

Ukraine Gap Analysis Update
Europe and Eurasia Bureau, USAID
Strategic Planning and Analysis Division
October 2011

This analysis updates our more comprehensive gap analysis of Ukraine in February 2011 (http://www.usaid.gov/locations/europe_eurasia/wp/index.html).

Highlights of findings. Many development gaps persist in Ukraine. The “spider” charts in **Figures 1** and **2** highlight Ukraine’s progress drawing on the components of the five Monitoring Country Progress (MCP) indices and the progress of these components on average among our 11 country graduates from USG foreign assistance. Against that standard, gaps are found in all five dimensions, most significantly in democratic reforms and human capital. In addition, progress in both reform dimensions, economic and democratic reforms, is very skewed; i.e., Ukraine is relatively far along in some dimensions (first-stage economic reforms of liberalization and privatization, and democratic reforms in civil society followed by electoral process and independent media), and lagging considerably in other reforms (second-stage economic reforms in infrastructure including electricity, competition policy and enterprise restructuring, and democratic reforms in anti-corruption efforts, rule of law and both local and national public governance).

In macroeconomic performance, energy security and environmental sustainability are salient gaps for Ukraine. In human capital, life expectancy and per capita income. In peace and security, transnational crime and counter-narcotics.

Economic and democratic reforms. Economic reforms have stagnated in Ukraine in recent years, since 2008 in macroeconomic reforms (**Figure 3**) and at least in relative terms, since at least 2005 in microeconomic (or business environment) reforms (**Figure 4**). Ukraine’s business environment is very “business unfriendly;” of the 28 E&E countries in the analysis (excluding Turkmenistan), only Uzbekistan’s government regulations are more burdensome to business (**Figure 5**).

Democratic reforms in Ukraine have been backsliding since 2005 (**Figure 6**). In 2010, of the 29 E&E countries, only Hungary experienced a more comprehensive regression in democratization than did Ukraine (**Figure 7**). Democratic reforms backslid in Ukraine in 2010 in three dimensions: local governance; rule of law; and independent media (**Figure 8**).

Along with Georgia, Armenia, and Moldova, Ukraine is relatively advanced in economic and democratic reforms by Eurasian standards (**Figure 9**). However, our most recent projection of Ukraine’s reform path (based on a 2006-2010 average trend of both economic and democratic reform progress) shows no progress towards approaching the phase-out reform threshold over the next several years (**Figure 10**).

Macroeconomic performance. Ukraine's economy was hit hard by the global economic crisis of 2008-2009 (**Figure 11**); of the E&E countries, only Latvia's economy contracted more than did Ukraine's in 2009. Ukraine's economy expanded in 2010 and continues to grow in 2011 at a relatively good pace, estimated at 4.7% in 2011 (**Figure 12**). Ukraine's economy remains vulnerable to another global economic crisis, with a large dependence on foreign capital (reflected in part with high external debt and continued deficits in the current account and fiscal account, **Figure 13**), and a large export sector dominated by metallurgy (**Figure 14**).

Energy security is a major challenge for Ukraine. **Figure 15** highlights two aspects: Ukraine's highly energy inefficient economy and a reasonably high dependence on energy imports. Haiti and Ghana are two countries of the world that approximate Ukraine's energy security profile on those two dimensions.

Environmental sustainability of **Figure 16** attempts to measure how an economy might have an effect on climate change, on the availability and usage of natural resources (including agriculture, fisheries, and forestry), biodiversity and habitat, and water and air pollution. Of the 163 countries in the index, Ukraine ranks towards the bottom, at 128th. Of the E&E countries, by this measure, environmental sustainability is lower only in the economies of Uzbekistan, Turkmenistan, and Bosnia-Herzegovina as compared to Ukraine's economy.

Human capital. Life expectancy in Ukraine has increased in recent years and at 69 years is now Eurasian average (2009 the latest year of available data, **Figure 17**). Male life expectancy has increased more than female life expectancy in recent years in Ukraine. However, the life expectancy gender gap in Ukraine is still extremely high; females live eleven years longer than males (**Figure 18**). Worldwide, the only country with a larger life expectancy gender gap than Ukraine is Russia, at 12 years. Related, as we reported in the February 2011 Ukraine Gap Analysis, is the very high adult mortality rate in Ukraine (**Figures 19 and 20**). This is particularly so for male adults (roughly on par with Sub-Saharan Africa's male adult mortality rate, 385 versus 390 male deaths per 1,000, respectively).

The under-five mortality rate in Ukraine is closer to Southern Tier CEE norms than Eurasia (**Figure 21**). Infectious diseases are problematic. Ukraine's HIV prevalence rate is among the highest in E&E (**Figure 23**), and the incidences of tuberculosis are notably higher in recent years in Ukraine than years past, although the incidences look to have plateaued (**Figure 22**). In addition, Ukraine has one of the highest incidence rates of multi-drug resistant TB in the world: 16% of new cases in 2009 compared to 4% worldwide.

As noted in the February 2011 Ukraine Gap Analysis, Ukraine's education gaps may not be as significant as compared to other human capital development dimensions, although data reliability and availability are key constraints towards analysis. In that context, the most recent estimates from UNICEF show the growth of tertiary enrollments declining in recent years (**Figure 24**). In addition, Ukraine lags behind OECD standards in at least one international education performance test; a number of other E&E countries lag much more (**Figure 25**).

Gender Inequality. We include a gender inequality measure in the MCP human capital index (**Figure 26**). This measure, from the UNDP, is an index in itself and has three dimensions: reproductive health

(maternal mortality rate and adolescent fertility rate); political empowerment (share of parliamentary seats held by each sex); and labor market participation (attainment of secondary and higher education by each sex, and labor market participation rate by each sex). The twenty-one E&E countries included in the index score roughly equal to or better than the global average of gender inequality. Ukraine ranks 61 out of 140 countries, roughly global average. By E&E standards, Ukraine fares worse, ranking fifteen out of twenty-one and well below Central and Eastern Europe standards.

Peace and Security. Finally, according to MCP's peace and security index, Ukraine is the most peaceful and secure country of Eurasia (***Figure 27***). It is also more peaceful and secure than four Southern Tier CEE countries: Kosovo; Macedonia; Albania; and Bosnia-Herzegovina.



Ukraine Gap Analysis

USAID

E&E Bureau

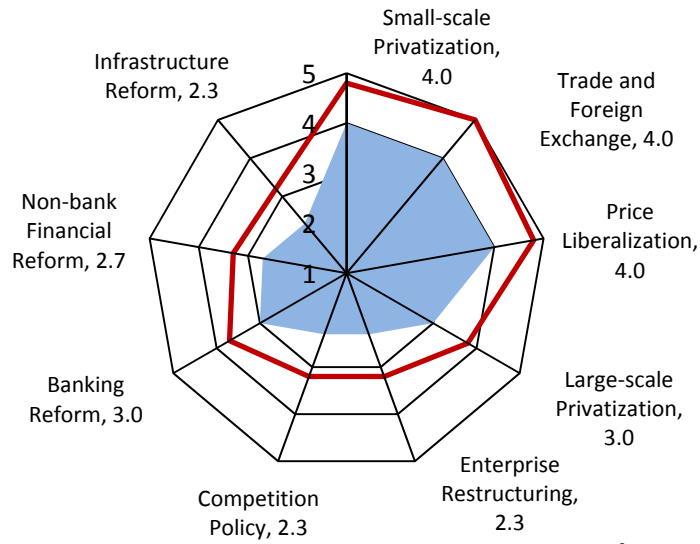
Strategic Planning and Analysis Division

