

have started developing a comprehensive public administration reform strategy and we will ensure that the strategy is fully aligned with our medium-term fiscal program.

28. **Moreover, we will strengthen our budgetary process to encourage more efficient use of public funds.** In line with IMF technical assistance recommendations, we intend to institutionalize a spending review process. In support of the spending review process, we will impose hard budget constraints on line ministries, encouraging them to identify savings within their resources envelopes. We will use the spending review process to develop high quality expenditure saving measures. We will also review our budget process with a view of making the process more efficient, tighten the opportunities for amending annual budget laws and strengthen the role of the Ministry of Finance. We will ~~s~~submit~~prepare~~ the necessary~~relevant~~ amendments by end-July, 2016 with the objective to adopt them by end-September 2016.

29. **Finally, increasing gas and heating prices to cost recovery will be accompanied by significant additional social assistance, with improved targeting, to support vulnerable households.** Specifically:

- a. As part of the 2016 budget, we increased the envelope for energy-related benefits (privileges and HUS) from around UAH 24.4 billion in 2015 to UAH 35 billion in 2016. Reforms scheduled to take place by May 2016 will improve targeting to support vulnerable households and help to ensure that these programs remain fiscally affordable, including by: (i) reducing the scope of energy privilege programs to cover only households that remain exempt from income testing according to Law 76-VIII/2014; (ii) converging the associated benefits to the levels in the HUS program; and (iii) revising the benefit formula of the expanded HUS program in consultation with IMF staff to channel benefits to vulnerable households and provide incentives for energy efficiency (existing **structural benchmark**).
- b. To inform the May 2016 reforms, we have initiated a central monitoring system of the characteristics of households participating in the privileges and HUS programs. The system contains information on number of recipients, household income, and the amount of subsidies. By ~~midend-March~~~~February~~ 2016, we will expand the capabilities of the system to report benefits across the income distribution, which is critical to ensure that the May 2016 reforms improve targeting. We will regularly analyze this information to monitor whether the two existing programs deliver assistance as intended. We have mailed HUS applications to every household and have taken steps to manage the surge in applications for social assistance, including by dedicating adequate budget resources and additional staffing.

E. Energy Sector Policy

30. **We continue to make significant progress with improving Naftogaz's finances and advancing the agreed energy-sector reforms.**

- a. The Naftogaz deficit remains within program targets. In 2015:Q3, the cumulative cash deficit reached UAH ~~189.29~~ billion (~~0.91~~ percent of ~~annual~~ GDP), below the program target. We remain

committed to ~~keeping Naftogaz's deficit below the targeted 3.1 percent of GDP for 2015 and to eliminating the Naftogaz deficit~~ by end-2017.

- b. The independent ~~diagnostic~~audit of Naftogaz receivables was completed on time by Price Waterhouse Coopers with external funding by the UK's DFID. The associated report, which contains recommendations to improve debt recovery, was shared with the IMF, and the first section of the report was published on September 30, 2015.
- c. We have revised the formula for the distribution accounts collecting district heating bill payments to ensure that Naftogaz receives a share proportional to the current cost of gas in the heating tariff and reintroduce the "adjustment coefficient" that allows Naftogaz to gradually collect payments for district heating company arrears that have accumulated since September 1, 2015. We will take any necessary actions to ensure that the distribution accounts remain operational under the new gas market law.
- d. We have adopted much of the secondary legislation needed to facilitate the application of the new gas market law, which became effective on October 1, 2015. This secondary legislation allows for below-international-parity gas pricing for a transition period until 2017 and the provision of subsidies to vulnerable consumers.
- e. We have extended the allowed use of the state guarantees allocated in the 2016 budget for general purposes and for Naftogaz's borrowing to also cover at least US\$700 million as well as external guarantees provided by IFIs and private parties for the benefit of Naftogaz.
- f. We will ensure that the moratoria on Naftogaz collection enforcement proceedings against energy companies and SOEs that were abolished as part of the conditionality for the first program review will not be reintroduced. [Thus, we have reversed parliament's decision to extend the moratorium on collection enforcement proceedings against Energoatom.]

31. Despite this progress, we recognize that more needs to be done to keep Naftogaz on track to reach its programmed deficit targets with adequate financing.

- a. We remain committed to raising gas and heating prices to cost recovery levels based on import parity. Specifically, the Cabinet of Ministers ~~will~~[adopted and published] a decision to increase the Tier 1 retail gas tariff (consumption below 1200 m3 for households that use gas for heating in the period from October 1, 2016 to March 31, 2017) to 75 percent of cost recovery based on import parity and the Tier 2 tariff (consumption above 1200 m3 for households that use gas for heating in the period from October 1, 2016 to March 31, 2017, and gas used only for cooking and hot water) to 100 percent of cost recovery levels based on import parity, effective April 1, 2016 (a prior action for this review~~new structural benchmark~~). The Tier 2 tariff will be adjusted quarterly to reflect movements in international gas prices and the exchange rate to ensure 100 percent of cost recovery based on import parity. We will move to a single tariff consistent with full cost recovery by April 1, 2017. In the meantime, we will refrain from lowering the Tier 1 tariff and we will not increase the volume of gas which can be sold under the Tier 1 retail tariff to a level higher than 1200 m3 for the periods from October 1, 2015 to March 31, 2016 and from October 1, 2016 to March 31, 2017. The Cabinet of Ministers ~~will~~ also [adopted and published] a

decision to increase retail heating tariffs to 75 percent of the level consistent with gas priced at full import parity effective April 1, 2016 (~~a prior action for this review~~**new structural benchmark**), and 100 percent by April 1, 2017. We will also ensure that the price received by Naftogaz follows these same cost-recovery benchmarks. To further improve Naftogaz collections from heating companies, by end-~~March~~ **January** 2016 we will ~~adopt a Cabinet of Ministers resolution~~**develop a plan** to introduce compensation for technical losses into heat tariffs and ~~set targets to gradually reduce technical losses through infrastructure investments.~~

- b. We will adopt the remaining ~~amendments~~ **secondary legislation** (Bills 3325 ~~and 3074~~) needed to facilitate the application of the new gas market law by end-~~March~~ **February**, 2016.

