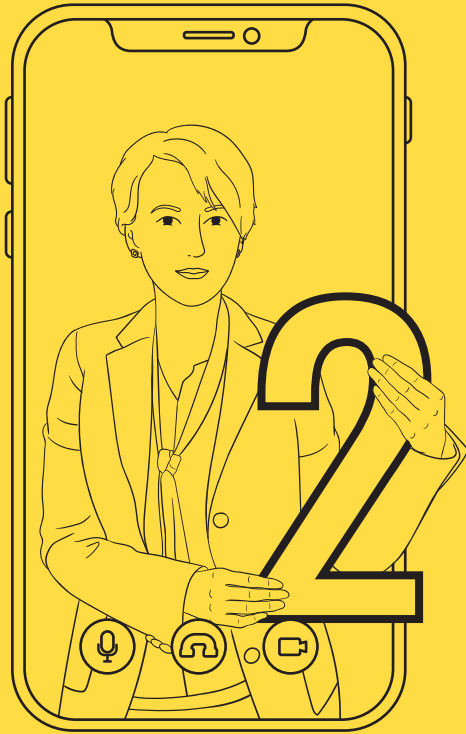
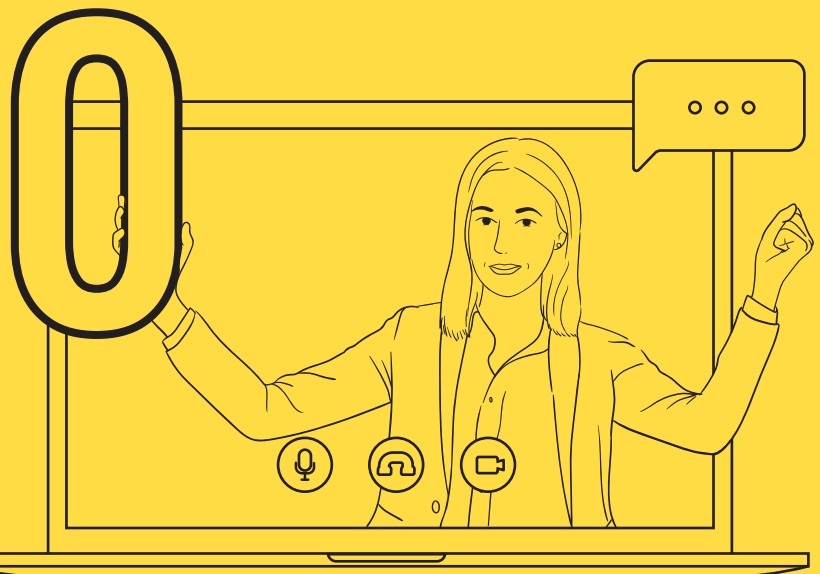
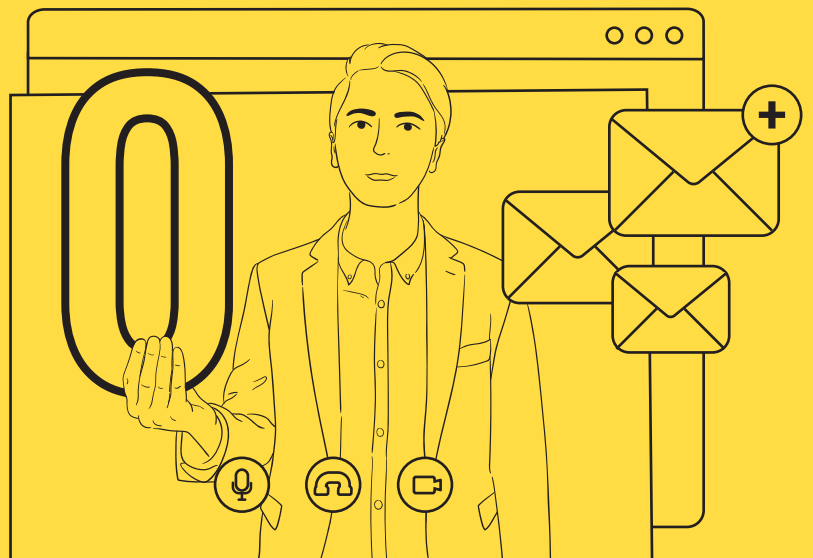


**MIN
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REFORM
SUPPORT
TEAM



ANNUAL REPORT





Reform Support Team Ministry of Finance of Ukraine

ANNUAL REPORT |



2020

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Introduction

2020 proved to be a year of challenges and changes to the way we live and work. The whole world is facing a crisis not only in the field of healthcare but also in the well-timed governance, economic stability, and international cooperation in order to maintain worldwide social equality.

Ukraine in general, and the Ministry of Finance in particular, passed this difficult year with dignity, showing strength and gaining experience that will definitely be useful to us in the near future.

Many steps have been taken to combat the epidemic and its consequences, the most notable of which is the establishment of the anti-COVID-19 Budget Fund. This decision allowed the accumulation of more than ₾80 billion (€2.3 billion) under governmental control, which could be quickly allocated for the changing needs of a country facing a rapidly spreading disease. At the same time, such a mechanism carried the risks of funds misuse.

Our Reform Support Team helped the Ministry to respond appropriately to this challenge and report on every hryvnia spent from the Fund. To do so, we jointly developed and deployed a digital analytical tool making all expenditures from the Anti-Covid-19 State Budget Fund publicly available. For this achievement, we were nominated for the international award Team of the Year in the "COVID-19 Rapid Responders" category by Apolitical.

Despite the daunting challenges of 2020, the Ministry of Finance continues structural reforms that lay the foundation for economic growth that we all crave for.

Our Team supported the MoF in the internal capacity development by drafting the Human Capital Management Strategy and Communication Strategy. We are helping the MoF to improve performance-based budgeting based on PEFA criteria and OECD countries' best practices.

In the Tax and Customs fields, comprehensive reforms of the State Tax Service and State Customs Service continue. We also promoted anti-offshore measures by the elaboration of a draft law for the BEPS Action Plan implementation. We supported the launching of the Authorized Economic Operators programme in Ukraine, which is indeed a great achievement to the adjustment of the Ukrainian customs legislation to the European standards.

Our Team supported the MoF with updating Strategic principles of reforming the state banking sector as well as assisted with IFIs portfolio reviews in order to overview the projects' status and pipeline. We made a significant contribution in the preparation of the Ownership Policy of NPC UKRENERGO, in line with OECD standards.

All our major achievements in 2020 are set out in this report. We truly believe that 2021 will be a year when the world will shed the burden of the pandemic. And, as united as we have fought the disease, we will work together on a unifying goal of a world of common prosperity, implementing the reforms that will lead us there.

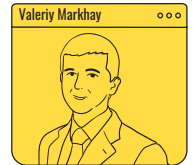
**Reform Support Team
Project Management Office
at the Ministry of Finance of Ukraine**

Reform Support Team Managers 2020

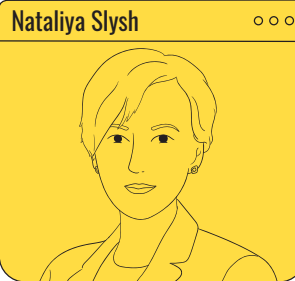
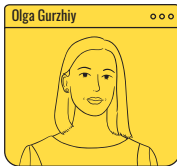
Customs Reform



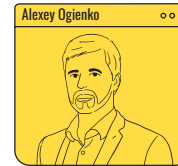
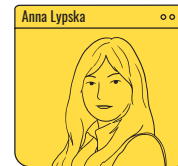
Public Finance Management Reform and Budget Expenditures Optimization



Public Administration Reform and Capacity Development at the Ministry of Finance



State-owned Banks Reform



Tax Reform



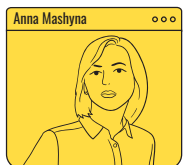
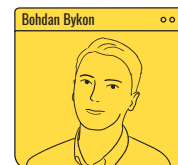
Improvement of International Financial Cooperation Process



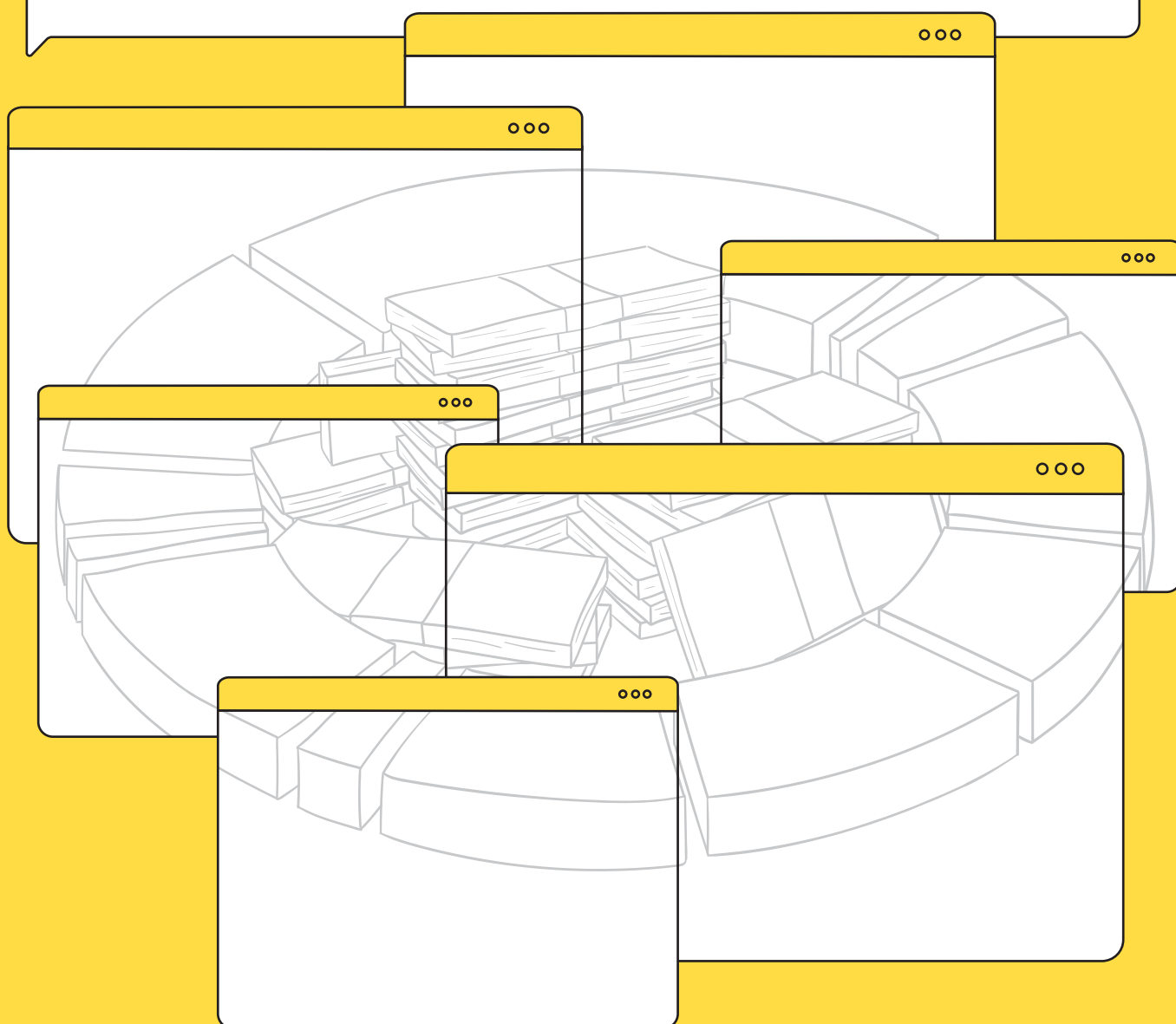
Administrative Assistance and Communication



SOEs Corporate Governance Reform Implementation in Gas and Electricity Transmission System Operators



PUBLIC FINANCE MANAGEMENT REFORM AND BUDGET EXPENDITURES OPTIMIZATION



PERFORMANCE-BASED BUDGETING

The RST assisted the MoF with development of proposals on areas of performance-based budgeting (PBB) improvement based on PEFA criteria and OECD countries' best practices

In July-October the RST conducted an analysis of the experience on PBB of Australia, Germany, the Netherlands, France, Serbia, the UK, New Zealand and the USA (in particular in part of strategic, budget, performance documents and budget programs), prepared a comparative table of elements used in the budgetary process/budget programs in Ukraine and the experience of OECD countries.