October 2011

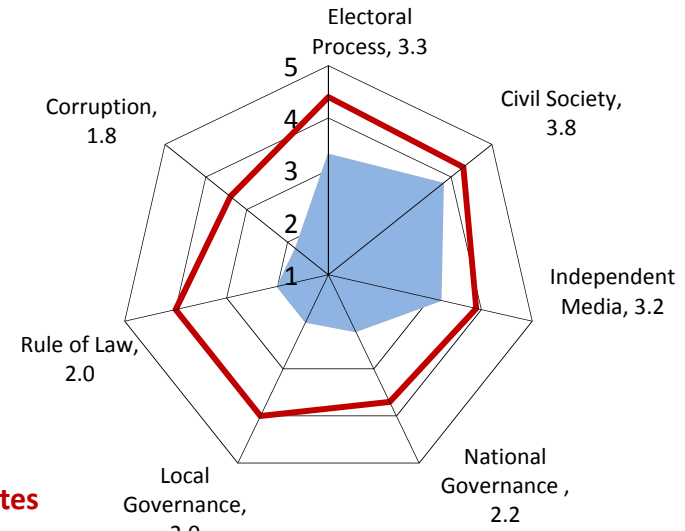
Figure 1

Ukraine

Economic Reforms, 2010

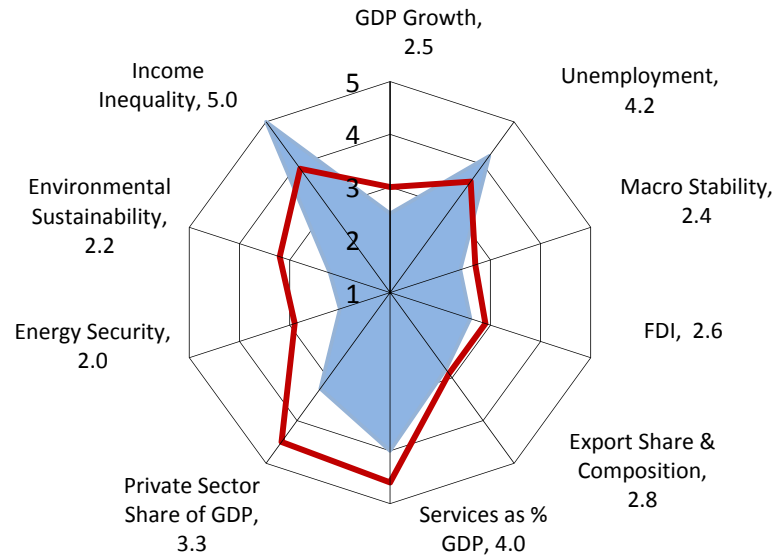


Democratic Reforms, 2010



Country Graduates

Economic Performance, 2008-2010

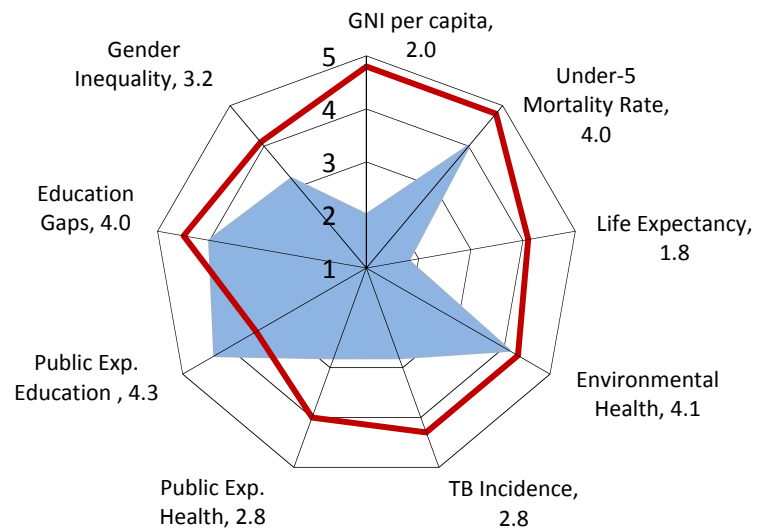


Country graduates = Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.

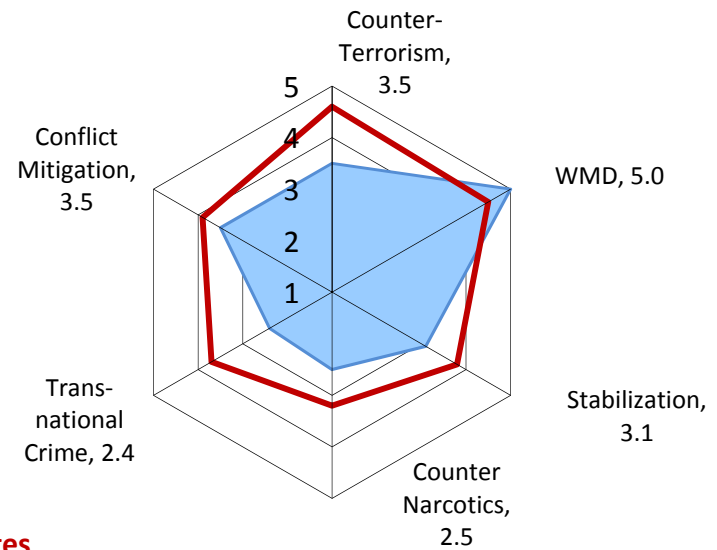
Figure 2

Ukraine

Human Capital, 2008-2010



Peace and Security, 2009-2010

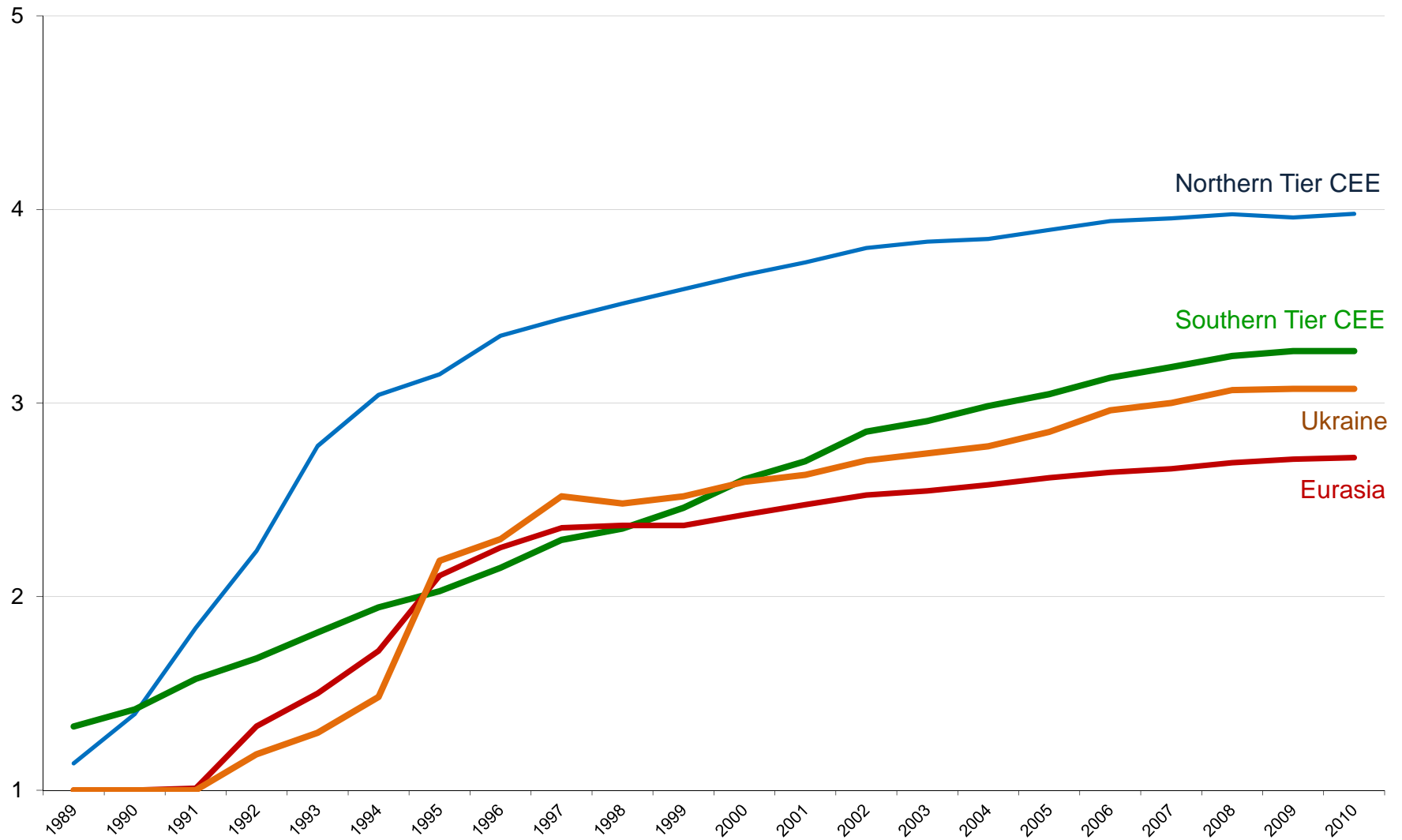


Country Graduates

Country graduates = Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.

Figure 3

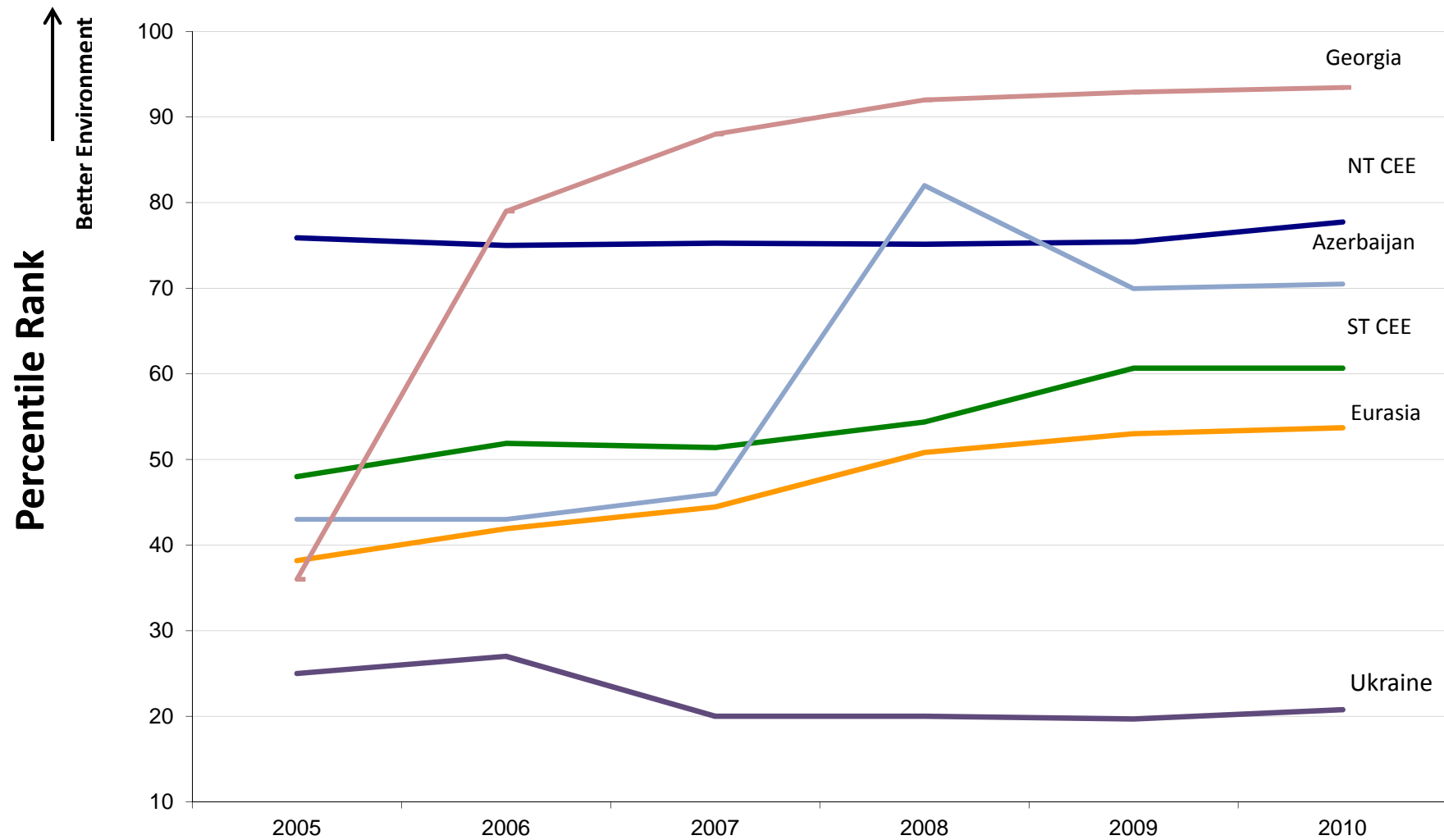
Economic Reforms in Eastern Europe and Eurasia