F. Governance, Business Climate, and State-Owned Enterprise Reform

32. We have made progress in advancing our structural reform agenda aimed at addressing corruption, strengthening the business climate, and improving governance at SOEs: governance. ~~In particular:~~ We will continue with these reforms aimed at transforming our economy in the period ahead.

~~32.~~**33. Anticorruption.** We are determined to accelerate the implementation of our anticorruption agenda. We have largely completed the enabling statutory framework for key legal and institutional reforms, which will now allow us to shift our focus toward implementation. Specifically:

- a. ~~We have ensured that the~~~~We are determined to accelerate the implementation of our anti-corruption and judicial reform agenda, which has been advancing at a slower pace than expected.~~ The National Anti-Corruption Bureau of Ukraine (NABU) became operational (an end-January 2016 structural benchmark). It has started recruiting and training its staff. Out of a total envisaged complement of 700, about [224] staff, including [82] detectives, have been hired and are receiving training. More generally, the management of NABU is steadily implementing its Action Plan, which was developed with the support of various donors.

~~a.~~—

- b. We also adopted legislation on the asset recovery and management office and on asset confiscation and seizure. The latter provides the NABU with the ability to carry out provisional measures, such as freezing and seizing of assets, in order to prevent any dealing, transfer, or disposal of assets, in line with FATF recommendation 4.

- ~~b.c.~~ We ~~In addition, we~~ have established a specialized anticorruption prosecution function in charge of overseeing NABU's investigations. The head of the anti-corruption prosecutors and two deputies have been appointed following a process ensuring broad public support, as a **prior action** for this review, and adequate premises have been allocated.

- d. We have also amended the Law on the Prosecutor's Office to ensure that a timely, fair, and balanced appointment process of anticorruption prosecutors is made sustainable over time, as previously agreed in the context of the first review and described below. In particular, the approved amendments provide for the following:

- The members of the Selection Committee must be persons of impeccable reputation and high professional qualities;
- The nomination of Selection Committee members by the General Prosecutor shall be an interim measure, until the Council of Prosecutors is established. At that point, Selection Committee members currently nominated by the General Prosecutor shall be nominated by the Council of Prosecutors;
- The Selection Committee will be chaired by a widely recognized and well-respected expert from among the members appointed by Parliament with a rich experience, interest, or record of advocacy in the prosecution of corruption;
- The Selection Committee will submit only one candidate for each of the three positions (head and two deputies of the anti-corruption prosecution function) to the General Prosecutor, after having confirmed that a candidate satisfies the eligibility requirements prescribed in the laws of Ukraine "On power purification" and On the prevention of corruption", and the security clearance requirements prescribed in the law "On State secrets".
- The authority for the nomination and dismissal of other prosecutorial and non-prosecutorial staff of the anti-corruption prosecutor's office is to be granted to the head anti-corruption prosecutor.
- There will be no further amendments to the Law on the Prosecutor Office other than the ones specified above, unless otherwise agreed with the IMF.
- Parliament also adopted ~~We have also amended~~ legislative amendments to implement an effective and comprehensive electronic system for asset and income disclosure by high-level officials, as a **prior action** for this review. These amendments: (i) reversed a clause included by Parliament in the 2016 budget to postpone the electronic filing of asset and income declarations to 2017; (ii) assigned the Ministry of Justice to temporarily administer the process, until the National Agency for Prevention of Corruption is in place; and (iii) ensured that no other changes were made, unless otherwise agreed with the IMF, to the framework adopted in 2015. Among the key features of this framework are: (i) asset disclosures for the high-level officials subject to NABU's jurisdiction include information on beneficial ownership and control of any funds or other assets (as defined by the FATF); (ii) high-level officials are prohibited from receiving any gifts and advantages other than of very low value; and (iii) the NABU can use its powers to ensure the reliability of these asset and income disclosures at any point.
- Looking ahead, we will take the following measures to further strengthen the implementation of anti-corruption efforts:
 - ~~ensure that the NABU becomes fully operational (an existing **structural benchmark** for end-January 2016). Thus, we will ensure that the NABU has access to all information and resources it needs to conduct investigations, in line with international best practices. In this regard:~~
 - ~~We have already adopted legislation on the asset recovery and management office and on asset seizure and confiscation that provide the NABU with the ability to carry out provisional measures,~~

~~such as freezing and seizing of assets, to prevent any dealing, transfer, or disposal of assets, in line with FATF recommendation 4.~~