In November-December the RST supported the MoF with preparation of the new PBB concept, which provides enhanced structure of the budget programs, format of the budget appropriations and apportionments, approaches to the format and usage in the budget process of performance plans which key spending units prepare after the state budget is approved.

In October-December the RST supported the MoF with preparation of the draft Methodology of budget programs formation with requirements to main budget programs components and the procedure of approving the new budget programs.

Further implementation of the new PBB concept and the Methodology of budget programs formation will allow to increase the transparency and efficiency of the budget funds usage; establish a link between outcomes, budgetary funds spent and results achieved; increase the transparency of activities and accountability of key spending units

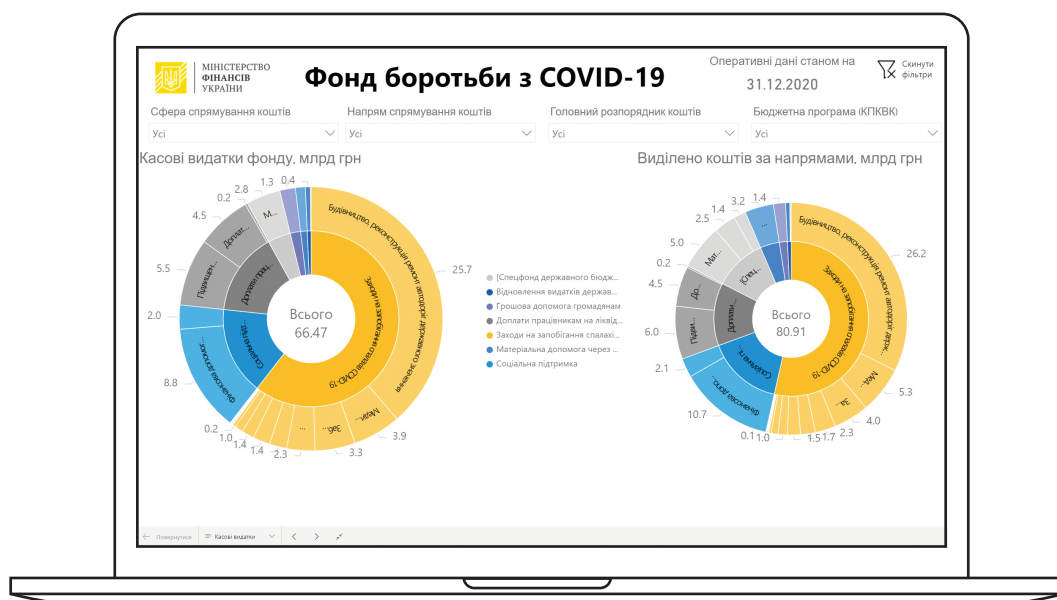


SECTORAL PUBLIC EXPENDITURES OPTIMIZATION AND TRANSPARENCY

The RST assisted the MoF with enhancing transparency in public resources usage, particularly in the field of anti-COVID-19 and education spendings

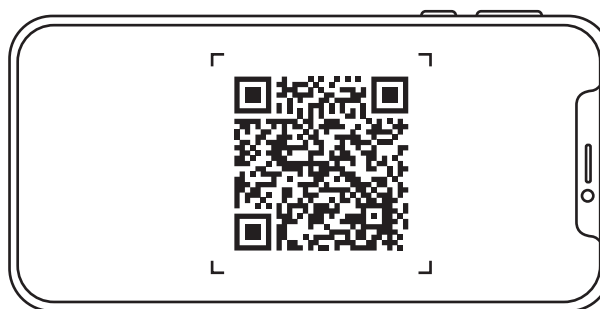
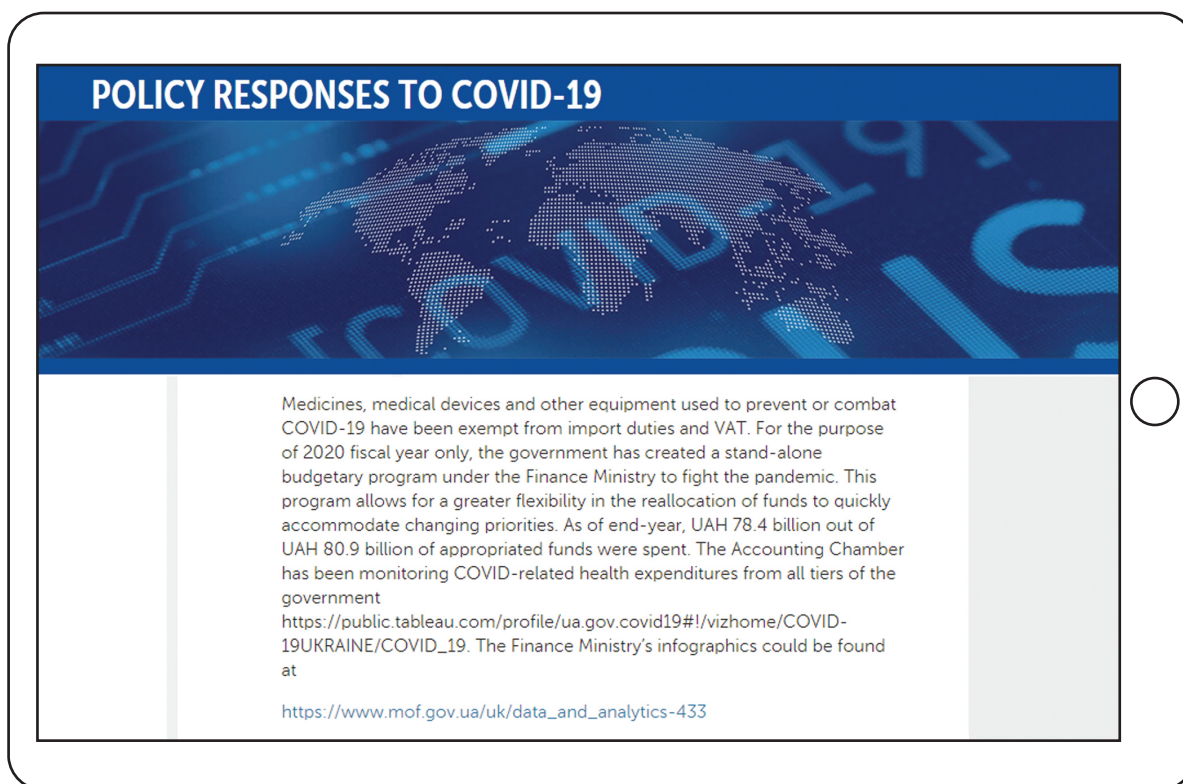
In mid-March, the Ukrainian government introduced economic, fiscal and macro-financial policy measures to inoculate the economy from the effects of COVID-19. One of them was a simplification of the public procurements procedure for healthcare-related goods and services. And following amendments to the 2020 budget, the government created a temporary budgetary program that provides greater flexibility in the reallocation of funds to quickly accommodate changing priorities – the anti-COVID-19 Budget Fund.

The RST assisted the MoF with enhancing transparency in public finances in the field of anti-COVID-19 expenditures. The RST provided support with development, deployment and further upgrading of a digital analytical tool making all expenditures from the anti-Covid-19 Fund publicly available. The tool can be accessed through the website of the Ministry of Finance. The volume of the public spending that the tool has accounted for as of mid-December 2020 amounts to over ₾80 billion (€2.3 billion).



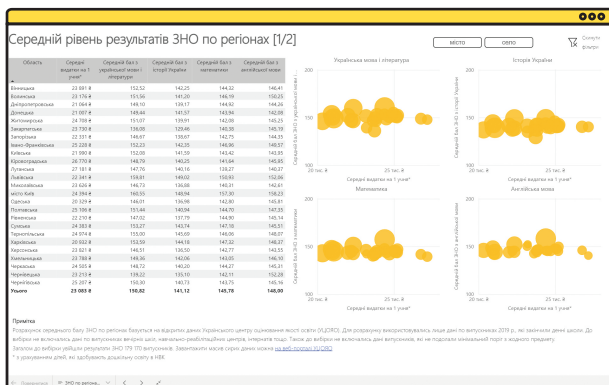
For the first time, the MoF published the analytical tool in July 2020. The analytical panel gained high popularity and was regularly used by experts and media. The MoF also used the tool for internal purposes.

The IMF recognized the anti-COVID-19 Fund public analytical tool in an international overview of the key economic responses that governments are taking to limit the impact of the COVID-19 pandemic.

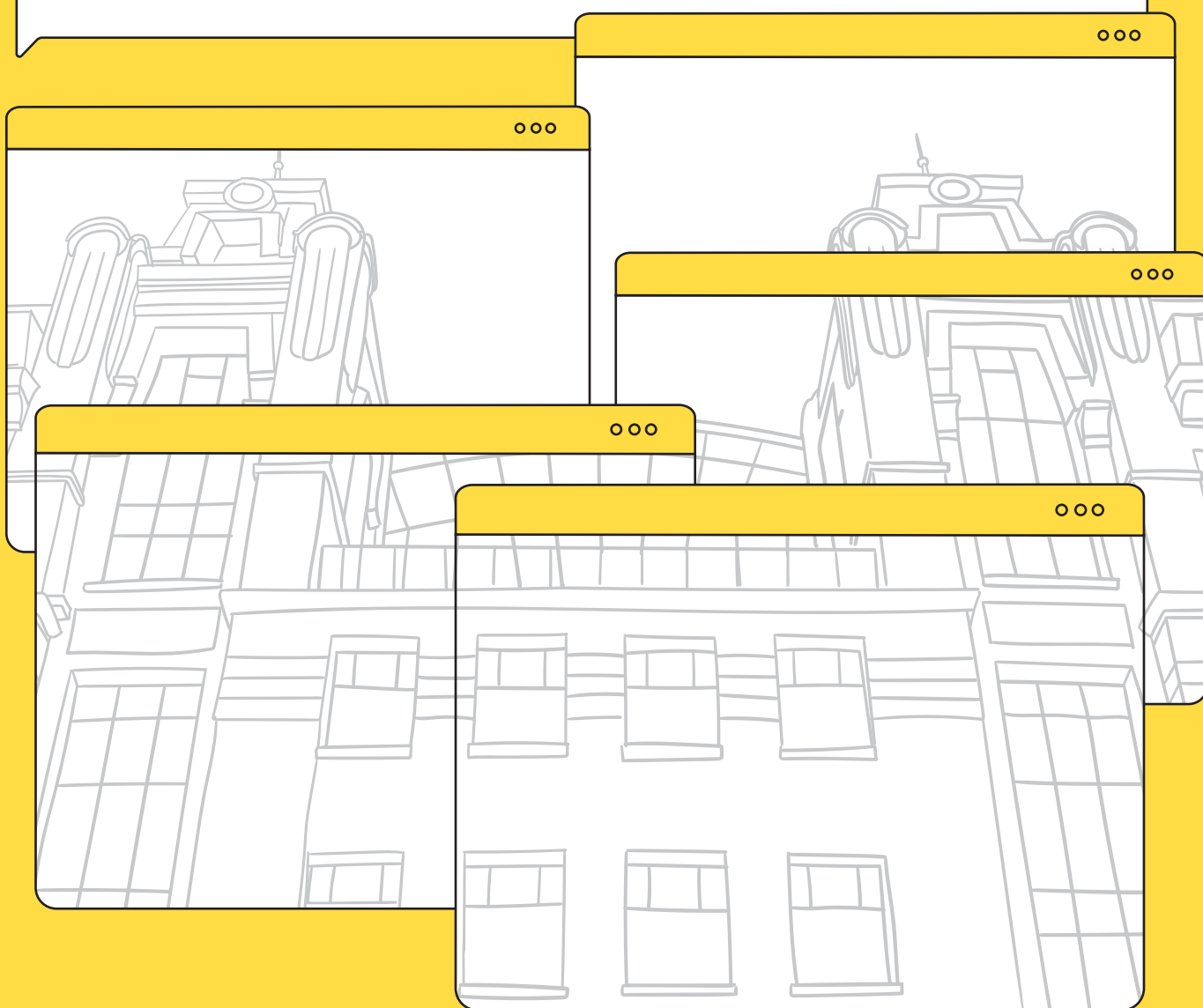


The RST also provided project management support regarding systematic monitoring of specialized public procurements aimed to counteract the COVID-19 pandemic spreading and regarding introducing a risk-based approach to assess these specialized procurements from the fiscal point of view. The specialized procedure was established by the CMU decree № 225 dated March 20, 2020.