Drawn from the EBRD, *Transition Reports*. Scores are based on 1 to 5 scale, with 5 representing the most advanced.

Figure 5

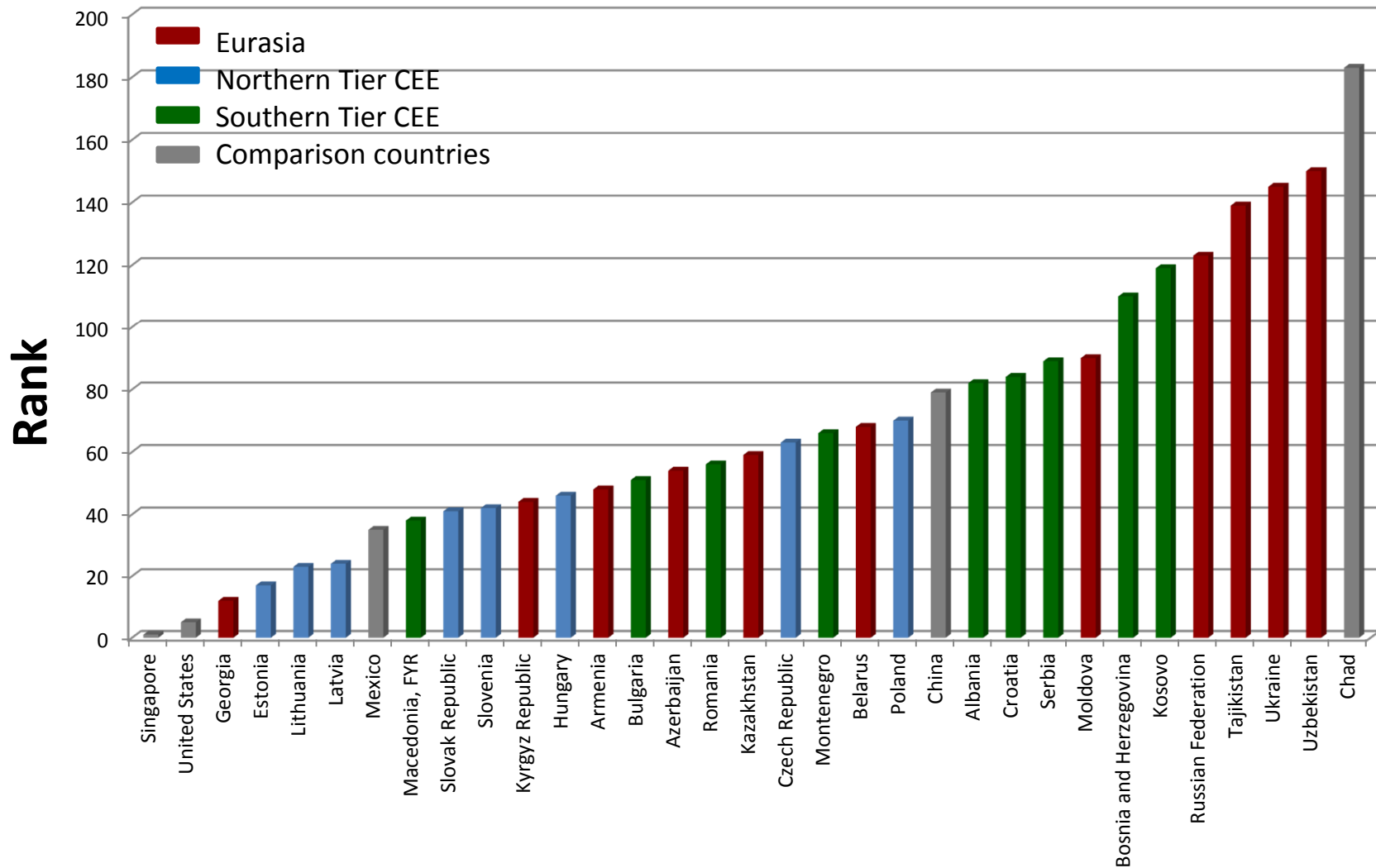
Business Environment



World Bank, Doing Business 2011 (October 2010). The analysis is based on 10 aspects: starting a business; dealing with construction; hiring and firing workers; registering a property; getting credit; protecting investors; paying taxes ; trading across borders; enforcing contracts; and closing a business.

Figure 5

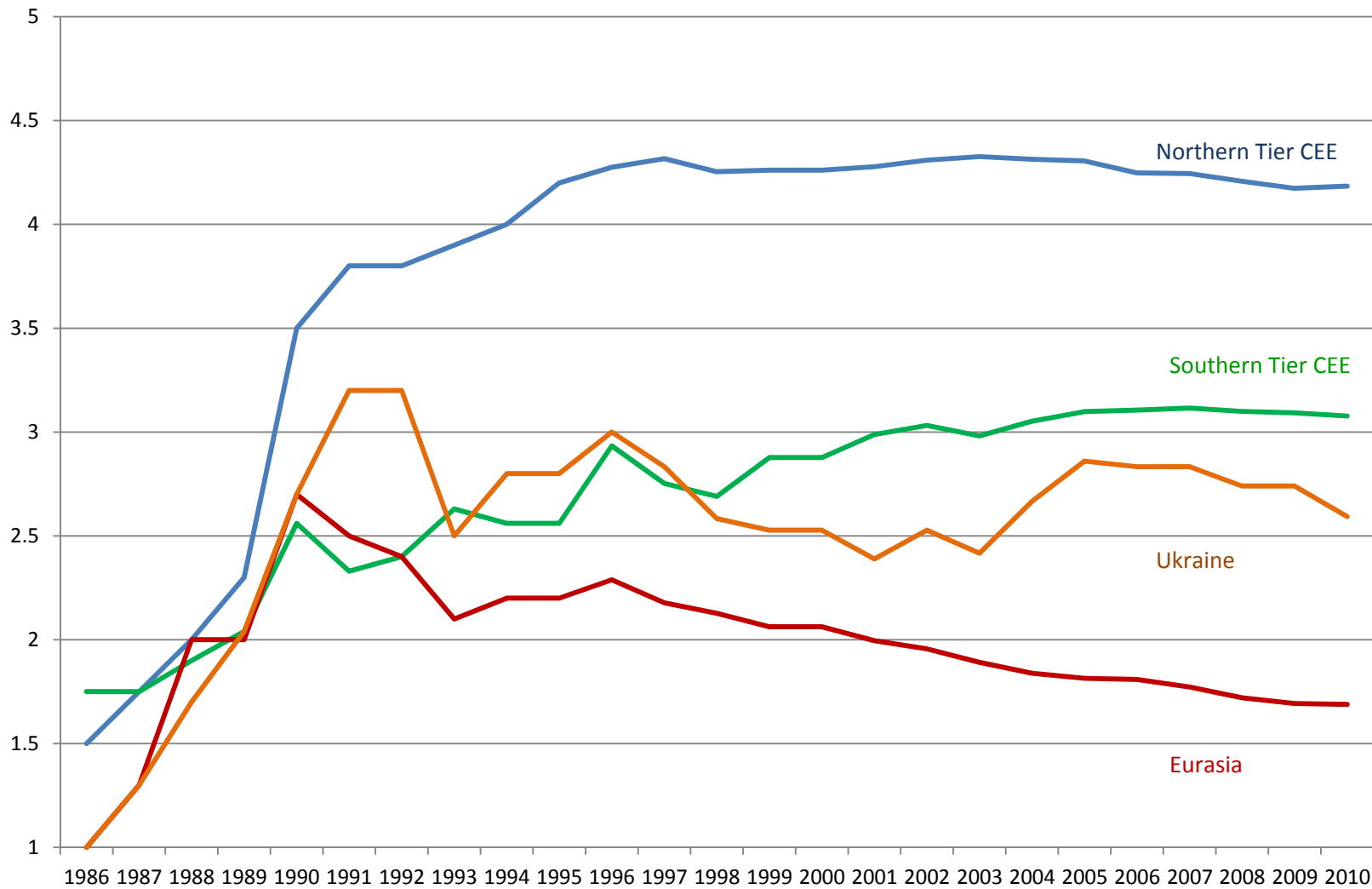
Business Environment in 2010



World Bank, *Doing Business* 2011 (October 2010), 183 countries are included in the analysis. The business environment is gauged based on 10 aspects: starting a business; dealing with construction; hiring and firing workers; registering a property; getting credit; protecting investors; paying taxes; trading across borders; enforcing contracts; and closing a business.