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- We will ~~also~~ submit legislation to parliament, for adoption by [end-April 2016] (a **new structural benchmark**) to ensure that the NABU has: (i) the use of a wide range of investigative techniques, including undercover operations, intercepting communications, accessing computer systems and controlled delivery; (ii) the ability to identify assets without prior notification to the owner; and (iii) the ability of maintaining confidentiality of mutual legal assistance, particularly when ~~authority to~~ requesting documents from foreign authorities, including ~~seek bank records, and other documents from foreign authorities without needing to obtain a court order can use plea agreements also in serious corruption cases. In addition, we will eliminate the ability to appeal a decision by NABU to open or close an investigation.~~
- We will ~~increased~~ the salary scale of non-investigative staff (including analysts and special forces) in line with the current salary scale of detectives.
- To monitor progress made in implementing the anti-corruption legal framework, the NABU will publish statistics on acts of corruption related to high-level officials under the NABU's jurisdiction, on a webpage freely available to the public (in line with the template detailed in paragraph [...] of the TMU). By end-April 2016, the information for the first quarter of 2016 will have been published. Subsequently, quarterly publication of these statistics will occur by the end of the month following each quarter.
- ~~Parliament has also adopted legislation to implement an effective electronic system for financial disclosure by high-level officials, as a **prior action** for this review. [This legislation ...]. By end-April 2016, a system will be in place to enable electronic filing of financial disclosures, as defined in Article 46 of Law 2014/49 on the Prevention of Corruption by high-level officials as also defined in Article 46 of that same law ("high-level officials under NABU's jurisdiction). All high-level officials will have been required to have filed their assets and income declarations, as defined under Article 46 of law 2014/49 for the calendar year 2015 by end-June 2016 and the disclosures will be made freely available to the public on a single website shortly after submission (a **new structural benchmark** ~~for end-June 2016~~).~~
- The NBU will put into force risk-based off-site and on-site AML supervisory tools, focusing on risks related to domestic politically exposed persons, by end-March 2016, incorporating technical advice received from Fund staff. By end-April 2016, the NBU will start targeted inspections of banks at higher risk of misuse by corrupt officials, focused on regulatory requirements related to customer due diligence and politically exposed persons. By end-March 2016, the Ministry of Finance will produce a strategy to reform the AML reporting framework. The reform should ensure that reporting entities focus their reporting efforts on suspicious transactions, as defined by the Financial Action Task Force (FATF), rather than sending millions of routine reports yearly, the large majority of which do not contain useful information, and requiring a burdensome manual processing by banks. The strategy will be issued after consultation with relevant public and private stakeholders and will be supported

a.c. Court Fees. The May 2015 law on the increase in court fees (end-May 2015 structural benchmark) envisaged that its implementation would begin by September 1, 2015. In this regard, the State Judicial Administration (SJA) has begun implementation of the law and is already recording a rise in revenues from court fees. The SJA will also closely monitor whether the increased fee requirements are having a limiting impact on the filing of frivolous suits, which was also an objective of the law.

35. **Business climate and deregulation.** We are implementing, albeit with some delays, the action plan to remove regulatory and legislative impediments to a growth-conducive business climate. In this context, monthly implementation reports are being published on the State Regulatory Service's and the Cabinet of Ministers' websites, following submission to the cabinet. Looking ahead:

~~We have established an inter-departmental working group to improve the methodology for assessing fiscal risks emanating from SOEs liabilities. To support these efforts, we have developed, in consultation with IMF staff, a reporting template to facilitate the stocktaking of SOEs arrears. On this basis, we have extended the coverage of the SOEs reporting to include all arrears of the 50 largest companies and have prepared reports on the stock of these arrears.~~

a. The Cabinet of Ministers will take all the necessary steps to ensure the full implementation of the deregulation action plan amended to current legislation, including the publication of monthly implementation reports.- In particular, priority actions 1, 2, and 5 from the plan, aimed at streamlining clarifying business registration and operation procedures, were adopted by the Cabinet. Moreover, by end-May 2016, the Cabinet of Ministers of Ukraine will cooperate with Parliament to ensure adoption of the legislation necessary to implement actions 2, 5, 50, 54, 62, and 64 from the plan. The Cabinet of Ministers of Ukraine approved an updated methodology for regulatory impact assessment (RIA) in December 2015, which included mandatory quantitative regulatory impact analysis for all new and amended draft legislation.

b. We are preparing a full-scale revision of regulatory norms in pre-selected areas and industries, which includes (i) review of all norms that influence businesses in the selected areas or industries; and (ii) preparing recommendations on whether the norm should be eliminated, revised or maintained. We expect to complete this revision by end-June, 2016.

c. The Cabinet of Ministers will ensure that the recently adopted Law "On Licensing of Types Economic Activity" will be fully functional. To this end, all licensing authorities, within their competence, will submit for adoption to the Cabinet of Ministers rules and license conditions, defining the lists of documents necessary to obtain licenses, and the requirements for conducting business by license holders. To date, the Cabinet has already approved 10 licensing conditions (out of 30) and the remainder will be adopted by end-March 2016. In particular, by end-February 2016, licensing authorities, within their competence, will submit to the Cabinet of Ministers rules and license conditions, defining the lists of documents necessary to obtain licenses, and the requirements for conducting business by license holders. Delays in submission or approval of these rules and conditions will not serve as a basis for denying a license or for prohibition of business activities.

- d. We will adopt legislation lifting the moratorium on land sales. In particular, the Cabinet of Ministers, in consultation with the IMF, will prepare a draft law on agricultural land circulation for submission to Parliament by end-March 2016. Parliament adoption is expected by end-June 2016 (a new **structural benchmark**).