For the second year in a row, the RST continues supporting the MoF with transparency in the field of education. In July 2020 the MoF published an analytical tool on general secondary education public expenditures efficiency in 2019. The RST provided project management assistance with tool development. This analytical tool received wide public outreach and among the education sector specialists. The analysis covered public expenditures efficiency data of more than 14 thousand schools with about 4 million students, and the public expenditures on schools totalled €94 billion (€3,25 billion).



PUBLIC ADMINISTRATION REFORM AND CAPACITY DEVELOPMENT AT THE MINISTRY OF FINANCE



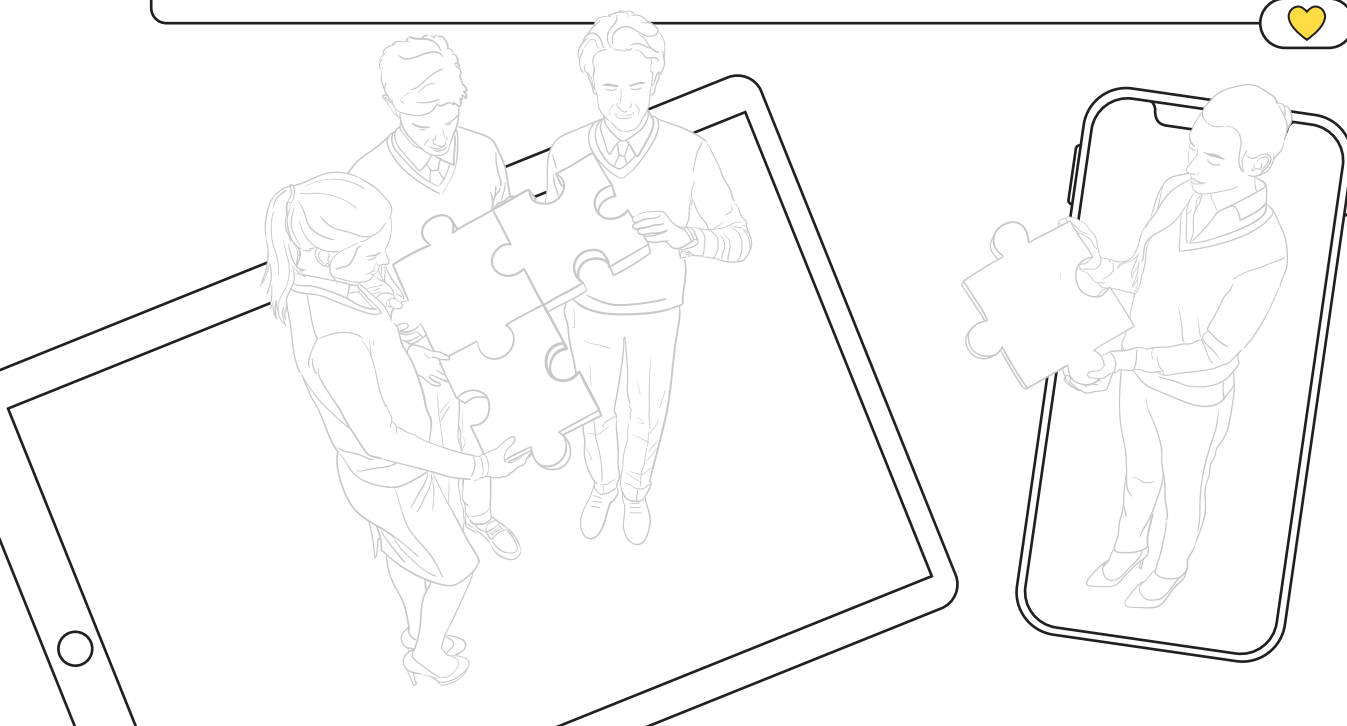
HUMAN CAPITAL MANAGEMENT STRATEGY

The RST coordinated the MoF's working group for the development of the Human Capital Management (HCM) Strategy and strategy implementation Action Plan for 2021-2024

In June 2020 the MoF launched a project of an HCM Strategy development in line with the MoF's Strategic Plan for 2018-2021. Its objective is to enhance the institutional capacity of the Ministry. The project is coordinated within the MoF with the RST project management support and aims to build a modern and effective personnel management system in line with the best practices and post-COVID-19 changes.

In September-October 2020 the MoF conducted the fourth annual staff survey – one of the HCM long-term instruments. The RST has provided support on preparation, conduction and results analysis, incl. gender and cohort analysis, culture assessment, and preparation of an action plan on staff survey results implementation with short- and long-term actions. The personnel's needs and cultural framework set forth in the results of the staff survey shall be reflected in the HCM Strategy.

A comprehensive workforce HCM Strategy shall be in place, with succession plans to meet MoF's strategic goal – to be perceived as a model public sector employer that citizens choose to work for, commit to and stay with



INFORMATION TECHNOLOGY STRATEGY WITHIN THE PFM AREA

The RST supported the MoF in the development of the IT PFM Strategy and strategy implementation Action Plan for 2021-2024

In September 2020 the MoF launched the IT PFM Strategy development project. The RST supported strategy development process including a definition of the key issues related to the IT processes, approach and methodology, key principles, strategic goals, list of the priority projects for the implementation within the MoF and PFM area during 2021-2024.

The goal of the IT Strategy within the PFM area is to deliver high-quality, reliable, secure information technology services, to provide forward-looking and comprehensive solutions that increase public finance management efficiency.

The IT Strategy implementation will result in the introduction of a new model of integrated information environment within the PFM area, built on the interoperability of electronic information resources, comprehensive information protection and technological independence, and provide real-time information exchange



COMMUNICATION STRATEGY

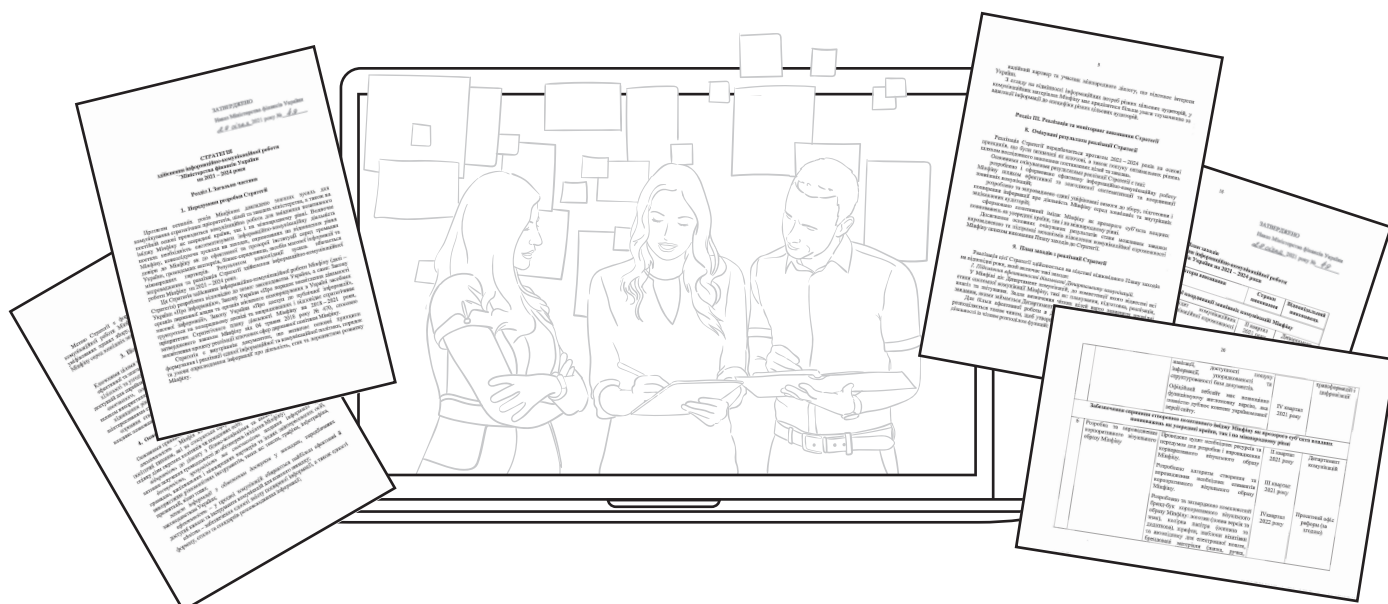
The RST supported the MoF in the development of the Communication Strategy of the Ministry for 2021-2024

In July 2020 the RST developed an algorithm on how to provide and conduct effective and efficient communication flows between the Ministry and different stakeholders. The analysis provided by the RST covers key tools, objectives, tactics and principles of successful communication.

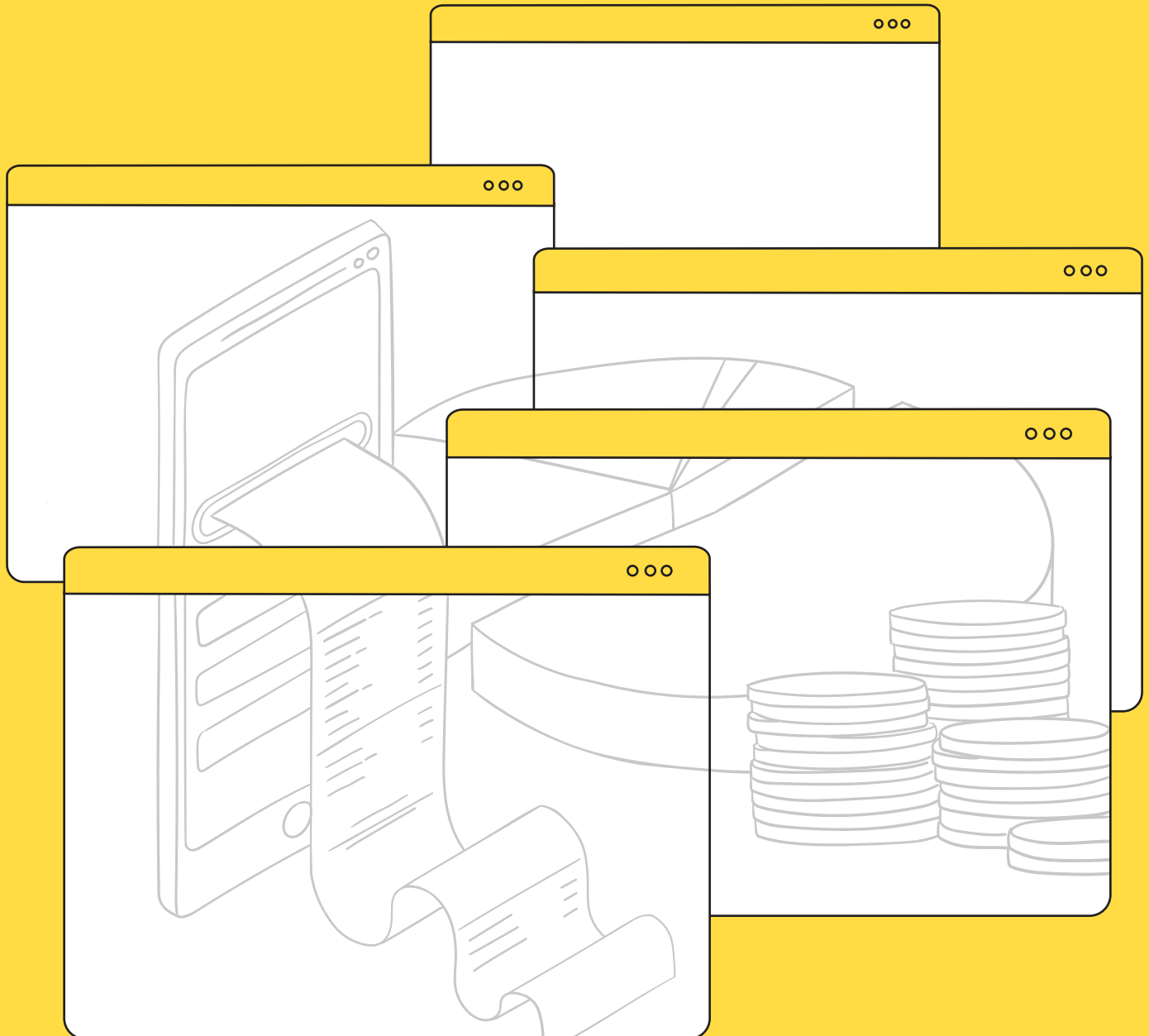
In December 2020 the RST provided project management support to the MoF in the coordination of the Communication Strategy development, including preparation of key documents drafts: Strategy, Action Plan for its implementation, KPIs.