Figure 6

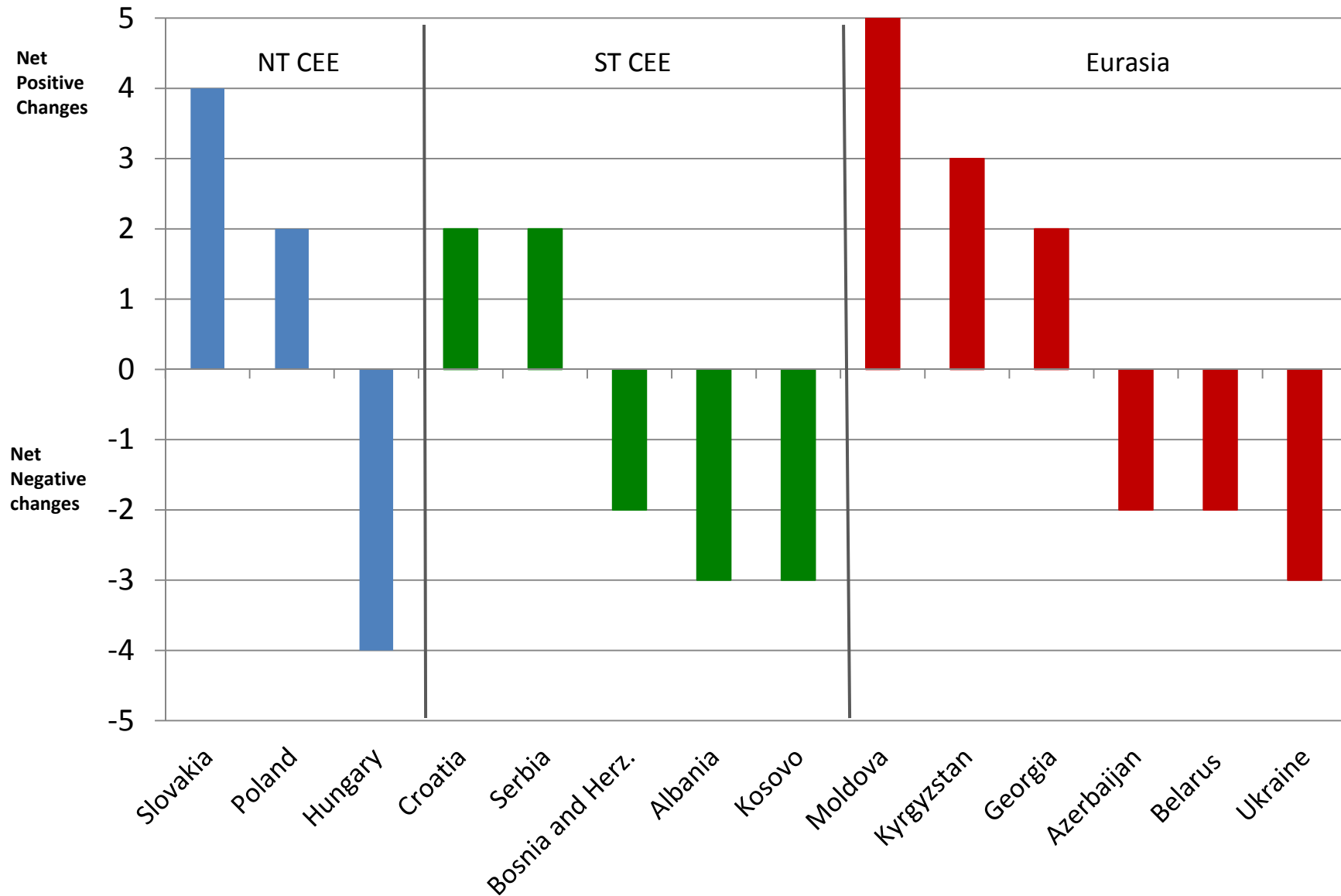
Democratic Reforms



Ratings from 1 to 5, with 5 representing greatest development of democratic reforms. Freedom House, *Nations in Transit* 2010 (1996-2010); *Freedom in the World*, 2010 (1986-1995).

Figure 7

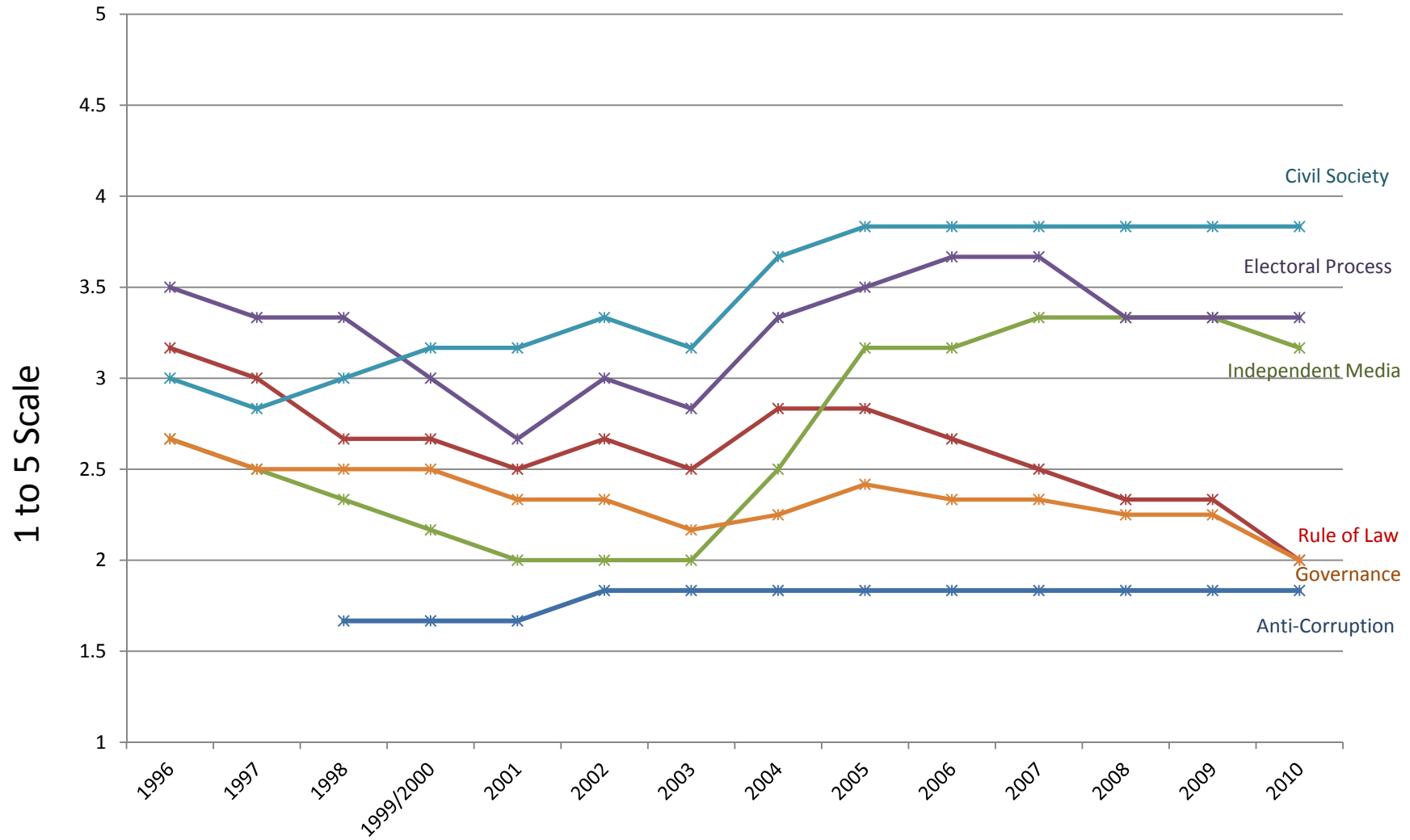
Democratic Reform Changes in Eastern Europe and Eurasia, 2009-2010



Freedom House, *Nations in Transit* (June 2011). Countries included here have had net changes in at least 2 of the 7 democratic reform dimensions in 2010 as assessed by Freedom House.