~~The Cabinet has submitted to Parliament a draft law "On Amendments to Some Legislative Acts of Ukraine on Corporate Governance of State Property," aimed at strengthening the SOEs governance structure and enhancing the transparency of their operations. Moreover, we are implementing a new procedure for the appointment of CEOs in SOEs through an independent committee.~~

- ~~36. We adopted by Cabinet resolution a priority privatization list of 10 SOEs. Building on this, we have adopted by cabinet resolution action plans for these companies, which define, for each SOE, the key parameters and conditions of the process, including the timeline for divesting, method of privatization, and intermediate steps to be taken.~~
- ~~37. We have initiated, in cooperation with line ministries, the review of the existing portfolio of SOEs to identify non-operating companies for subsequent liquidation. On the basis of this review, we have prepared a list of SOEs for potential liquidation together with preliminary estimates of the budgetary and other costs stemming from the process.~~
- ~~38. We have identified, in line with our fiscal risk analysis, the list of 10 SOEs posing the biggest fiscal risks that will be subject to restructuring other than privatization.~~

~~We have performed a thorough analysis of the non-operating SOEs subordinated to the MEDT and have prepared for 50 of them a detailed list of their assets, preliminary estimates of the assets' value and liabilities to the State, and liquidation plans outlining the method of liquidation, intermediate steps, and estimate of costs.~~

~~We have prepared draft legislation on SOEs remuneration policy to better align shareholders and managements' interests. In particular, the government approved a decree allowing market level compensation for SOEs' CEOs.~~

- ~~33. — Looking ahead, we remain determined to continue timely efforts to strengthen transparency and improve governance. Specifically:~~

Business climate and deregulation:

- a. ~~The Cabinet of Ministers will take all the necessary steps to ensure the full implementation of the deregulation action plan amended to current legislation, including the publication of monthly implementation reports. In particular, priority actions 1, 2, and 5 from the plan, aimed at streamlining clarifying business registration and operation procedures, were adopted by the Cabinet. Moreover, by end-May 2016, the Cabinet of Ministers of Ukraine will cooperate with Parliament to ensure adoption of the legislation necessary to implement actions 2, 5, 50, 54, 62, and 64 from the plan. The Cabinet of Ministers of Ukraine approved an updated methodology~~

for regulatory impact assessment (RIA) in December 2015, which included mandatory quantitative regulatory impact analysis for all new and amended draft legislation.

- ~~b. We are preparing a full-scale revision of regulatory norms in pre-selected areas and industries, which includes (i) review of all norms that influence businesses in the selected areas or industries; and (ii) preparing recommendations on whether the norm should be eliminated, revised or maintained.~~
- ~~c. The Cabinet of Ministers will ensure that the recently adopted Law "On Licensing of Types Economic Activity" will be fully functional. In particular, by end-February 2016, licensing authorities, within their competence, will submit to the Cabinet of Ministers rules and license conditions, defining the lists of documents necessary to obtain licenses, and the requirements for conducting business by license holders. Delays in submission or approval of these rules and conditions will not serve as a basis for denying a license or for prohibition of business activities.~~

Anti-corruption. As the enabling statutory framework for key legal and institutional reforms has been largely completed, we are now focusing on implementation. Specifically, we will:

- ~~a. Establish a specialized anti-corruption prosecution function in charge of overseeing NABU's investigations.~~ The head of anti-corruption prosecutors and two deputies have been appointed following a process ensuring broad public support, as a **prior action** for this review, and adequate premises have been allocated. The Law on the Prosecutor Office will be amended by end-March 2016 to ensure that a timely, fair, and balanced appointment process of anti-corruption prosecutors is made sustainable over time, as previously agreed in the context of the first review and described below (new **structural benchmark**). In particular, we will amend the Law to provide for the following:
- ~~b. The members of the Selection Committee must be persons of impeccable reputation and high professional qualities;~~
- ~~c. The nomination of Selection Committee members by the General Prosecutor shall be an interim measure, until the qualification commission for prosecutors is established;~~
- ~~d. The Selection Committee will be chaired by a widely recognized and well-respected expert from among the members appointed by Parliament with a rich experience, interest, or record of advocacy in the prosecution of corruption;~~
- ~~e. The Selection Committee will submit only one candidate for each of the three positions (head and two deputies of the anti-corruption prosecution function) to the General Prosecutor.~~
- ~~f. The authority for the nomination and dismissal of other prosecutorial and non-prosecutorial staff of the anti-corruption prosecutor's office is to be granted to the head anti-corruption prosecutor.~~
- ~~g. There will be no amendments to the Law on the Prosecutor Office other than the ones specified above, unless otherwise agreed with the IMF.~~

- c. *Make the NABU operational.* We are already working to ensure that the NABU is operational by end-January 2016 (existing **structural benchmark**).
- d. *Publish statistics on corruption cases related to high-level officials.* To monitor progress made in implementing the anti-corruption legal framework, the NABU will publish statistics on acts of corruption related to high-level officials under the NABU's jurisdiction, on a webpage freely available to the public (in line with the template detailed in paragraph [...] of the TMU). By end-April 2016, the information for the first quarter of 2016 will have been published. Subsequently, quarterly publication of these statistics will occur by the end of the month following each quarter.
- e.d. *Implement asset disclosure requirements for high-level officials.* By end-April 2016, the Ministry of Justice will ensure that, starting with high-level officials, a system is in place to enable electronic filing of asset disclosures, as defined in Article 46 of Law 2014/49 on the Prevention of Corruption. The disclosures will be directly and freely available to the public on a single website shortly after submission (new **structural benchmark**).
- h. *Implement the AML framework.* The NBU will complete risk-based off-site and on-site AML supervisory tools, focusing on risks related to domestic politically exposed persons, by end-February 2016, incorporating technical advice received from Fund staff. By end-April 2016, the NBU will start targeted inspections of banks at higher risk of misuse by corrupt officials, focused on regulatory requirements related to customer due diligence and politically exposed persons. By end-March 2016, the Ministry of Finance will produce a strategy to reform the AML reporting framework. The reform should ensure that reporting entities focus their reporting efforts on suspicious transactions, as defined by the Financial Action Task Force (FATF), rather than sending millions of routine reports yearly, the large majority of which do not contain useful information, and requiring a burdensome manual processing by banks. The strategy will be issued after consultation with relevant public and private stakeholders and will be supported by IMF TA recommendations. It will aim at having the necessary legal, regulatory and institutional changes implemented by the end of 2016. By end-February 2016, the Ministry of Justice in collaboration with the Ministry of Interior will revise the recently-amended framework for criminal seizure of assets to revert to the principle of reasonable grounds, and ensure that the powers of law enforcement agencies, including NABU and anti-corruption prosecutors', are in line with FATF Recommendation 4.
- i. *Adopt, by end-February 2016, a Law on the Business Ombudsman.* The law will include clauses that ensure adequate authority, immunities consistent with international practices, and access to information to facilitate the exercise of the function. With regard to the management and recovery of proceeds of corruption, we recognize the need to ensure that this is done in line with international standards and best practices.