The analysis provided by the RST for developing the Strategy covers key principles, goals, channels, messages, target audiences of communications, together with analysis of the resources, measures, potential risks, impacts and benefits of implementing the necessary changes in communications.

Implementation of the Communication Strategy will increase the transparency of the MoF's communications and provide wider media coverage, raise positive public feedback and increase the effectiveness of information flows and decision-making



TAX REFORM



ANTI-OFFSHORE TAX MEASURES

The RST assisted the MoF with the elaboration of a draft law aimed to implement the BEPS Action Plan in Ukraine legislation

The RST coordinated the MoF's working group on the preparation of a draft law on the implementation of the BEPS Action Plan into local legislation.

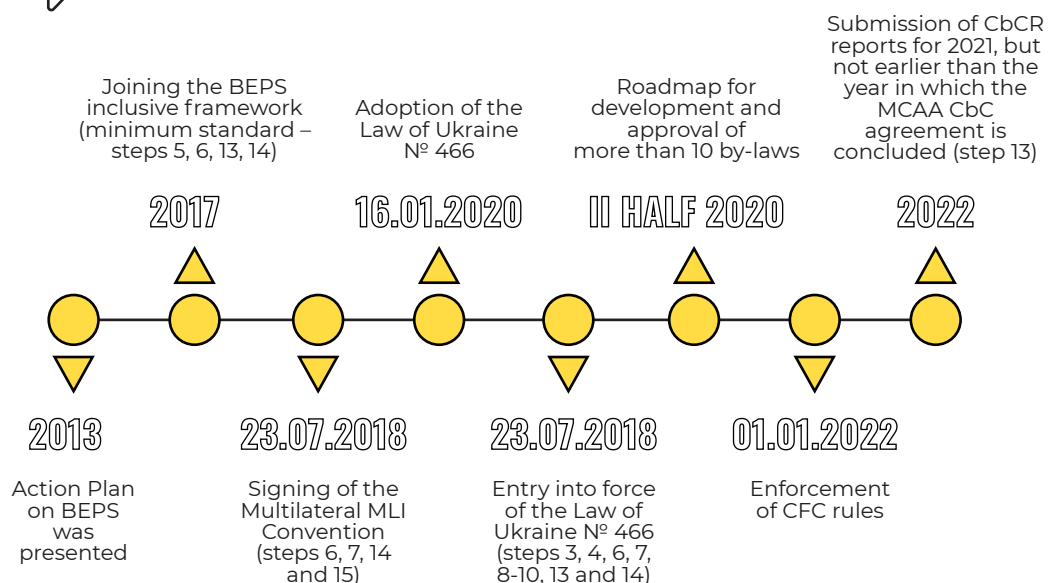
The draft law was sent for review to international experts from the OECD, the World Bank and the IMF, and was further updated in accordance with received recommendations.

The law № 466 on implementation of the BEPS Action Plan was approved by the Parliament on January 16 and signed by the President on May 21, 2020.

New rules create effective mechanisms of prevention the aggressive tax planning via low-taxed jurisdictions



IMPLEMENTATION OF THE BEPS ACTION PLAN IN UKRAINE



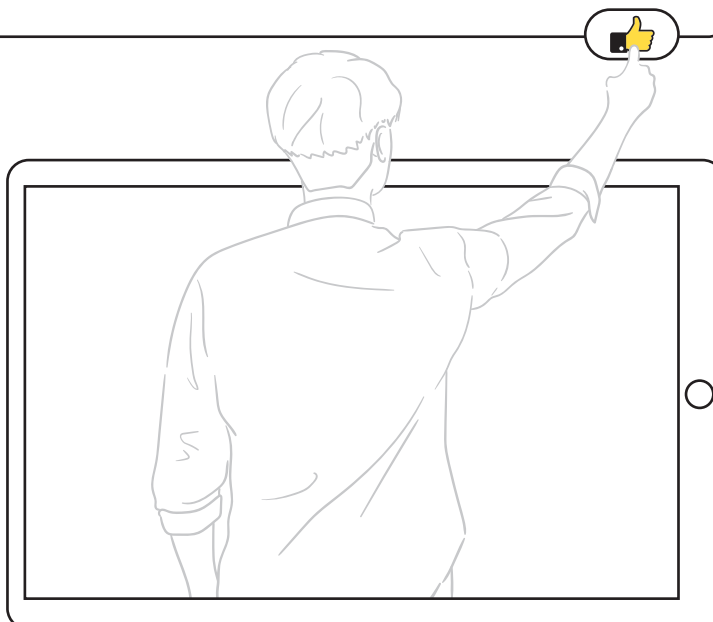
COMPREHENSIVE REFORM OF THE STATE TAX SERVICE OF UKRAINE

The RST assisted the MoF with preparation of a draft law required for reorganization of the State Tax Service of Ukraine into single legal entity according to common European practice

Reorganization of the State Tax Service into single legal entity was one of the structural benchmarks according to the Memorandum of Economic and Financial Policies between Ukraine and the IMF.

The RST assisted the MoF with development of configuration of the law № 440 aimed to eliminate barriers for such reorganization. The law was adopted by the Parliament on January 14, 2020.

The reorganization of the State Tax Service of Ukraine into single legal entity allows to increase institutional capacity and improve overall effectiveness of the Service. It provides possibilities for optimization of administrative, personnel and other resources, to create a unified approach to the personnel selection system, strategic management and information policy, as well as to introduce new electronic services, which in turn will reduce time and money costs for honest business



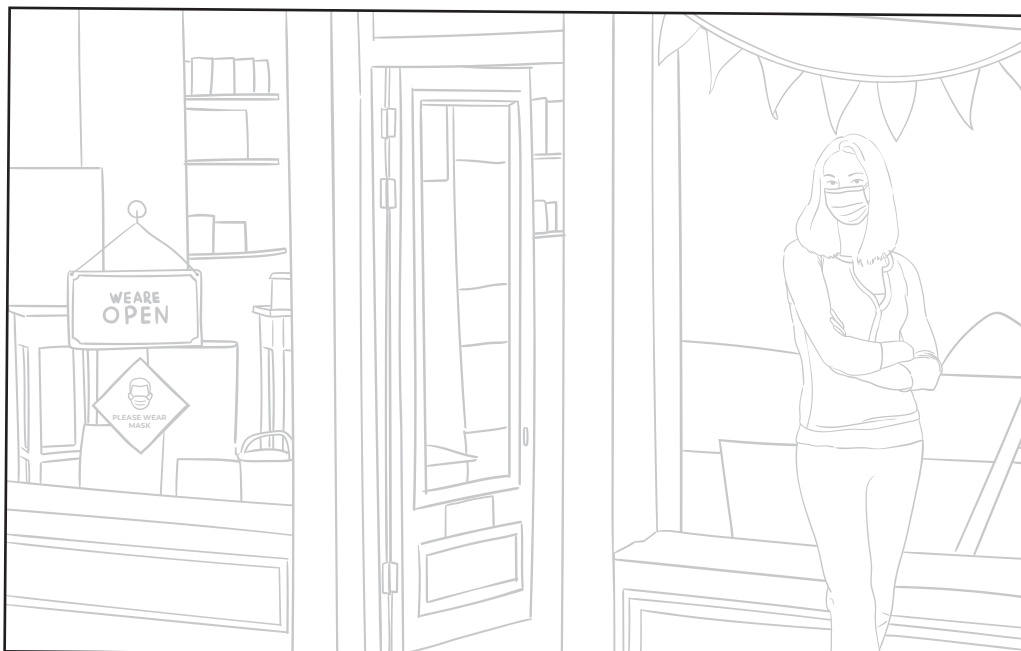
SUPPORT FOR BUSINESS IN COURSE OF THE COVID-19 PANDEMIC

The RST assisted the MoF with the preparation of a draft law aimed to support small businesses in course of the COVID-19 pandemic

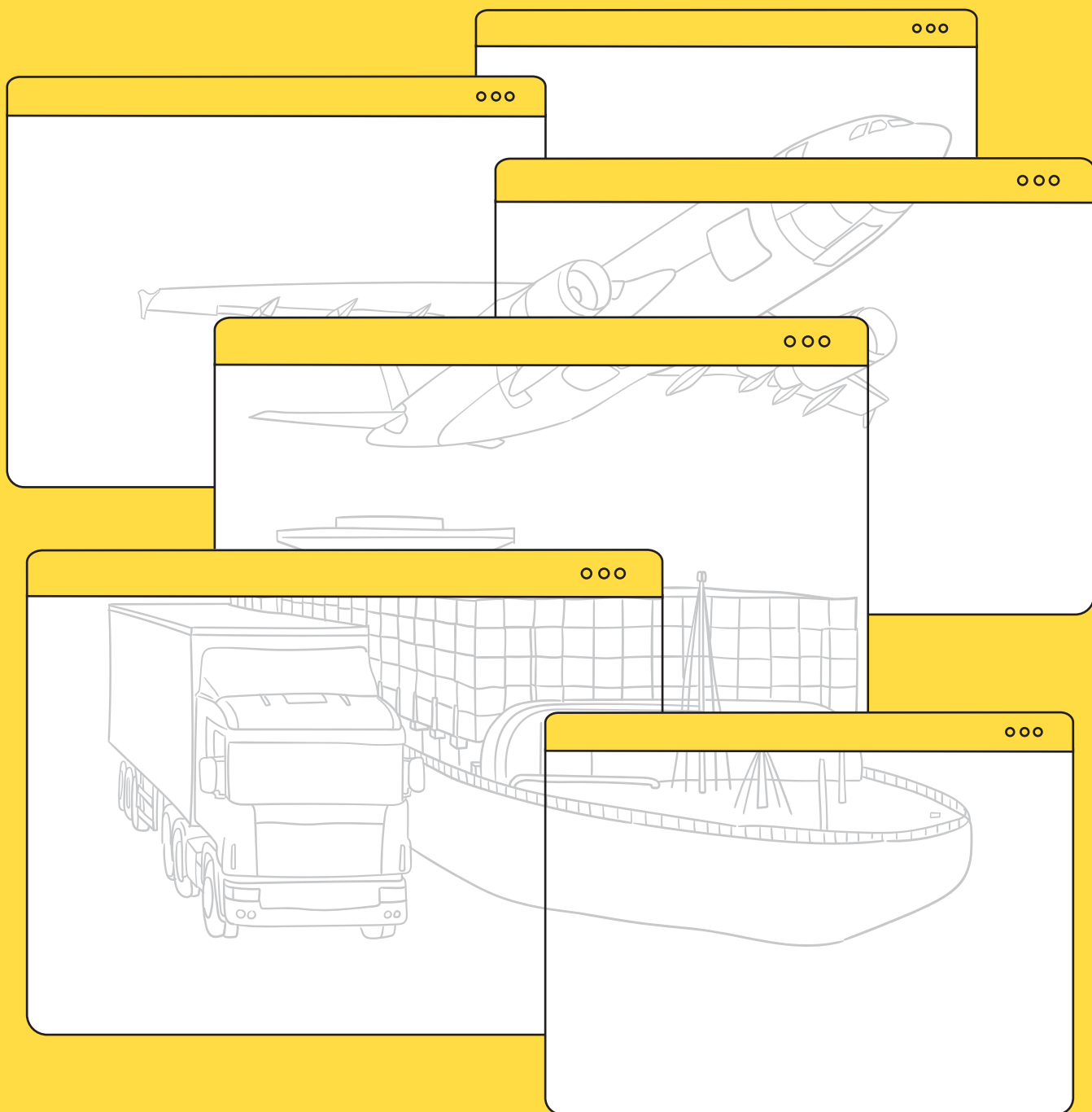
The RST assisted the MoF with the development of the fiscal package aimed to support households and small entrepreneurs due to the COVID-19 pandemic. The package included the following measures: an increase of the thresholds for businesses to qualify for the simplified tax regime, a temporary exemption from tax fines and penalties for delays in filing tax returns, a temporary moratorium on tax audits and inspections, etc.

