with the EU *acquis*. Consistently with the 2023 Enlargement Report's recommendations, the broader reform agenda under the Human Capital chapter refers to modernising labour and occupational health and safety legislation in line with the EU acquis, while ensuring an enabling environment for bipartite and tripartite social dialogue, as well as strengthening the capacities of social partners.

The Plan also supports the objectives of the Association Agreement and the Deep and Comprehensive Free Trade Agreement. It promotes additional rapprochement between Ukraine and the EU by means of deeper alignment with the EU acquis, thereby creating the necessary conditions and opportunities for Ukraine's integration in the EU single market. A few examples include the measures foreseen under the public finance management, financial markets, rule of law, management of state-owned assets, agri-food, transport, or energy chapters. More specifically, the financial markets chapter builds on the cooperation in financial services between the EU and Ukraine, established through the Association Agreement. Regulatory approximation in the financial markets is advancing on parallel tracks both via the association agenda and the enlargement track, whilst enlargement benefits immensely from the achievements of the association efforts. Reforms in the human capital chapter, and the green transition chapter contribute to the trade and sustainable development of objectives of the DCFTA, complementing EU technical assistance efforts. In the energy area, the Plan proposes measures promoting the increase in the share of renewable energy, and the European integration of Ukraine's energy markets. These echo Ukraine's commitment to the Energy Community, the Association Agreement and the principles of sustainable development and green economy.

4.5 Consultation process for the preparation of the Ukraine Plan

To ensure a high quality and inclusivity, the authorities undertook stakeholder consultations throughout the planning and development of the Ukraine Plan. As an initial step and to ensure a whole-of-government priorities are reflected in the Plan, the government set up an inter-agency working group led by the First Deputy Prime Minister and Minister of Economy in June 2023. The working group consisted of the Ministers for European and Euro-Atlantic Integration, Minister for Communities, Territories and Infrastructure Development, Minister of Finance, Minister of Foreign Affairs, Minister of Justice, Minister of the Cabinet of Ministers, Office of the President of Ukraine, the Government Commissioner for Gender Policy, the Government Office for Coordination on European and Euro-Atlantic Integration and the Reform Delivery Office. The consultation process was held in two phases, involving central executive government bodies, regional stakeholders, business sector groups, civil society, and Members of the Parliament and parliamentary committees. The consultation process attracted significant involvement from key stakeholders.

In the first phase (July – Sept. 2023), stakeholders were consulted on key areas that could help boost economic growth and attract investments. As a result, the Ukrainian authorities prepared a concept note outlining a growth vision and key reform and investment areas to boost economic growth. Consultations were held in the format of workshops for representatives of regional administrations, business representatives, social partners, and other key stakeholders, as well as calls for proposals from all participants. The extent of the consultations was significant. For example, a questionnaire formulated by the Ministry for Communities, Territories and Infrastructure Development engaged 206 leaders from urban, rural, and rural territorial communities across 24 regions in Ukraine, while 64 online and in-person meetings organised for more than 2,000 participants from business and business associations leading to the submission of 329 policy and 460 investment proposals.

In the second phase (Sept. – Dec. 2023), stakeholders were consulted on specific reforms needed to boost economic performance, which ultimately built the foundation for the Ukraine Plan. Consultations in this phase consisted of several workshops and structured consultations as well as the application of a questionnaire to representatives of various levels of subnational and local governments to provide feedback on the considered reforms (attracting more than 800 participants), consultation events and written feedback from the civil society (attracting over 40 non-governmental organisations which submitted over 250 comments), and dedicated consultation sessions with the Verkhovna Rada.

The Verkhovna Rada of Ukraine was duly consulted in the preparation of the Plan. In October 2023, consultations were held with the leadership of 18 committees of the Verkhovna Rada, with participation of representatives from over 20 ministries and central executive authorities responsible for preparing proposals and implementing reforms within the Plan. Following the consultations, the government received and processed 59 proposals from 5 committees of the Verkhovna Rada, 39 of which were fully or partially considered. The government held separate sessions with the parliamentary committee on Economic Development and representatives of the committees on Energy, Housing and Utilities and the

Organisation of State Power, Local Self-Government, Regional Development and Urban Planning in October-December 2023

Consultations with the international community were focused on ensuring alignment and fostering coordination. Alignment with other donors was secured via regular consultations through the Multi-Agency Donor Coordination Platform, dialogues with the EU Member States during Senior Officials' Meetings, and via associated expert groups hosting conversations with G7 countries and international financial institutions. As the Plan lays out the medium-term reform and investment priorities of the Ukraine authorities, going beyond the requirements of the Facility, it can be used as tool for fostering synergies, alignment, and effective coordination between various international partners.