Judicial Reforms. Progress is being made on several fronts:

~~Orders of Payment and Garnishment. We are making steady progress on the structural benchmark on Orders of Payment and Garnishment. In this regard, a draft bill is being finalized for submission to Parliament that will amend relevant parts of the Code of Civil Procedure. The Code of Commercial Procedure will also need to be amended to introduce conforming changes to those introduced in the Code of Civil Procedure. We therefore request that the benchmark be modified to also include these amendments to the Code of Commercial Procedure, for enactment by end-April 2016 (modified structural benchmark).~~

~~High Council of Justice and High Qualification Commission. Since June 2015, the High Council of Justice—responsible for recommending judicial appointments and dismissals and for disciplinary oversight of judges—has resumed its operations following appointments that were made to the Commission to meet its quorum requirements and after a budget allocation was made. We will conduct a budget review by end-March 2016 to enable the High Council of Justice and High Qualification Commission to clear the backlog of disciplinary cases within 12 months.~~

~~Court Fees. The May 2015 law on the increase in court fees (end-May 2015 structural benchmark) envisaged that its implementation would begin by September 1, 2015. In this regard, the State Judicial Administration (SJA) has begun implementation of the law and is already recording a rise in revenues from court fees. The SJA will also closely monitor whether the increased fee requirements are having a limiting impact on the filing of frivolous suits, which was also an objective of the law.~~

34. **SOE reforms.** We continue to press ahead with the implementation of the SOE-reform strategy. Key elements of our strategy include (i) improving budgetary oversight, specifically by enhancing the SOEs fiscal-risk assessment; (ii) improving governance of SOEs; and (iii) implementing transparent privatization, ~~and~~-restructuring, or liquidation of identified ~~SOEsassets~~ in the medium run. Specific near-term measures include:

a. SOE fiscal risk assessment:-

- o We have established an inter-departmental working group to improve the methodology for assessing fiscal risks emanating from SOEs liabilities. In this context, we have identified the list of the 10 SOEs posing the biggest fiscal risks that will be subject to restructuring other than privatization. To support these efforts Furthermore, we have developed, in consultation with IMF staff, a reporting template to facilitate the stocktaking of SOEs arrears. On this basis, we have extended the coverage of the SOEs reporting to include all arrears of the 50 largest companies and have prepared reports on the stock of these arrears.
- o ~~We have identified, in line with our fiscal risk analysis, the list of the 10 SOEs posing the biggest fiscal risks that will be subject to restructuring other than privatization.~~
- o Building on these efforts and aAs part of ~~the effort~~our strategy to improve fiscal risk management, we are establishing a fiscal risks management unit in the Ministry of Finance. Through this unit, the Ministry of Finance will put in place SOE fiscal risks monitoring and analysis framework and will use the analysis to inform the budget preparation process and provide for any expected fiscal impact on the budget. In line with recent IMF TA

recommendations, we will ensure that the new unit is only responsible for monitoring and analysis and does not interfere in any form in the management of SOEs or exert additional control over SOE operations. Once the unit has been established, we will prepare a comprehensive statement of fiscal risks emanating from the SOE sector to be included in budget documentation and published on the Ministry of Finance website. After the ministry of finance develops the capacity to manage fiscal risks from SOEs we will expand the analysis to the wider portfolio of fiscal risks facing Ukraine, such as general macroeconomic risks and commodity prices risks.

b. SOE governance:

- Parliament adopted the Law "On Amendments to Some Legislative Acts of Ukraine on Corporate Governance of State Property," aimed at strengthening the SOEs governance structure and enhancing the transparency of their operations. The law allows for the introduction of supervisory boards at fully state-owned enterprises and makes external audits obligatory for these enterprises. To enable its proper implementation and with a view to introducing independent supervisory boards in the largest unitary SOEs, the Cabinet of Ministers will adopt by [end-April 2016] a decision that will regulate the process of establishing such supervisory boards, selecting its members, and other procedural matters. Thereafter, we will appoint independent supervisor boards in the largest unitary SOEs by [end-September], 2016. First audits for these companies based on end-2015 financial results will be completed by [end-December] 2016.
- In particular, we expect to appoint the independent supervisory board of Naftogaz, consisting of 5 members, with 3 independent members, 1 member appointed by the president, and 1 member appointed by the Cabinet of Minister, consistent with the Corporate Governance Action Plan, by [end-March] 2016.
- The government approved a decree allowing market level compensation for SOEs' CEOs with a view to ~~We have prepared draft legislation on SOEs remuneration policy to better aligning shareholders and managements' interests. In particular, the government approved a decree allowing market level compensation for SOEs' CEOs.~~ Moreover, we are implementing a new procedure for the appointment of CEOs in SOEs through an independent committee.
- The MEDT adopted a decree to start the corporatization process for a number of large SOEs and streamlined the procedures for corporatization. The MEDT also developed draft legislation for setting clear objectives for SOEs and for separating commercial and non-commercial activities of SOEs.
- The Cabinet of Ministers adopted a decree establishing criteria for auditor selection in SOEs based on the SOE's size. We have already identified an initial list of 19 large SOEs that will be subject to audits according to the decree and plan to expand this list to the largest 60 SOEs. We expect to complete and publish the audits for all these SOEs by [end-July, 2016]. ~~The MEDT also adopted a decree on the mandatory retention by the 150 largest SOEs of a reputable audit company that meets the criteria of the MEDT. Audits are already underway~~