The law № 540 on anti-crisis COVID-19 measures was voted by the Parliament on March 30, 2020 and came into force starting from April 2, 2020.

The approved law provided instruments of support for small businesses in course of the COVID-19 pandemic



CUSTOMS REFORM



AEO PROGRAMME IN UKRAINE

The RST supported the MoF in launching the Authorized Economic Operators (AEO) programme in Ukraine

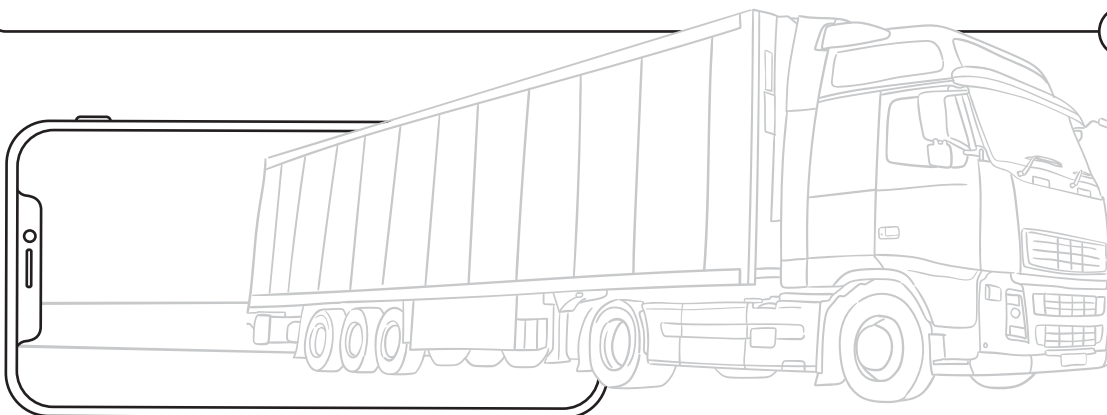
The RST in synergy with EU4PFM project assisted the MoF and the State Customs Service with the development of the CMU resolution on AEO functioning N° 665 dated July 29, 2020.

This resolution allows economic operators to apply for AEO authorization and customs authorities to assess the operator's compliance with AEO criteria in order to grant AEO authorization. As a result, the first application for AEO authorization was submitted to the SCS on September 8.

Moreover, the RST and EU4PFM experts assisted the MoF and the SCS with development amendments to the CMU resolution N° 665 on granting special simplifications' permits.

During the 4th Meeting of the Customs Sub-Committee of EU-Ukraine Association (September 23, 2020) EU side admitted that AEO provisions in Ukraine have been implemented in full, notwithstanding that EU-Ukraine Association Agreement requires their implementation based on the best endeavor principle.

Launching the AEO programme in Ukraine contributes to the adjustment of the Ukrainian customs legislation to the European standards which not only simplifies and facilitates international trade but also ensures the participation of Ukrainian AEOs in forming secure supply chains and increases their competitiveness both in domestic and international markets



CONVENTION ON A COMMON TRANSIT PROCEDURE AND THE NEW COMPUTERIZED TRANSIT SYSTEM

The RST supported the MoF with negotiation process and elaboration of the legislation implementing provisions of the Convention on a common transit procedure and starting the pilot project on testing the operation of the new computerized transit system (NCTS)

In 2020 the MoF with the RST support together with the SCS has developed and ensured the adoption of three CMU resolutions aimed at implementation provisions of the Convention on a common transit procedure (i.e. on applying of customs declaration of special type T1UA, on granting special transit simplifications' permits and financial guarantor's status to independent financial intermediaries), some of them – in synergy with EU4PFM project.

The RST also supported the MoF with development of by-laws required for full-scale NCTS usage (some of them – in synergy with EU4PFM project, are to be adopted in the beginning of 2021).

The important part of the RST's support to the MoF and the SCS is development of part of materials and negotiation process with DG TAXUD (European Commission) on Ukraine's accession process to the EU/EFTA common transit procedure. As a result, DG TAXUD admitted Ukraine's significant progress in launching NCTS and common transit procedure and accepted Ukraine's position.



On November 16, 2020 the pilot project on testing the operation of the National Electronic Transit System (analog of the NCTS) has started. The main goal of the pilot project is testing the functioning of the National Electronic Transit System, the introduction and usage of which for at least one year at the national level is a necessary condition for Ukraine's accession to the Convention on a common transit procedure.

Ukraine's accession to the Convention on a common transit procedure will allow the introduction of unified rules for declaring and control of transit movements of goods between Ukraine and 35 countries based on the single transit declaration and guarantee (27 EU Member States, EFTA countries, the United Kingdom, Turkey, Macedonia and Serbia). This will facilitate international trade for Ukrainian business and increase the effectiveness of control by the customs authorities of Ukraine



ENTRY SUMMARY DECLARATION

The RST assisted the MoF with the introduction of the entry summary declaration (ENS) in Ukraine

The introduction of the ENS is another important step towards the implementation of EU practice for security information flow in Ukraine.

From November 7, 2020 the submission of the ENS became mandatory in each case of goods import into the customs territory of Ukraine.

The RST supported the MoF in adopting the order № 502 which has ensured the introduction of ENS in Ukraine on the by-law level.

The introduction of the ENS allows Ukraine to move forward in the practical implementation of security standards, as well as creating risk analysis instruments



CUSTOMS ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS

The RST supported the MoF in elaborating legislation on customs enforcement of intellectual property rights (IPR) to strengthen combating trafficking in counterfeit and pirated goods

”

...There has been progress in the field of intellectual property rights (IPRs). Several draft laws presented by the Government as part of an IPR reform package were adopted, including law on IPR border measures in October 2019...



European Commission Association
Implementation Report on Ukraine
(Brussels, 27 November 2020)

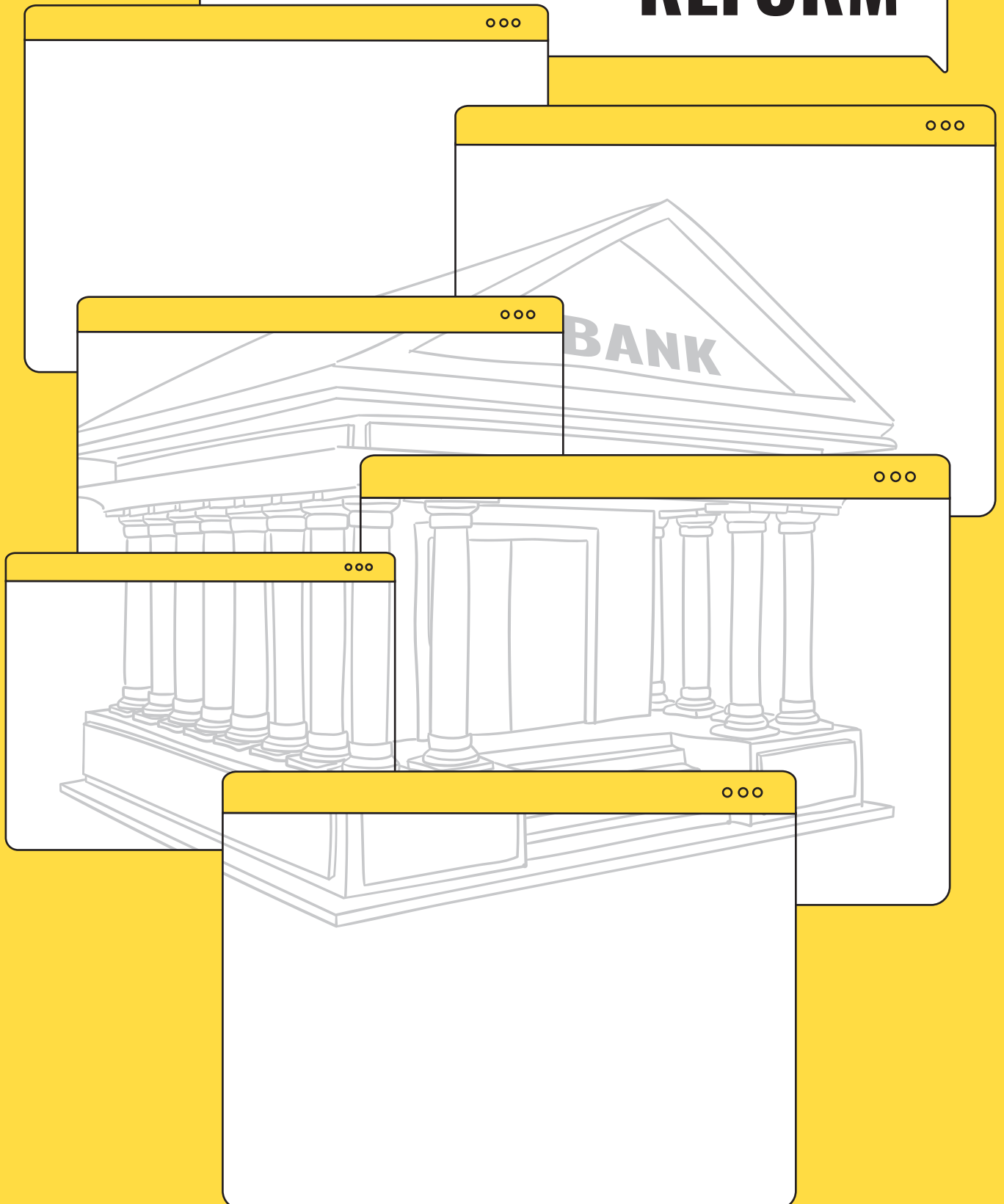
After supporting the MoF in the elaboration of the draft law on IPR border measures, in 2020 the RST assisted the MoF in the adoption of resolution of the CMU and two MoF's orders aimed at:

- introducing the unified approach and procedures for customs enforcement of IPR, standard forms of interaction between customs, right holders and declarants;
- improving the procedure for registration of IPR in the customs register, implementing new application forms provided by EU Regulation, exchanging of information relating to decisions on applications and to customs actions using electronic data-processing techniques.

The practical implementation of these regulations increases the efficiency of the customs actions against counterfeit and pirated goods and accelerates the customs clearance of original goods



STATE-OWNED BANKS REFORM



STRATEGIC PRINCIPLES OF REFORMING THE STATE BANKING SECTOR

The RST supported the MoF with updating Strategic principles of reforming the state banking sector

In September 2020 the CMU approved updated Strategic principles of reforming the state banking sector. While the SOBs corporate governance reform is largely finished this document is aimed to update and reinforce strategic principles for the state banking sector, to create more clarity for the new supervisory boards, as well as SOBs' management, on the goals the shareholder expects them to achieve. In addition, this document seeks to adjust the SOBs' reform timeline in light of the significant impact of the COVID-19 pandemic and the resulting economic crisis.

On the basis of Strategic principles of reforming the state banking sector, the RST assisted with the preparation and updating of the Principal activities for 2020-2024 of Oschadbank, PrivatBank and Ukreximbank that were approved by the CMU in 2020.

SOBs have been updating their strategies in accordance with Strategic principles of reforming the state banking sector (strategic framework) and Principal activities for each bank.

The state remains committed to its objective of establishing a sound and competitive banking system that is largely privately owned in the medium-term, and to key priorities that were stated in the 2018 Strategic principles



REDUCTION OF STATE'S SHARE IN BANKING SECTOR

The RST is providing constant support to the MoF analyzing transaction documents related to a reduction of the state's share in the banking sector

All banks are expected to become at least partially private, the timeline may vary depending on each bank's readiness and legal requirements.