Figure 8

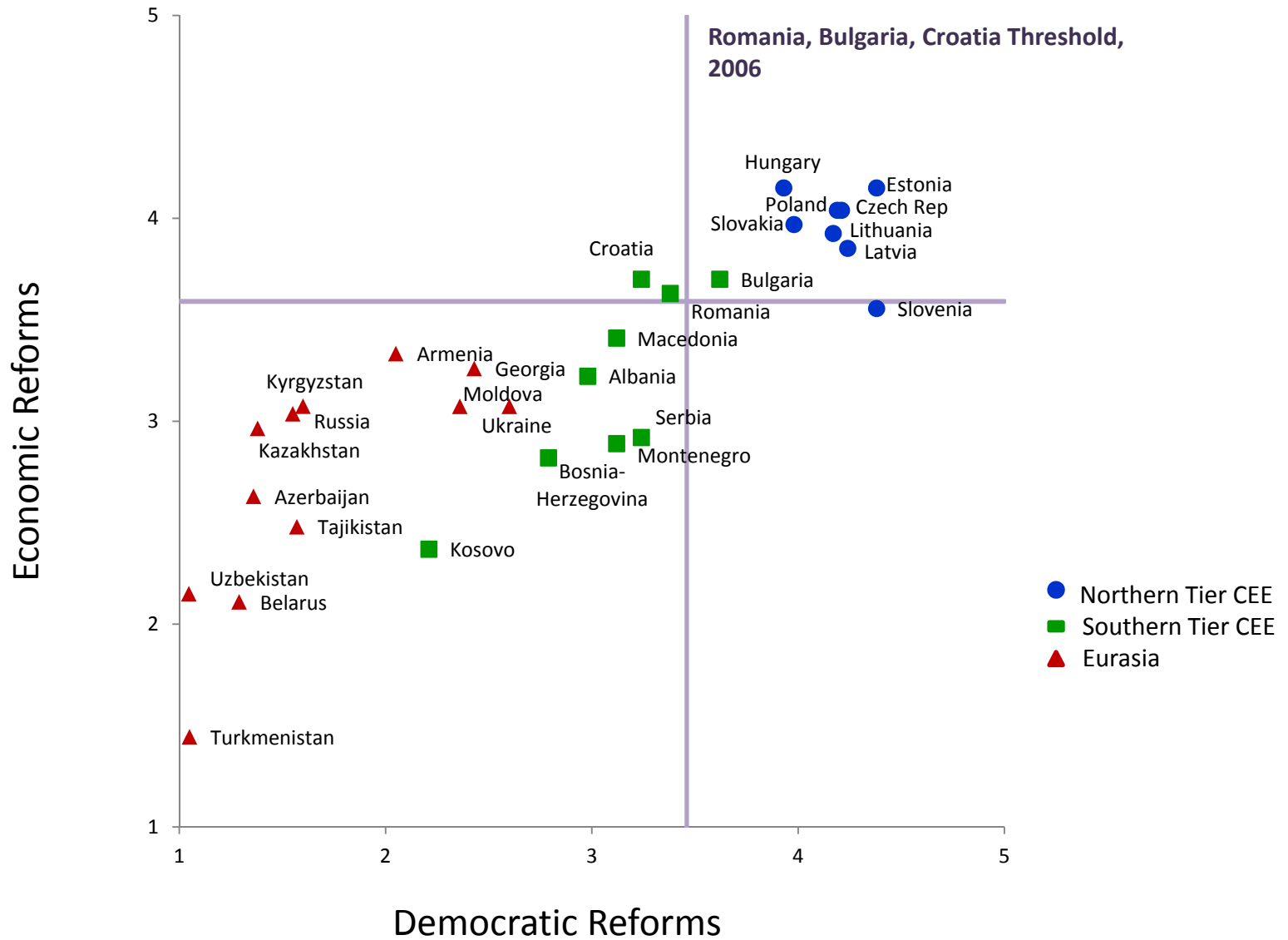
Democratic Reforms in Ukraine, 1999-2010



Source: Freedom House, *Nations in Transit 2010*.

Figure 9

Economic and Democratic Reforms in 2010

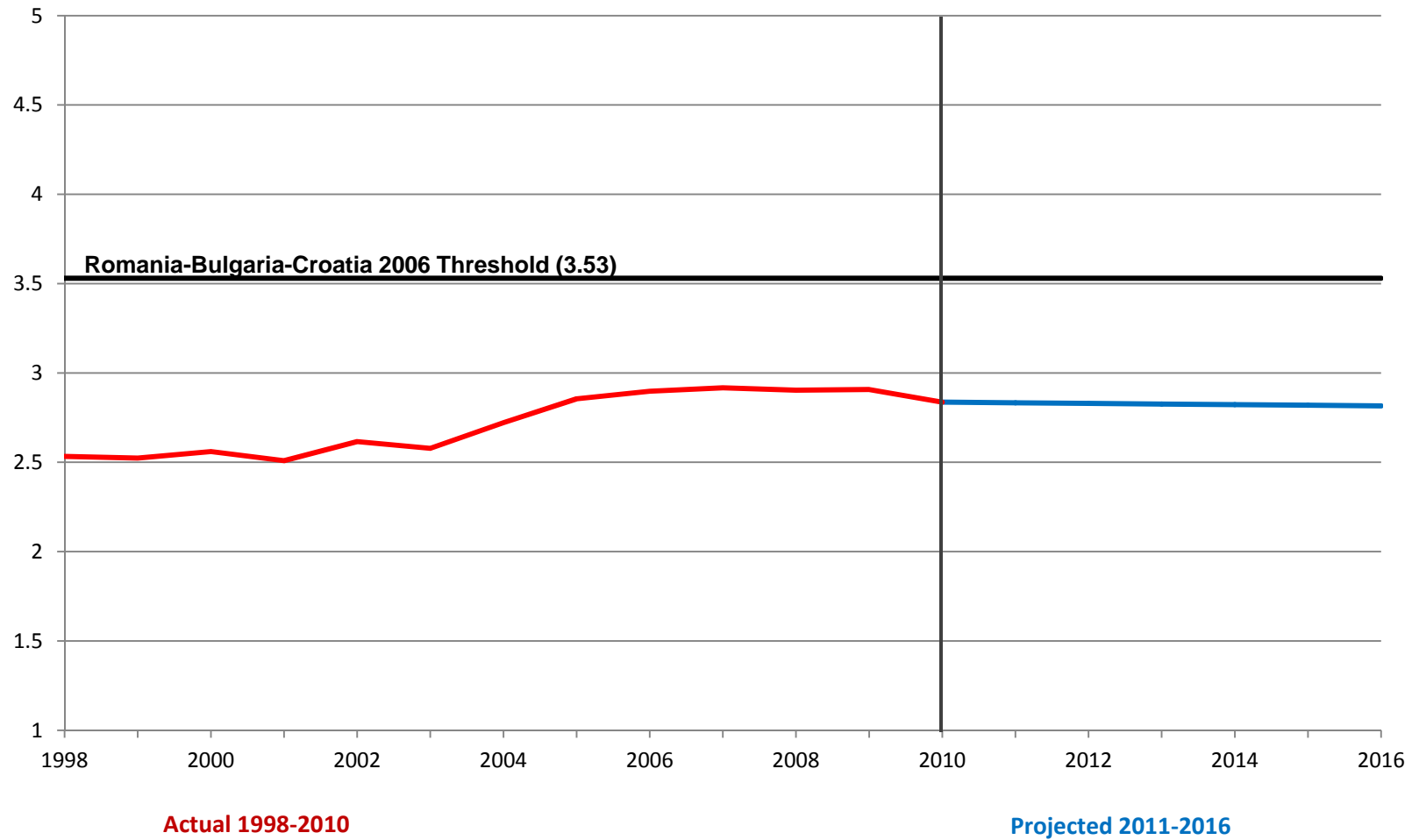


Ratings are based on a 1 to 5 scale, with 5 representing most advanced. Freedom House, *Nations in Transit 2011* (June 2011); and EBRD, *Transition Report 2010* (November 2010).

Figure 10

Ukraine Projection

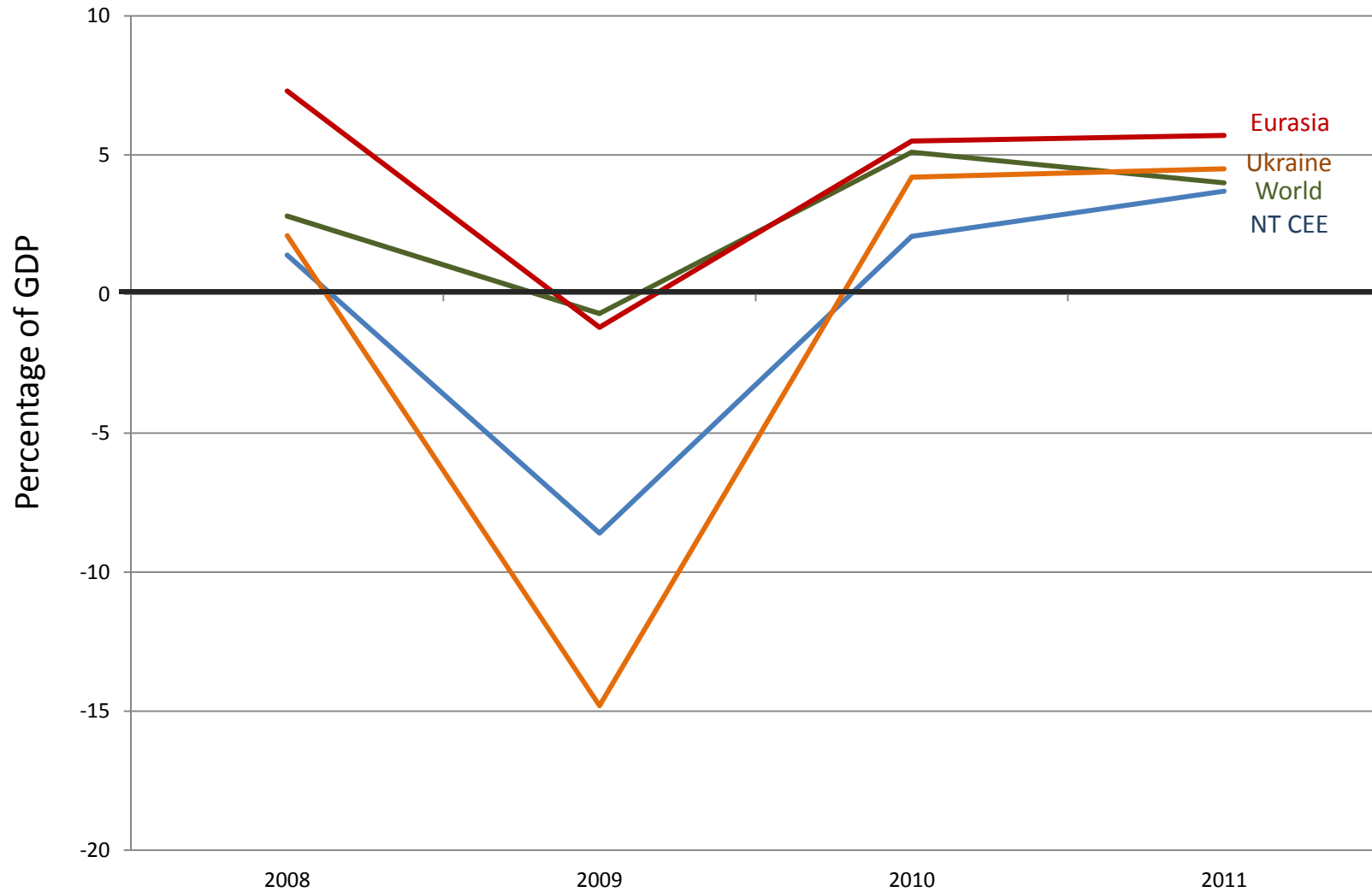
Economic and Democratic Reforms



The projections are extrapolations from the average annual trends from 2006-2010. The economic reform data are drawn from the EBRD's annual *Transition Report*, and the democratic reform data are drawn from Freedom House's annual *Nations in Transit*.