~~for 10 of these companies and auditors have been or are close to being selected for an additional 42 companies.~~

- We have published quarterly and annual performance reports for the 100 largest SOEs and about 800 SOEs have published their financial reports in compliance with our disclosure guidelines.
- The MEDT, in consultation with IMF staff, will develop a time-bound action plan that will outline: (i) the corporate governance structure of the single national Holding Company that will be tasked with managing strategic commercial SOEs, including nomination procedures for supervisory boards, CEO and executive board, authorities of the managing bodies and reporting lines and requirements, and (ii) steps required to establish the Holding Company, including the necessary legal framework, and the timeline thereof.

b.c. Triage of all SOEs. We are committed to the triage of all SOEs to determine their appropriate classification: keep under the management of the State (strategic commercial SOEs and SOEs that perform other strategic functions, including regulatory, social, and defense), sell (privatization), or liquidate (liquidation or bankruptcy). In particular, the MEDT will:

- Develop, in consultation with IMF staff, a preliminary triage of all SOEs by end-~~March~~February 2016. Within this stage, we will review the list of "strategic" companies and assess their proper qualification as "strategic," therefore not for sale.
- Review and develop, by end-~~March~~February 2016, amendments to relevant laws and other legislation (if needed) that would allow implementing the triage of all SOEs.
- Following the above preparatory work, we will (i) aim to adopt amendments to the relevant legislation that will allow for the implementation of the triage of all SOEs; (ii) complete the triage of all SOEs in consultation with IMF staff, other line ministries, and other government bodies that manage SOEs and publish the results on the MEDT website by end-September 2016 (a new **structural benchmark**).

d. Restructuring and Liquidation:

- Building on the list of those SOEs posing the biggest fiscal risks, we prepared, in agreement between the respective line ministry, Ministry of Economy and the Ministry of Finance, detailed restructuring action plans for five of these companies (an end-January 2016 **structural benchmark**). The relevant line ministry together with the MEDT and Ministry of Finance will ensure adequate implementation of these restructuring plans.
- To obtain a better understanding of the status of our SOEs, wWe have already initiated, in cooperation with line ministries, the review of the existing portfolio of all SOEs to identify non-operating companies for subsequent liquidation. On the basis of this review, we have prepared a list of SOEs for potential liquidation together with preliminary estimates of the budgetary and other costs stemming from the process.

- o Focusing on those non-operating SOEs subordinated to the MEDT (around 150 from a full portfolio of 354 SOEs under the MEDT), wWe have also performed a thorough analysis of these SOEs ~~non-operating SOEs subordinated to the MEDT~~ and have prepared for 50 of them a detailed list of their assets, preliminary estimates of the assets' value and liabilities to the State, and liquidation plans outlining the method of liquidation, intermediate steps, and estimate of costs.

- o Going forwardOn the basis of the above analysis, the Government plans to centralize liquidation functions in one governmental body. With this intent, the MEDT and State Property Fund of Ukraine (SPFU), in consultation with IMF staff, will conduct an analysis to define an appropriate legal framework and develop relevant legislative changes, as well as an estimate of the resources, financial and human, required to perform the task.

e.e. Privatization. We are committed to accelerate the privatization of SOEs, while ensuring an open and transparent process aimed at attracting strategic investors that will fully develop the potential of the privatized companies. We will formulate our privatization strategy by end-June 2016. In the meantime:

- o The Cabinet of Ministers adopted a resolution indentifying a priority privatization list of 10 SOEs. Building on this, we have adopted by Cabinet resolution action plans for these companies, which define for each SOE the key parameters and conditions of the process, including the timeline for divesting, method of privatization, and intermediate steps to be taken. The shares of all companies on the priority privatization list approved by the Cabinet of Ministers have now been transferred to the SPFU (a **prior action** for this review). Subsequently, we will initiate their privatization, taking the necessary steps to ensure an open and transparent process.

- o In this context, Parliament adopted amendments to the privatization law to cancel mandatory sale of 5-10 percent of shares on stock exchange and introduce a mechanism for the hiring and remuneration of advisors prior to privatization. The Cabinet of Ministers' will adopt the necessary legislation establishing the criteria for the selection of advisors by end-April, 2016.

- o We will also adopt necessary legislation to reduce the list of companies banned from privatization. In particular, Bill No. 2519a, which removes 374 SOEs from the list of SOEs prohibited from privatization mainly in the agricultural sector, and Bill No. 2488a, which removes 17 ports, will be adopted by Parliament by [end-April, 2016]. Subsequently, the Cabinet of Ministers will adopt the necessary decrees to include these SOEs in the plan for privatization and to transfer their shares to the SPFU by [May 15], 2016.