In 2020 the RST supported the MoF in the implementation of strategic initiatives on cooperation between JSB "UKRGASBANK" and IFC. During the process of negotiating terms and conditions of the loan convertible into equity was provided support to the MoF regarding transaction documents between JSB "UKRGASBANK", the MoF and IFC.

The MoF ensured that the triggers for the entry of EBRD into the capital of Oschadbank were met. The working group from the representatives of the Deposit Guarantee Fund and Oshchadbank has been established to work out a roadmap and technical regulations for joining Oshchadbank to the Deposit Guarantee Fund. At the meeting of the Financial Stability Council on September 2, 2020 the peculiarities of joining Oshchadbank to the Deposit Guarantee Fund till January 1, 2021 were accepted.

Implementation of exit plans of the state from banks ownership should reduce the share of the state in the banking sector to below 25% by 2025 and enhance value creation in banking sector. Decreasing the share of the state in the Ukrainian banking system is a strategic goal that would help to achieve macro-economic growth, through the establishment of a more stable financial system. Countries with developed banking market usually have SOBs' market share of less than 30%



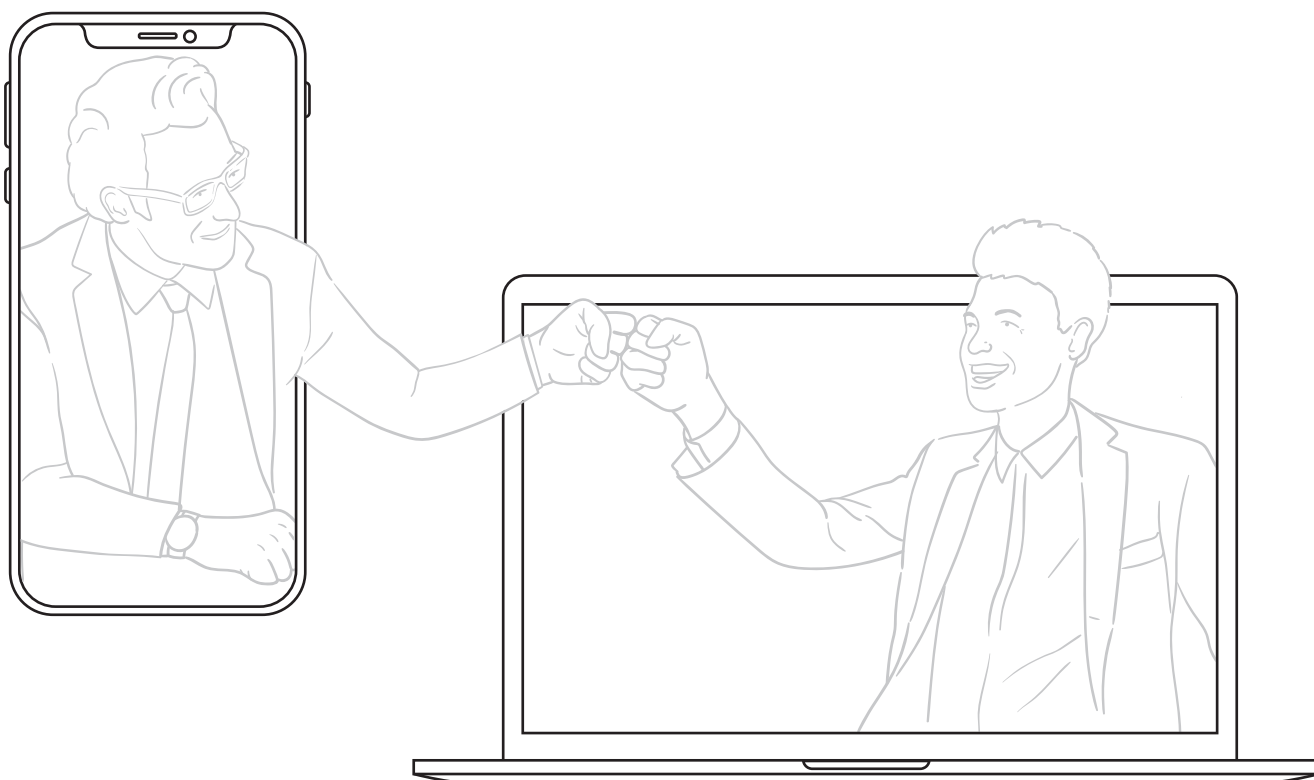
RELATIONSHIP FRAMEWORK BETWEEN THE CMU AND SOBS

The RST helped to prepare strategic documents and regulations of the cooperation process between the MoF, the CMU and SOBs

A relationship framework between the CMU and SOBs was developed, agreed with SOBs and approved by the CMU.

As a shareholder, the state aims at ensuring that SOBs lead a competitive, independent and profitable activity that contributes to the development of the banking sector. The state will also be proactive in its support of SOBs' search for a potential buyer/investor to help SOBs achieve the ultimate goal of the state – exiting from the banking sector.

Ensuring effective cooperation based on a signed Relationship framework agreement is one of the key elements of achievement of the priority set by the state – SOBs should become efficient market players ready to be privatized



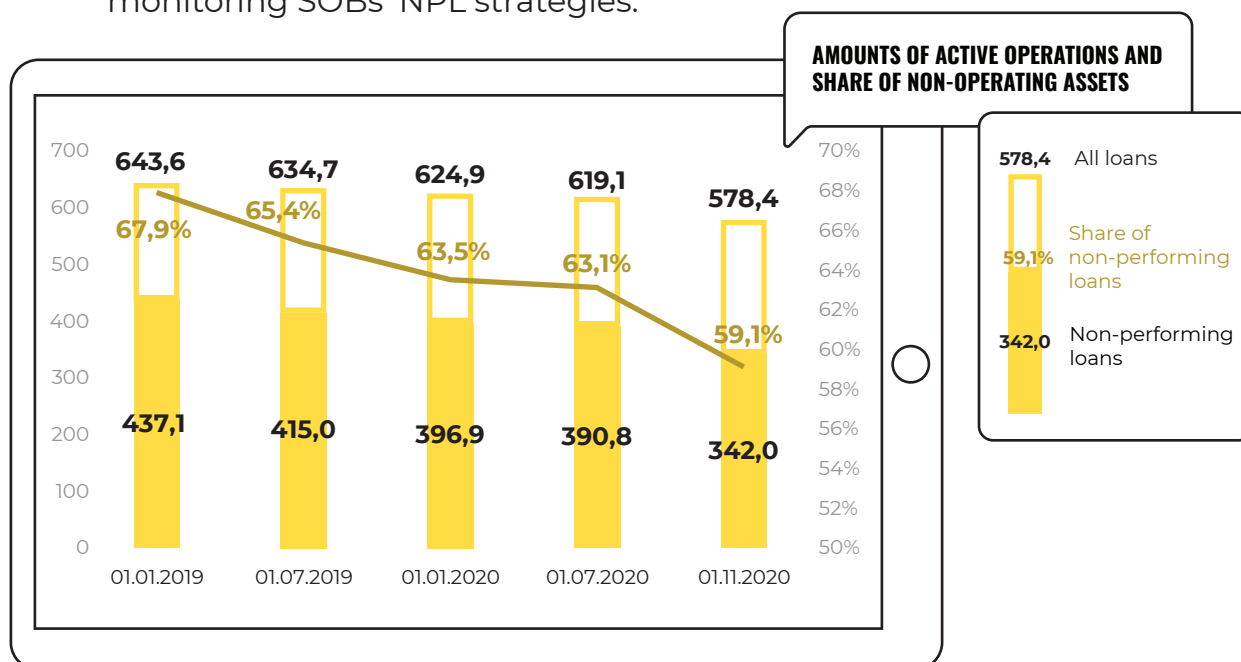
NPL MANAGEMENT

The RST supported the MoF in the development and implementation of approaches for non-performing loans (NPL) management

The MoF was stepping up efforts to address the high level of legacy NPL in state-owned banks. Resolution N° 281 was approved in April 2020, it determines the criteria and conditions for measures to manage NPL for the banks in which the state owns 75 percent or more of the share capital.

Also, in July 2020 the Financial Stability Council approved Operational plans to reduce NPL of SOBs over the next three years, which envisage a significant reduction in the share of NPL in credit portfolios of SOBs. SOBs approved Problem Assets Management Strategies (NPL strategies), which are aimed at decreasing the level of problem assets.

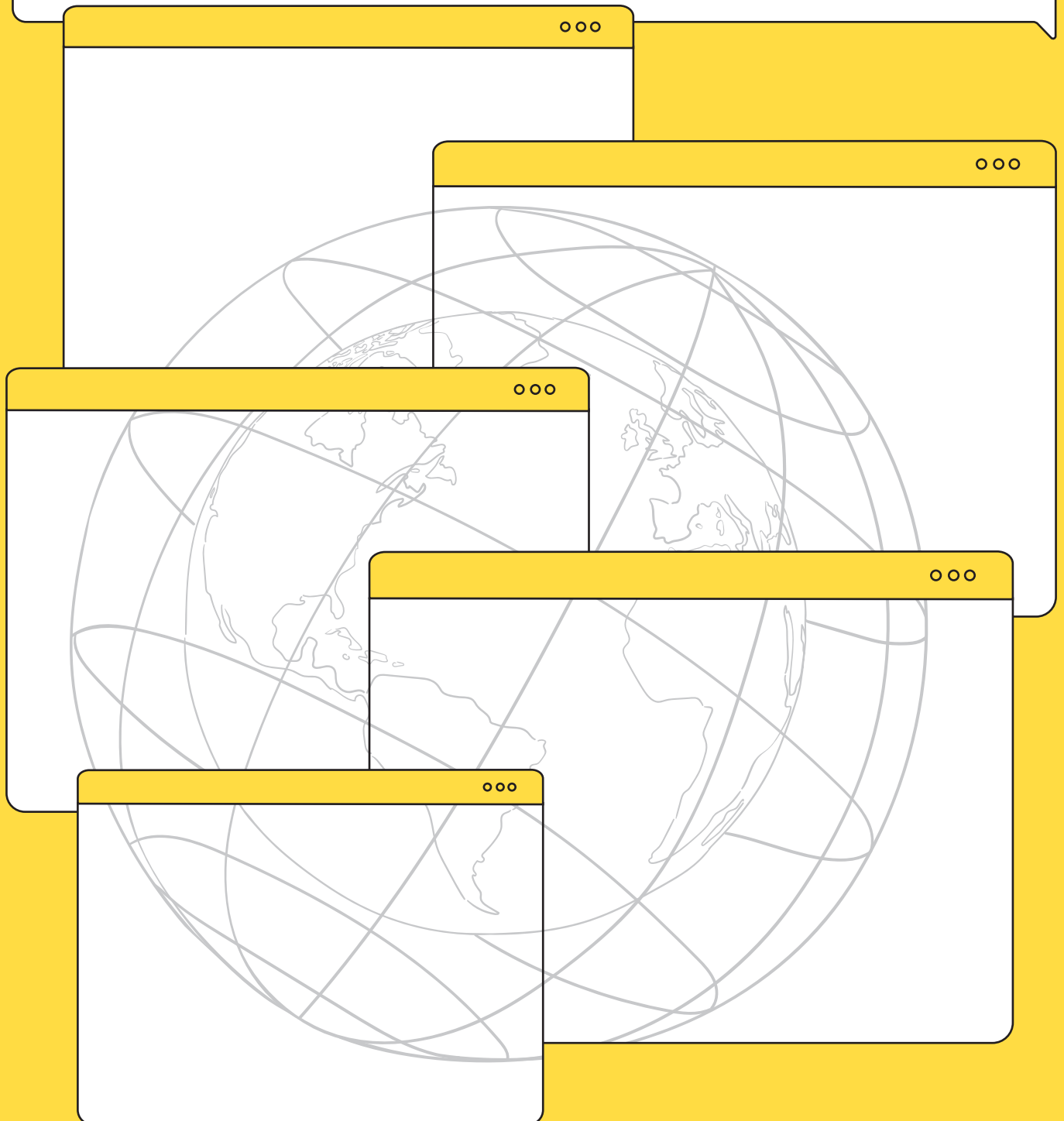
The RST supported the the MoF in the analysis of NPL strategies of SOBs. The RST has been working with MoF on improving regular reporting on results of the SOBs' efforts to resolve their NPL and monitoring SOBs' NPL strategies.