Figure 11

Economic Growth and Contraction (% change in GDP)



World Bank, *World Development Indicators*, 2011; Economist Intelligence Unit Database. Equally-weighted calculations for the EE subregions.

Figure 12

Economic Growth: Ukraine and the Worst Performers versus the Best Performers in 2011

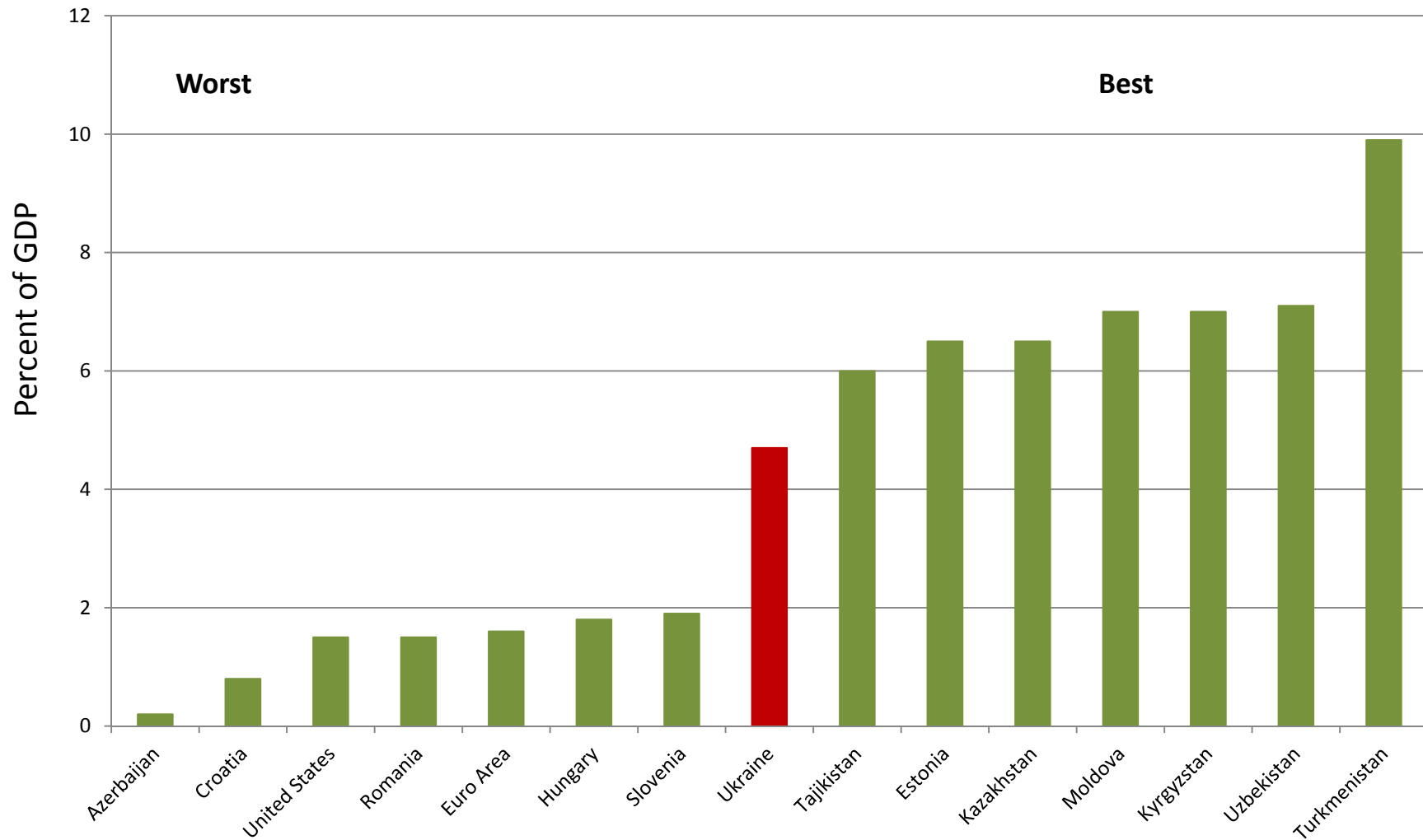
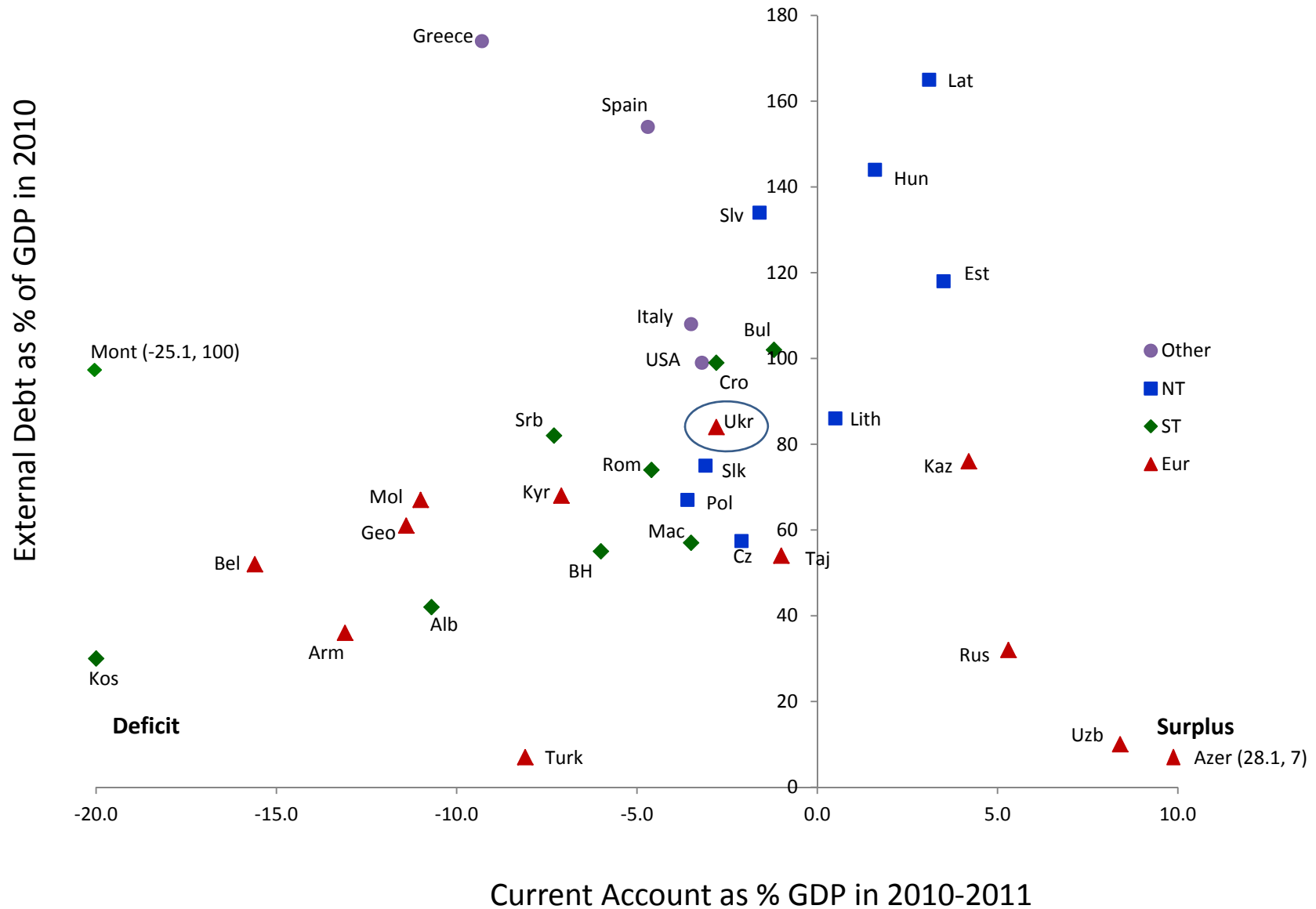


Figure 13

Current Account Balance & External Debt in 2010-2011



EBRD, *Transition Report 2010* (November 2010) and IMF, *World Economic Outlook* (June 2011).