- o Furthermore, by end-April 2016 we will prepare a set of measures in cooperation between the MEDT and the SPFU to prevent asset stripping in SOEs selected for privatization, by limiting the right of management of such SOEs to enter into (i) long term contractual obligations (in excess of [6] months), and (ii) transactions the value of which, individually or in the aggregate, exceeds a specific limit. These measures will provide for personal liability of SOE managers for breach of such obligations and the right for unwinding all affected

contracts post-privatization. The only exception to the limitations under (i) and (ii) above will be where the relevant transaction receives a prior written consent from the SPFU. We expect adoption by Cabinet decree of these measures by end-May 2016.

- The SPFU will facilitate the engagement of advisors (independent consultants, experts), in accordance with international best practices, that will prepare and submit to SPFU information packages for {Odessa Portside Plant}. The information packages will include vendor due diligence and audit reports of the financial statements of the companies. The audits, based on end-December 2015 results and in line with international good practice, shall be performed by a reputable ~~external~~ international auditor and will cover financial, tax, environmental and/or any other subjects that are required for the purpose of robust and transparent privatization process. We expect the audit for the Odessa port Plant to be completed by end-April ~~May 15~~, 2016 (new **structural benchmark**). Should financial accounts not be produced in accordance with IFRS standards, the audit reports will reflect gaps in financial information as necessary. We expect this process to be completed by May 15, 2016.
- The SPFU will set up contest commissions that will develop conditions of privatization contests for {Odessa Portside Plant} by end-June 2016. Those conditions will among other things include: qualification criteria for potential buyers, investor's obligations, and starting price for the contest sale.
- ~~We will ensure that shares of all companies in the priority privatization list approved by the Cabinet of Ministers are transferred to the SPFU by . Subsequently, we will initiate their privatization, taking the necessary steps to ensure an open and transparent process. We will aim to launch the privatization contest for Centrenergy by end-August 2016 and aim to complete its sale by end-2016, following the same procedures as for Odessa Portside Plant.~~

~~d.f. **Holding company.** The MEDT, in consultation with IMF staff, will develop a time-bound action plan that will outline: (i) the corporate governance structure of the single national Holding Company that will be tasked with managing strategic commercial SOEs, including nomination procedures for supervisory boards, CEO and executive board, authorities of the managing bodies and reporting lines and requirements, and (ii) steps required to establish the Holding Company, including the necessary legal framework, and the timeline thereof.~~

~~e. **Legal framework.** We are also making progress on legislative amendments needed to facilitate these actions and improve SOE governance. In particular,~~

- ~~● Following approval in the first reading, Parliament will adopt by end-March, 2016 amendments to the law on SOE management, to allow introduction of supervisory boards at fully state-owned enterprises and make external audits obligatory for these enterprises.~~
- ~~● The Parliament will adopt by end-February, 2016 amendments to the privatization law to cancel mandatory sale of 5-10 percent of shares on stock exchange and introduce a~~

~~mechanism for the hiring and remuneration of advisors prior to privatization (new **structural benchmark**).~~

- ~~• By end-March 2016 we will prepare [a set of measures] in cooperation between the MEDT and the SPFU to prevent asset stripping in SOEs selected for privatization, by limiting the right of management of such SOEs to enter into (i) long-term contractual obligations (in excess of [6] months), and (ii) transactions the value of which, individually or in the aggregate, exceeds a specific limit. These measures will provide for personal liability of SOE managers for breach of such obligations and the right for unwinding all affected contracts post-privatization. The only exception to the limitations under (i) and (ii) above will be where the relevant transaction receives a prior written consent from the SPFU. We expect adoption by Cabinet decree of these measures by end-May 2016.~~

~~**Land reform.** We will adopt legislation lifting the moratorium on land sales. In particular, the Cabinet of Ministers, in consultation with the IMF, will prepare a draft law on agricultural land circulation for submission to Parliament by end-March 2016. Parliament adoption is expected by end-June 2016 (a new **structural benchmark**).~~

III. Program Monitoring

35. **Implementation of the policies under the program will continue to be monitored through prior actions, quantitative performance criteria, indicative targets, continuous performance criteria, structural benchmarks, and quarterly reviews**, as envisaged in our Memoranda of Economic and Financial Policies dated February 27 and July 21, 2015 along with this Memorandum. The attached Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria and indicative targets under the program. The **prior actions** and **structural benchmarks** are set out in Table 1. The quantitative targets for target dates through end-June 2016, along with a continuous quantitative performance criterion, and indicative targets through end-December 2016, are set out in Table 2.

Table 1. Ukraine: Proposed New Prior Actions and Structural Benchmarks		
Proposed Prior Actions	Status	Completion date
Parliamentary approval of the 2016 budget in line with program commitments supported by a new tax code as agreed with staff. (¶25–29).	Met	
Appointment of the Head Anticorruption Prosecutor and his/her two deputies. (¶33).	Met	
Parliamentary approval of amendments to implement an effective and comprehensive electronic system for asset and income disclosure by high-level officials (¶33).		
Transfer of all shares of all companies on the priority privatization list to the SPFU (¶34e).		
The Cabinet of Ministers adoption and publication of thea decision to increase the Tier 1 retail gas tariff and the retail heating tariff to 75 percent of cost recovery based on import parity, and the Tier 2 gas tariff to 100 percent of cost recovery based on import parity, effective April 1, 2016 (as described in ¶31a).		
The Cabinet of Ministers' adoption and publication of the decision to increase retail heating tariffs to 75 percent of the level consistent with gas priced at full import parity effective April 1, 2016 (as described in ¶31a).		
Proposed New Structural Benchmarks	Status	Completion date
Parliament will adopt amendments to the privatization law to cancel the mandatory sale of 5–10 percent of shares on the stock exchange (¶34).		End-February 2016
Enactment of amendments to the Law on Prosecutor's Office to provide for a timely, fair, and balanced appointment process of anticorruption prosecutors as described in ¶33.		End-March 2016
Parliamentary approval of laws that (i) allow increasing the number of deputy chairman positions at the SFS; (ii) clarify the relationship between the regional customs offices and the rest of the SFS and consolidate 50 regional structures into 25 tax and customs regions; and (iii) introduce one-tier dispute resolution (as described in ¶26a)		End-March 2016
The Cabinet of Ministers will adopt and publish a decision to increase the Tier 1 retail gas tariff and the retail heating tariff to 75 percent of cost recovery based on import parity, and the Tier 2 gas tariff to 100 percent of cost recovery based on import parity, effective April 1, 2016 (as described in ¶31a).		April 1, 2016
Parliamentary approval of legislation to apply the rules of the general retirement system to employees in the health and education sectors and to set the early retirement age at 57 years for all professions eligible for early retirement (¶27a).		April 1, 2016
Parliamentary approval of legislation ensuring that the NABU has: (i) the use of a wide range of investigative techniques, including undercover operations, intercepting communications, accessing computer systems and controlled delivery; (ii) the ability to identify assets without prior notification to the owner; and (iii) the ability of maintaining confidentiality of mutual legal assistance, particularly when requesting documents from foreign authorities, including bank		End-April 2016