The share of non-performing loans in SOBs is expected to decrease to less than 10% of the total credit portfolios of SOBs by 2024. It will help to increase the investment attractiveness of SOBs and fulfill the terms of the memorandum with the IMF



IMPROVEMENT OF INTERNATIONAL FINANCIAL COOPERATION PROCESS



NEW APPROACHES TO THE LEGISLATIVE FRAMEWORK OF IFIS COOPERATION

The RST supported the MoF in the preparation of the regulatory changes to improve the legal and policy environment for the process of IFIs cooperation

On June 24, 2020 the MoF approved the Procedure for examination of project proposals for initiating investment projects of economic and social development of Ukraine supported by International Financial Institutions.

On December 9, 2020 the Government of Ukraine approved changes to the CMU resolution № 70 dated January 27, 2016 on the preparation, implementation, monitoring, and completion of economic and social development projects of Ukraine supported by International Financial Institutions which provides the following changes in the sphere of IFIs cooperation:

- the issues of projects' implementation and reporting using the mechanism of obtaining loan funds for the state budget financing depending on the results of the relevant indicators achieving were standardized;
- the reporting in the framework of projects' implementation was optimized to reduce the workload upon the projects' implementing agencies;
- the performance indicators determination procedure for the investment project and reporting on their achievement were improved;
- the procedure for the signing of internal agreements required for the implementation of investment projects was adjusted.

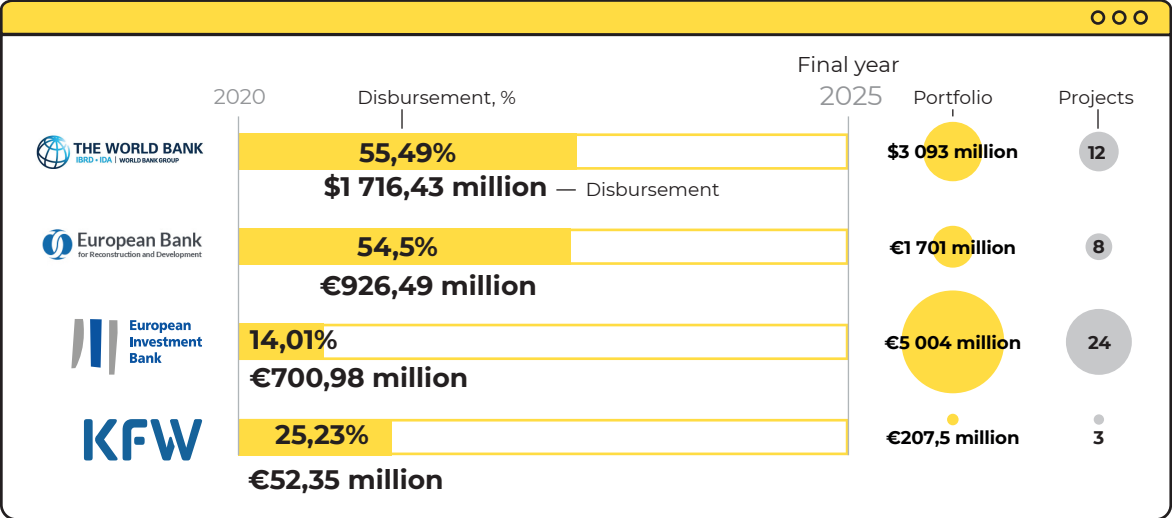
The aforementioned changes sustainably improved the coordination of IFIs projects during the whole project cycle



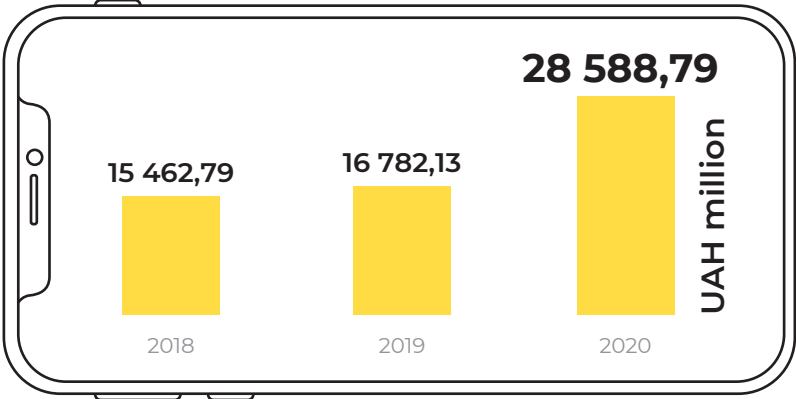
NEW APPROACHES TO IFIS PORTFOLIO REVIEW

The RST assisted the MoF with online IFIs portfolio reviews in order to overview the projects’ status and pipeline in Ukraine’s public sector: implementation progress and strategic priorities

During 2020 the RST supported the MoF to held online projects portfolio reviews of the International Bank for Reconstruction and Development, the European Bank for Reconstruction and Development and European Investment Bank. Optimization efforts during the projects review inter alia were aimed at decreasing the time gaps between the sequential steps of the process.



The absorption capacity of the beneficiaries of the IFI projects has increased in 2020 (through special and general budget funds and guarantees).



The IFIs loans are crucial for new investments, particularly for the social sphere, healthcare, infrastructure, energy sectors



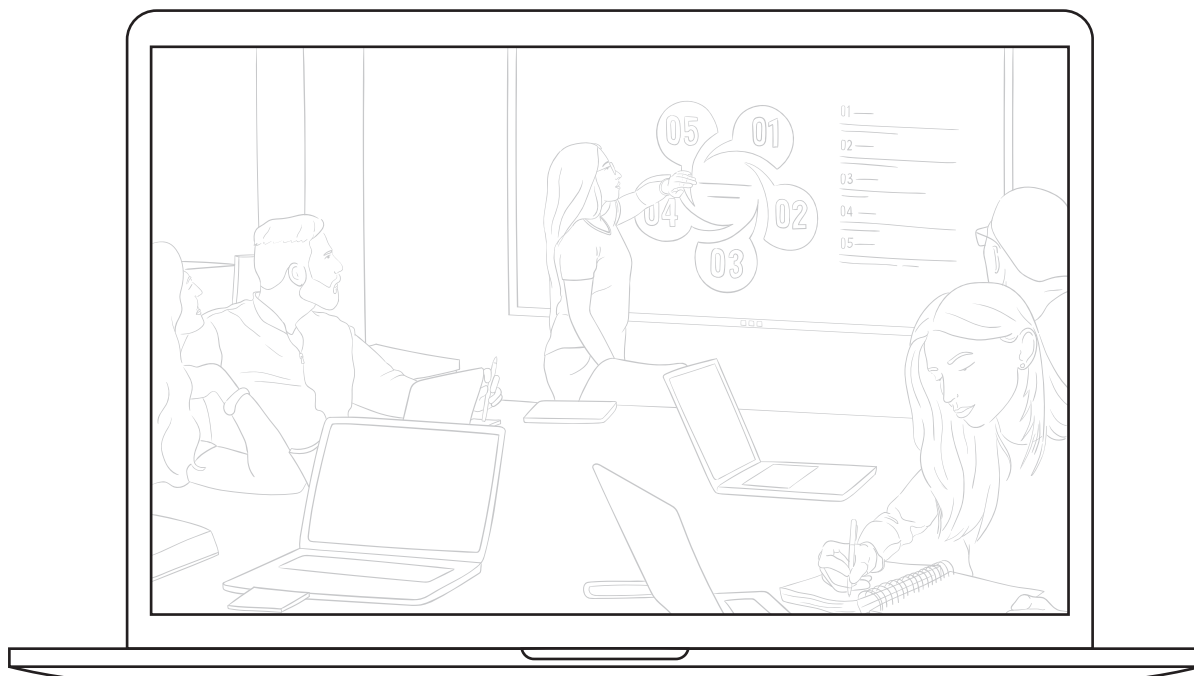
NEW APPROACHES TO THE RESULT MONITORING OF PROJECTS SUPPORTED BY IFIS

The RST coordinated preparation activities on World Bank training on the result indicators monitoring

On February 24, 2020 the training “World Bank project cycle – monitoring and evaluation” was held for the civil servants of the Ministry of Finance. The training was focused on the approach and methodology of the IBRD in terms of establishing and monitoring performance indicators.

Besides, it was highlighted that the appliance of a satisfactory monitoring and evaluation system including the availability of high-quality baseline data and realistic targets is really important.

This event increased the institutional capacity of the Ministry and improved efficiency in the monitoring of the IFIs projects’ results



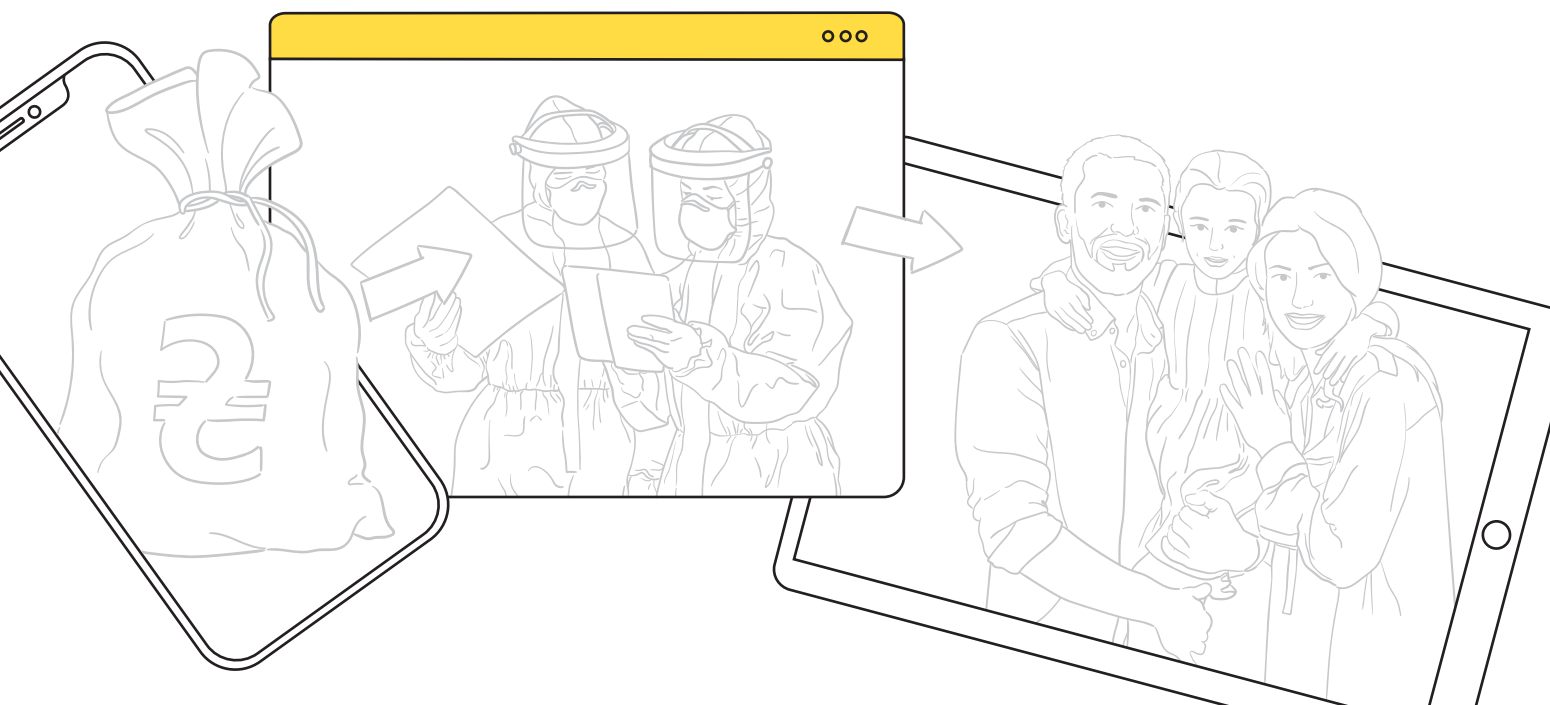
NEW APPROACHES TO MINIMIZE THE NEGATIVE IMPACT OF COVID-19 ON PEOPLE'S LIVES AND ECONOMIC STABILITY