Figure 14

Exports of Fuels, Metals, and Precious Stones in Eurasia

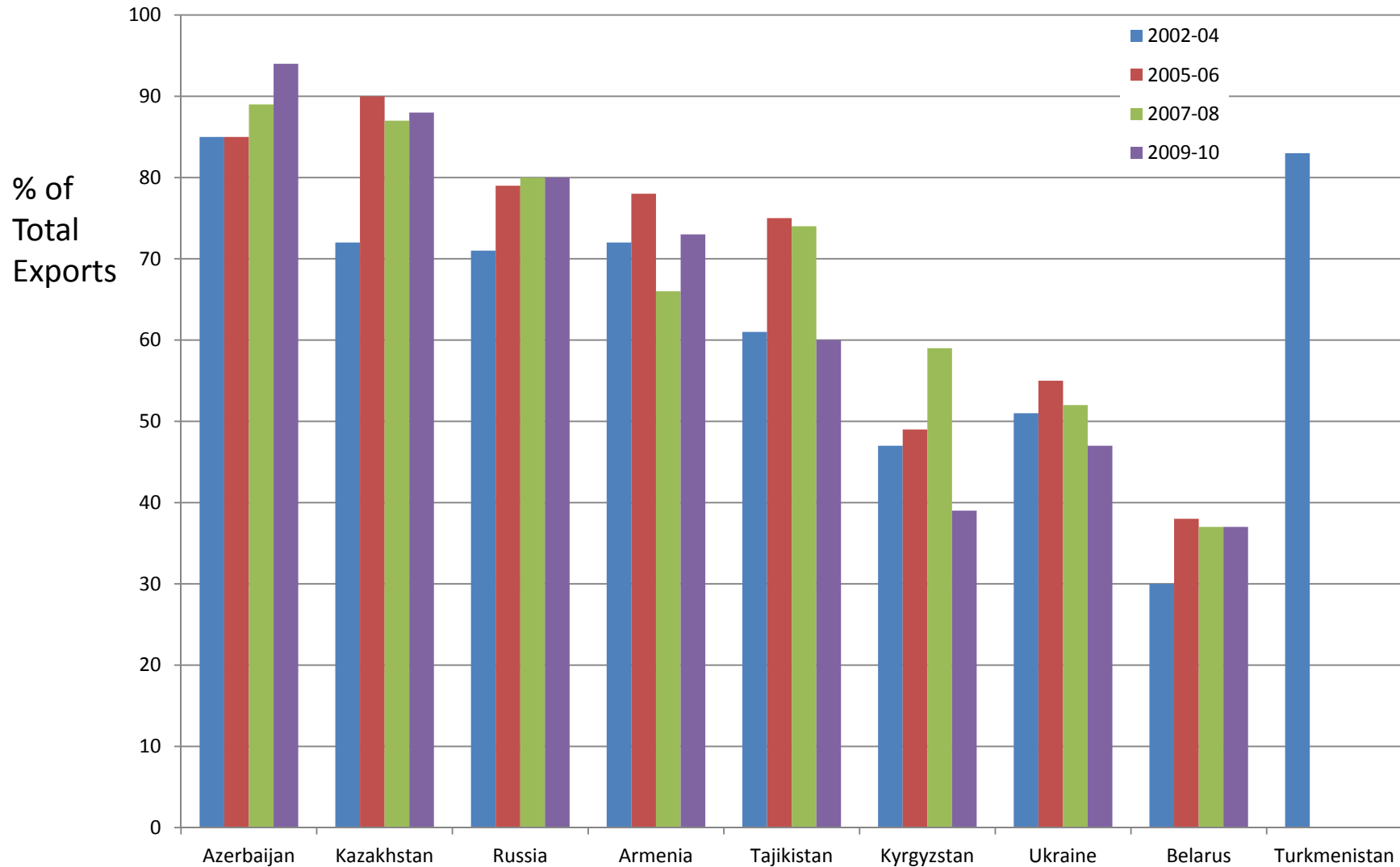
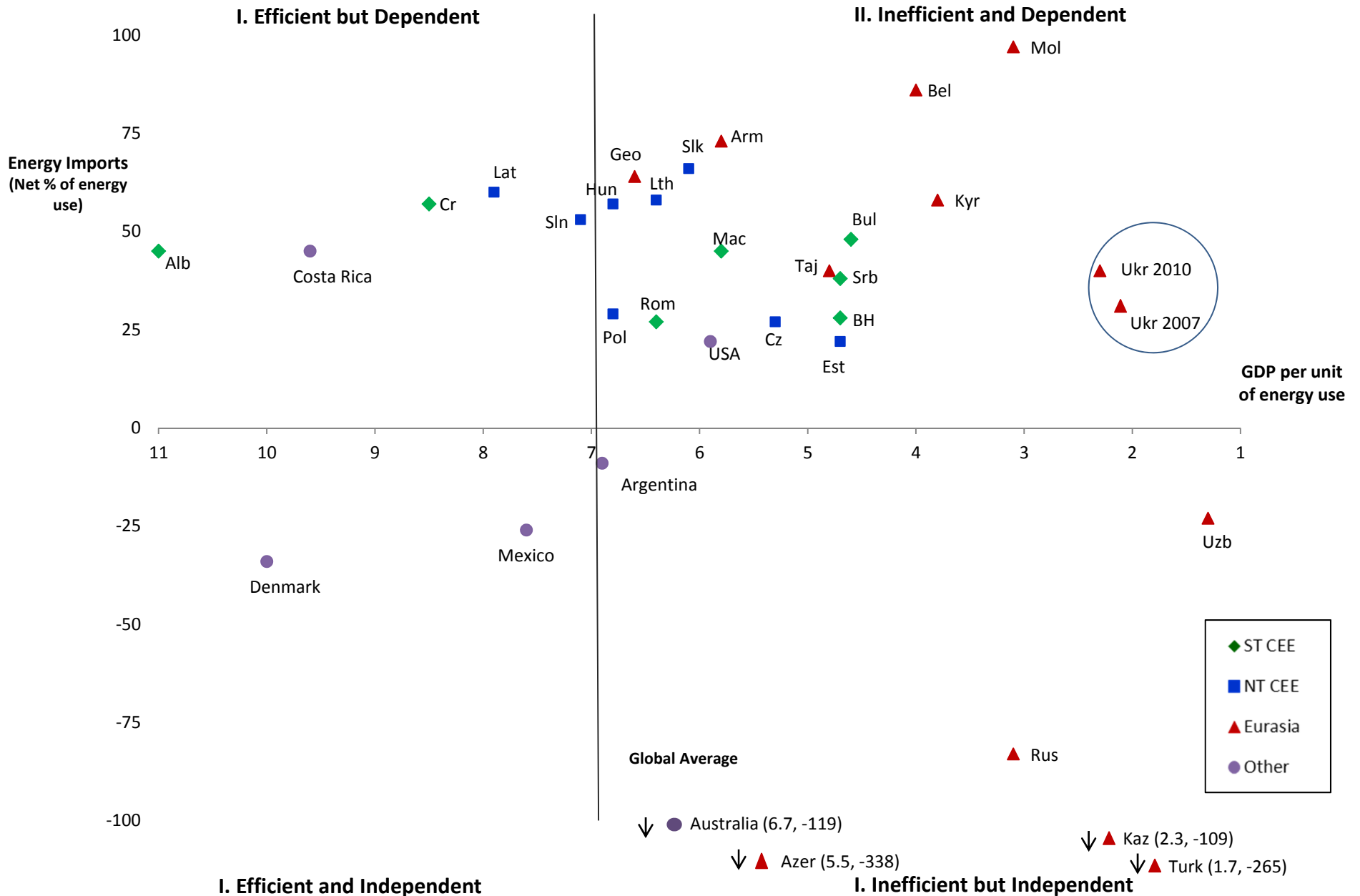


Figure 15

Energy Security, 2010



World Bank, *World Development Indicators* (2011).