records.		
Implementation of the asset disclosure framework to ensure that high-level officials report all their assets electronically (¶133).		End-June April 2016
Adopt a decree to shorten the list of occupations eligible for early retirement, reducing it by at least two-fifths in terms of eligible persons (¶127a).		End-April 2016
Completion of audit of the Odessa Portside Plant, based on end-December 2015 results and in line with international good practice, by a reputable external auditor, with the audits covering financial, tax, environmental and/or any other subjects that are required for the purpose of robust and transparent privatization process: (¶134d).		End-April May 15, 2016
All high-level officials have filed their assets and income declarations, as defined under Article 46 of law 2014/49 for the calendar year 2015 and the disclosures have been made freely available to the public on a single website shortly after submission (as described in ¶133f).		End-June 2016
Parliamentary approval of legislation that strengthens the SFS' ability to assess tax liabilities of high-net-worth individuals; cancels the moratorium on tax audits for smaller taxpayers; and strengthens the enforcement framework for the collection of tax debts (as described in ¶126b).		End-June 2016
Parliamentary approval of a law on agricultural land circulation, lifting the moratorium on land sales (¶135d4).		End-June 2016
Complete the triage of all SOEs, dividing the into companies to (i) remain under management of the State; (ii) privatize; or (iii) liquidate, in consultation with IMF staff, other line ministries, and other government bodies that manage SOEs and publish the results on the MEDT website (¶134b).		End-September 2016
Parliamentary approval of a gradual increase in the statutory retirement age, starting from January 1, 2017 (¶127a).		End-December 2016
Previous Structural Benchmarks	Status	Completion date
NBU and Financial Sector		
NBU will notify banks of any identified discrepancies in the related-party exposure reports based on steps (i) and (ii) as described in February MEFP ¶13.	Met	End-July 2015
Parliament will approve amendments to legislation as described in MEFP ¶18, consistent with IMF staff advice, to strengthen the corporate insolvency and credit enforcement regimes, and to remove tax impediments (July MEFP ¶17).		End-March 2016 Reset to End-June 2016
Fiscal Policy		
The State Fiscal Service will transfer all taxpayers meeting large taxpayer criteria to the LTO (February MEFP ¶22).	[Met]	End-December 2015
The State Fiscal Service will implement its new arrangements as specified under the revenue administration reform plan (February MEFP ¶25).	[Met]	End-December 2015
Parliamentary passage of pension reform legislation, as agreed with IMF staff that revises the parameters of the pay-as-you-go system to make it more sustainable, abolishes special pensions, and lays the conditions for the	Not met	End-December 2015

adoption of a funded system that would complement the pay-as-you-go system (July MEFP ¶24).		
State-Owned Enterprises		
Adoption by a cabinet resolution of the privatization action plan for five large SOEs from the priority privatization list (July MEFP ¶30).	Met	End-September 2015
Agreement on detailed restructuring action plans, prepared in consultation with IMF staff, for five SOEs with the largest fiscal risks, between the respective line ministry, Ministry of Economy, and the Ministry of Finance (July MEFP ¶30).	[Met]	End-January 2016
Governance		
Parliament will approve a law which strengthens the provisions in the Code of Civil Procedure and the Code on Commercial Procedure on Order for Payment for domestic transactions and on garnishment of bank accounts (February MEFP ¶35; modified this MEFP ¶33).	Not met	End-December 2015 Reset to End-April 2016
Establish a specialized anticorruption prosecution function in charge of overseeing NAB's investigations, in accordance with the Law on the Prosecutor's Office, and enable NAB timely access to relevant information from other public institutions (July MEFP ¶29).	Not met (prior action)	End-September 2015
Undertake measures to make the National Anti-Corruption Bureau operational, including with regard to its prosecutorial function (July MEFP ¶29).	[Met]	End-January 2016
Energy Sector		
Reform utility-related social assistance by (i) reducing the scope of energy privilege programs to cover only households that remain exempt from income testing according to Law 76-VIII/2014; (ii) converging the associated benefits to the levels in the HUS program; and (iii) revising the benefit formula of the expanded HUS program in consultation with IMF staff to channel benefits to vulnerable households and provide incentives for energy efficiency. The overall fiscal envelope for all energy-related social assistance programs (privileges and HUS) will be set at UAH 35 billion for 2016 (July MEFP ¶24).		End-May 2016