4.6 Arrangements for an effective monitoring, reporting and evaluation in the Plan, including the system to effectively prevent, detect and correct irregularities, fraud, corruption, and conflicts of interest

The arrangements proposed by Ukraine in the Ukraine Plan are assessed to be adequate to ensure an effective monitoring, reporting and implementation of the Ukraine Plan. The governance proposed includes the Ministry of Economy as the National Coordinator, the Ministry of Finance as the entity auditing the Plan, and various ministries, central executive bodies, and other public entities outside of the remit of the central government, as also in charge of monitoring and reporting on the implementation of the qualitative and quantitative steps. Considering the broader context of resource constraints due to the staffing situation in the government and the ongoing full-scale war in Ukraine, the administrative capacity of these bodies is considered satisfactory and appropriate for the tasks at hand.

The Plan describes the institutional set up for the implementation of the reforms and investments tied to the financing under the Pillar I of the Facility. The Ministry of Economy of Ukraine, with a broad mandate covering economic and social policies, will serve as the central coordinating authority for the Plan's implementation. A dedicated structural division within the ministry called the 'Office of the National Coordinator' will be put in place and staffed accordingly. The necessary administrative resources for coordination functions will be provided mostly within the existing resources of the government.

The Plan outlines the envisaged monitoring and reporting mechanisms. The Plan proposes a reporting system for the implementation of reforms and of investments. The public authorities responsible for the fulfilment of the quantitative and qualitative steps will submit to the National Coordinator the necessary information on the progress of the implementation of the indicators, using the system of electronic interaction of executive authorities. The arrangements governing public authorities' reporting to the central coordination body will be regulated by a procedure to be approved by the Government.

The monitoring, control, and audit systems put in place for the implementation of the Ukraine Plan are based on adequate internal control principles. While general in their nature, the Plan contains descriptions of systems to protect the EU's financial interests. The Ministry of Finance together with the State Audit Service will provide assurance on the legality and regularity of the spending of EU funds and on the protection of the financial interests of the EU. A dedicated structure within the Ministry of Finance will be established to audit and confirm the satisfactory fulfilment of the qualitative and quantitative steps the achievement of indicators. The State Audit Service will be in charge of monitoring the steps that focus on investments or those that require undergoing public procurement procedures. Given the extensive experience in coordinating macro-financial assistance programmes from the EU, a range of IMF programmes, including the ongoing Extended Fund Facility arrangement, the Ministry of Finance is sufficiently equipped to audit the implementation of the Ukraine Plan. The track record in coordinating international donor assistance serves as additional reassurance to allow an effective use of funds and avoiding double funding, as required by the Article 18 of the Regulation.

The Ukraine Plan proposes a series of reforms in public financial management aimed at reinforcing and improving audit and financial control systems in Ukraine. The reform priorities in the Ukraine Plan are consistent with the recommendations of the Enlargement report to help Ukraine on its accession track. In addition, the proposed reforms of the public investment management will increase the transparency and accountability of recovery, reconstruction, and modernisation processes. These reforms aim to strengthen Ukraine's audit and financial control systems so that they will be adequate and provide reasonable assurance regarding the effective use of funds provided under the Ukraine Facility, and also the efficient prevention, detection, and correction of irregularities, including fraud, corruption, and conflict of interest.

Additional arrangements for the effective monitoring, reporting and evaluation in the Plan are covered in the Framework Agreement. The Framework Agreement will set out specific arrangements for the management, control, supervision, monitoring, evaluation, reporting and audit of funds under the Facility, including avoiding double funding, as well as preventing, detecting, investigating and correct irregularities, fraud, corruption or any other illegal activity affecting the financial interests of the Union and conflicts of interest, including the effective investigation and prosecution of offences affecting the funds provided under the Facility. The Framework Agreement shall be complemented by a financing agreement and a loan agreement, setting out specific provisions for the management and implementation of funding under the Facility.