Given the significant burden on the state budget, the RST supported the MoF in the preparation activities for the new IBRD projects

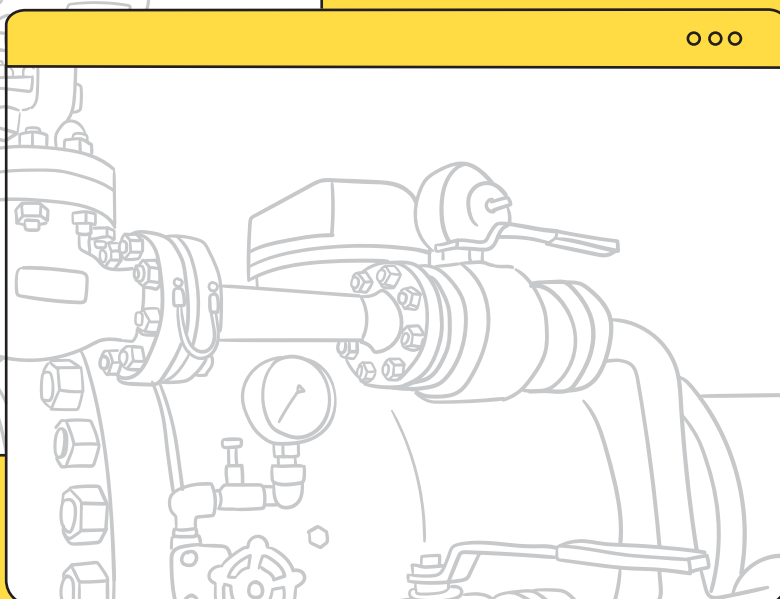
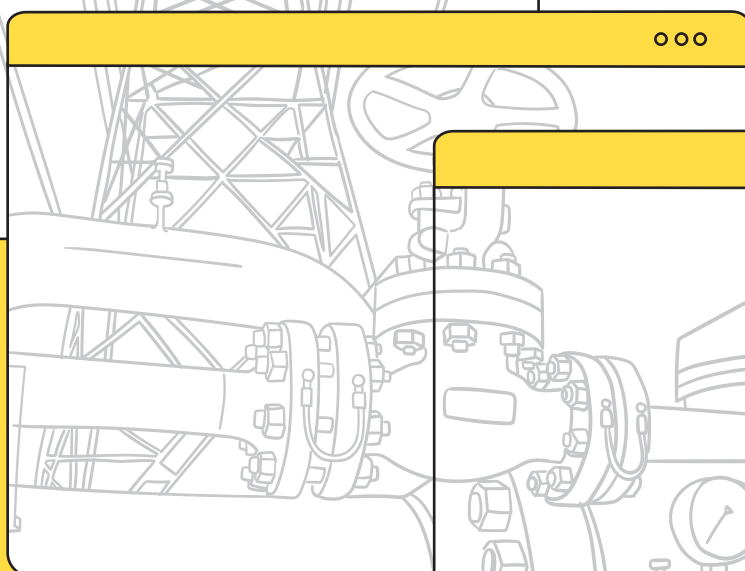
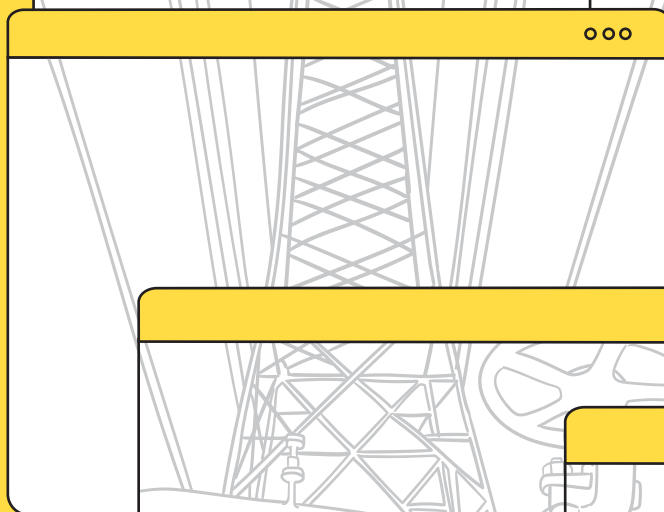
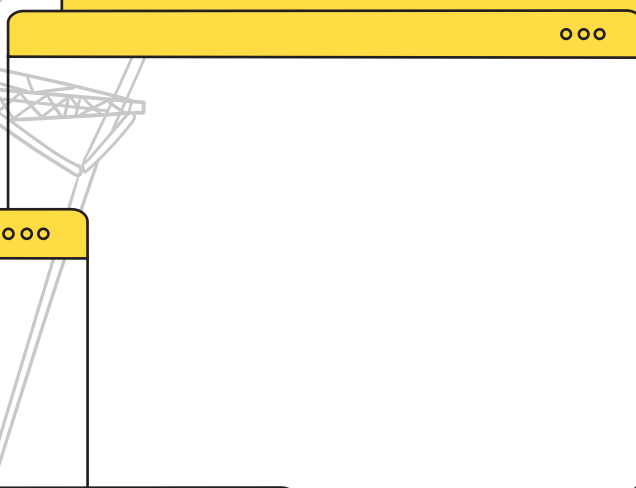
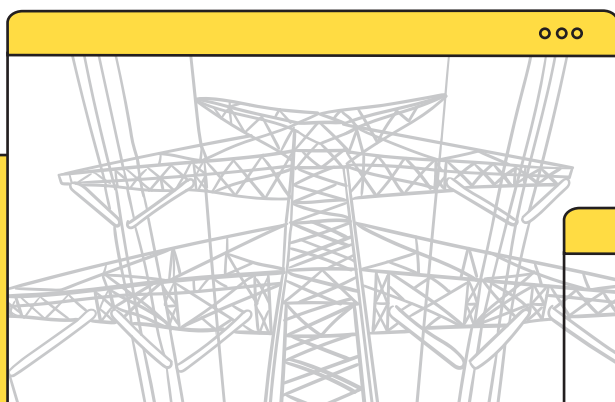
Additional Financing for the Serving People, Improving Health Project should improve efficiency and quality of health services, particularly for non-communicable diseases, in line with the health sector reform, and prevent, detect and respond to the threat posed by COVID-19. The project amounted to \$135 million, including \$35 million – on anti-COVID-19 measures.

Additional Financing for the Social Safety Nets Modernization Project aimed at enhancing and improvement of social assistance for low-income families in Ukraine. The project amounted to \$150 million, and \$50 million as a part of Ukraine's emergency response to the COVID-19 pandemic.

These projects increased the budget capacity to tackle the adverse impact of the COVID-19 pandemic



SOES CORPORATE GOVERNANCE REFORM IMPLEMENTATION IN GAS AND ELECTRICITY TRANSMISSION SYSTEM OPERATORS



OWNERSHIP POLICY OF JSC NPC UKRENERGO

The RST made a significant contribution in preparation of the Ownership Policy of JSC NPC UKRENERGO in line with OECD standards which was approved by the MoF

The Ownership Policy defines the main goals and priorities of the shareholder (the state) in the ownership of the company, as well as management principles and specific expected results of operations. It will improve the cooperation between NPC UKRENERGO and the shareholder and will allow to objectively evaluate the work of the Company.

The company meets the following criteria for state-owned object:

- is a natural monopoly which ensures the energy security of Ukraine;
- has a strategic and special significance for the economy and security of Ukraine;
- is vital to society of Ukraine.

The Ownership Policy stipulates that the main expected results of the company are ensuring the integrated operation of the Unified Energy System (UES) of Ukraine, development and modernization of main electricity networks, implementation of the plan of integration of UES of Ukraine into the European Network of Transmission System Operators for Electricity (ENTSO-E), etc.

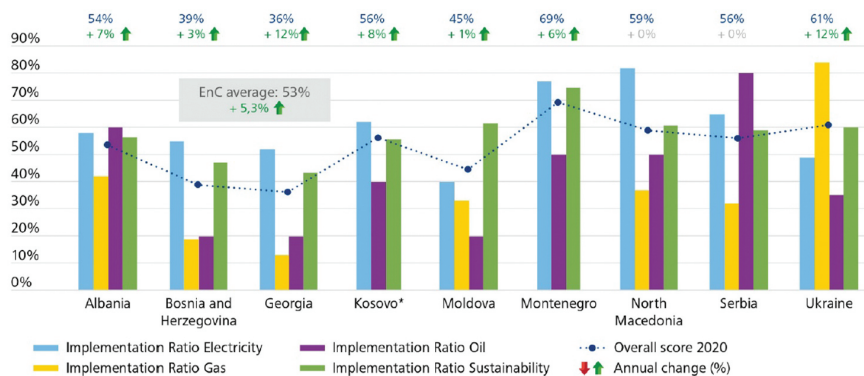
The state, as a shareholder, will ensure compliance with the general principles of company management:

- the decisions of the management entity regarding the company must be reasonable and comply with the principles of impartiality, integrity and transparency;
- the principle of operational autonomy should be ensured;
- effective internal control, audit and compliance should be ensured.

The RST also assisted the MoF with development of some other NPC UKRENERGO corporate governance policies and programs in accordance with OECD standards and best practices:

- Supervisory Board civil law contracts;
- Remuneration Policy for the Supervisory and Executive Boards;
- Policy for the formation and implementation of KPIs for members of the Supervisory Board (is currently being finalized);
- Corporate Secretary Policy;
- Code of Ethics;
- Corporate Governance Code;
- Anti-corruption Program;
- Corporate Social Responsibility Policy;
- Risk Management Policy;
- Program of measures to prevent conflicts of interest.

Overview of implementation performance by Contracting Party



A detailed description of the methodology used for calculating the implementation indicators is available on page 202 of this report.
Source: compiled by the Energy Community Secretariat



NPC UKRENERGO INTEGRATION IN ENTSO-E

● 2019 —▶▶— ● 2020 —▶▶

Completed

Membership in ENTSO-E

- ✓ 60% compliance with the Catalog measures requirements of the Agreement to ensure operational and technological processes completed;

Achieve the readiness of the UES of Ukraine for an isolated mode

- ✓ Tested of thermal power plant units to study the possibility of operation of the UES of Ukraine in synchronous mode with ENTSO-E
- ✓ Signed the service contract with ENTSO-E consortium for dynamic and static stability research

Completed

- ✓ An application for Certification as independent TSO has been submitted
- ✓ Submitted of systematic reports of the UKRENERGO Catalog of Activities implementation to ENTSO-E
- ✓ Updated the integration action plan in line with SAFA and the ENTSO-E network codes

- ✓ Tested of excitation systems of nuclear power plant units in order to obtain calculations of dynamic and static stability of UES of Ukraine
- ✓ Modernization of power plants equipment

● 2021-2022 —▶▶ ● 2023 —▶▶

Expected

Membership in ENTSO-E

- Certification as independent TSO by the Energy Community Secretariat
- Acquisition of an observer status in ENTSO-E
- 80% of the documentation is in compliance with the requirements of ENTSO-E

Achieve the readiness of the UES of Ukraine for an isolated mode

- Completion of development of a joint mathematical model of synchronization of UES of Ukraine and ENTSO-E for simulation of power system operation in different modes
- Testing of UES of Ukraine in the mode of isolated work

Expected

- Membership as independent TSO in ENTSO-E
- 100% of the documentation is in accordance with the ENTSO-E requirements

- Integration and synchronization as an independent TSO in ENTSO-E

NPC UKRENERGO has successfully implemented most of the main technical measures of preparation for the future integration UES of Ukraine with ENTSO-E





The Reform Support Team at the Ministry of Finance is a part of the innovative Ukraine Reforms Architecture programme (URA), supported by the EBRD's Ukraine Stabilisation and Sustainable Growth Multi-Donor Account (MDA) and managed by the EBRD.

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