Figure 16

Environmental Sustainability

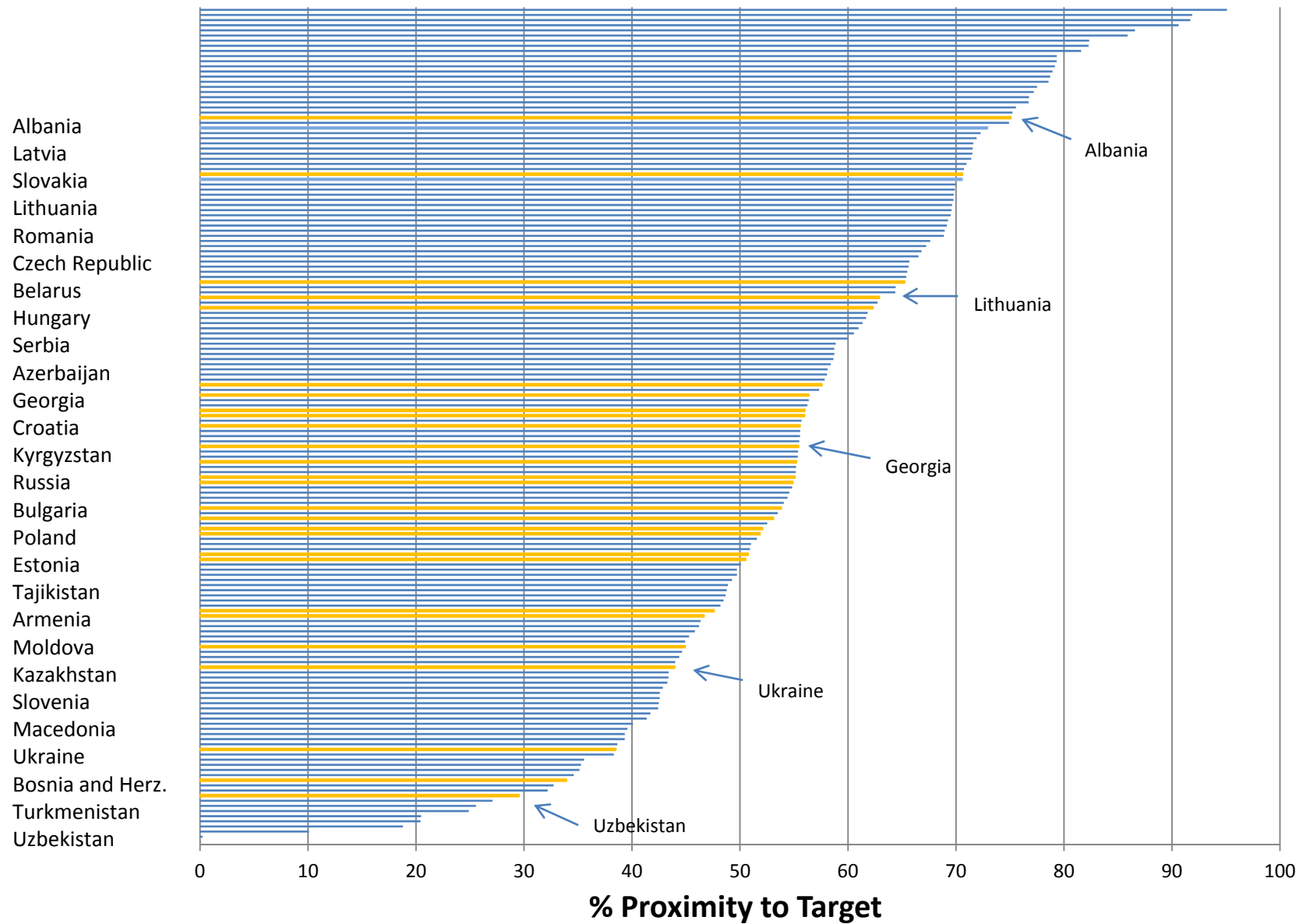


Figure 17

Life Expectancy at Birth

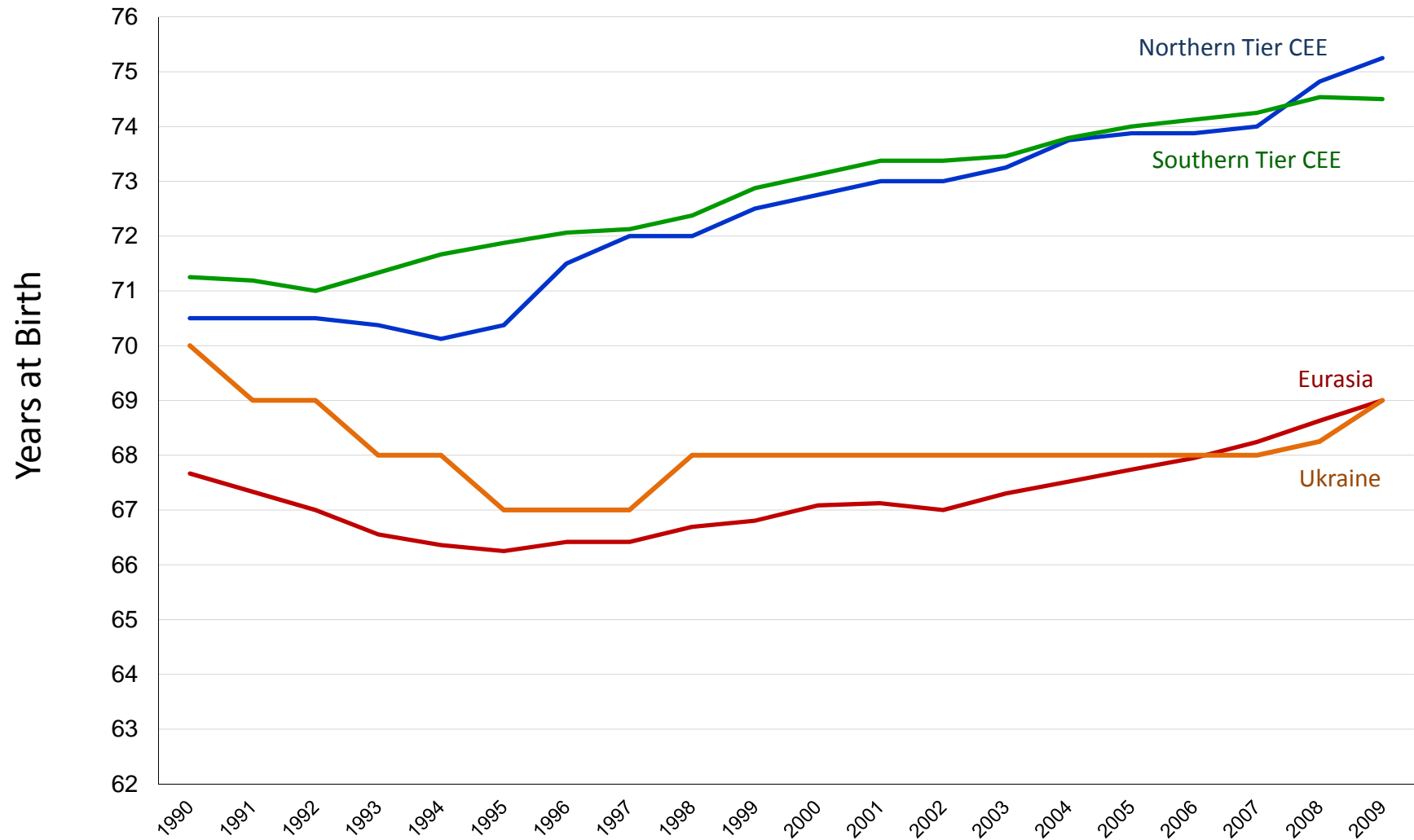
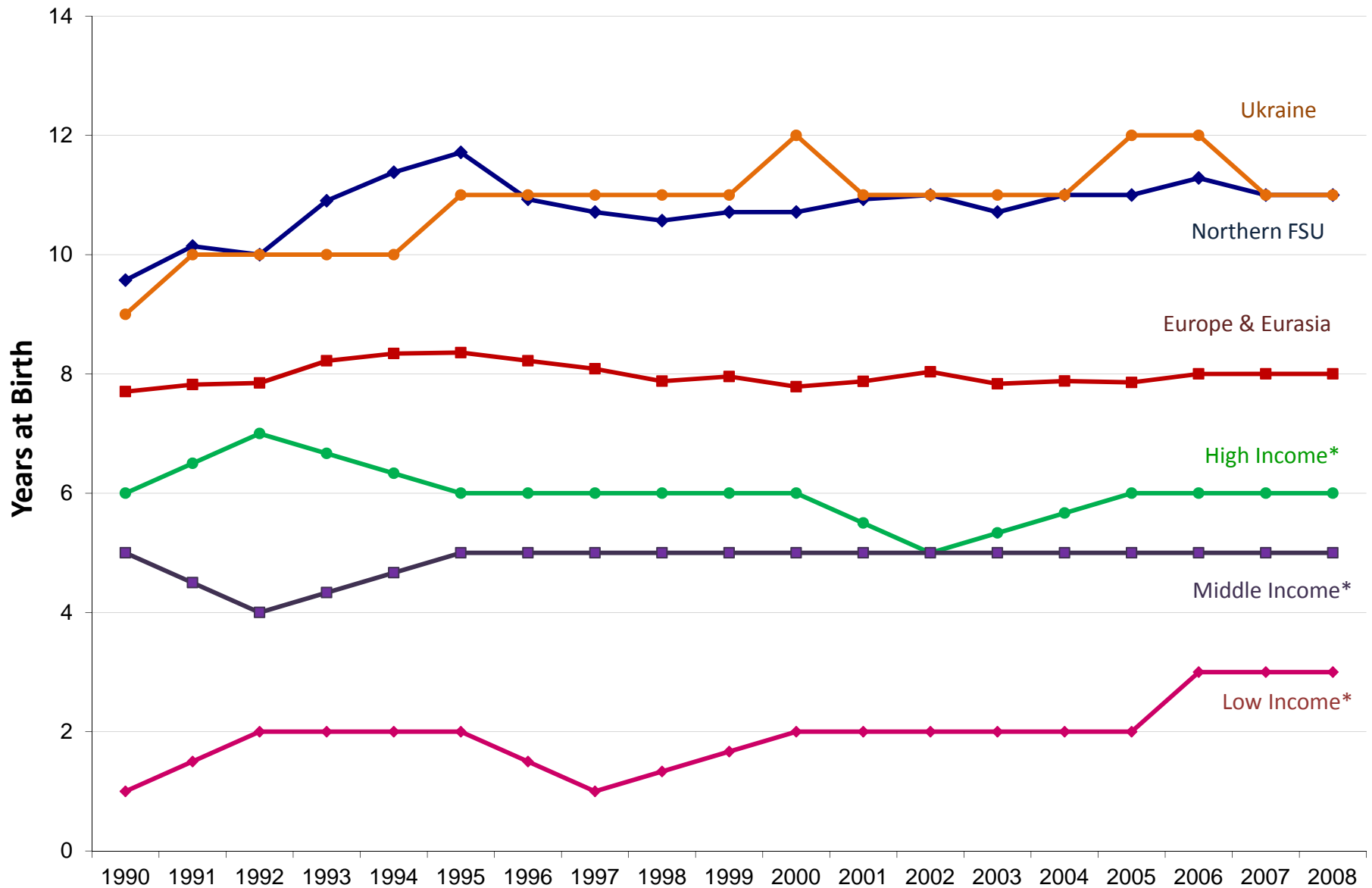


Figure 18

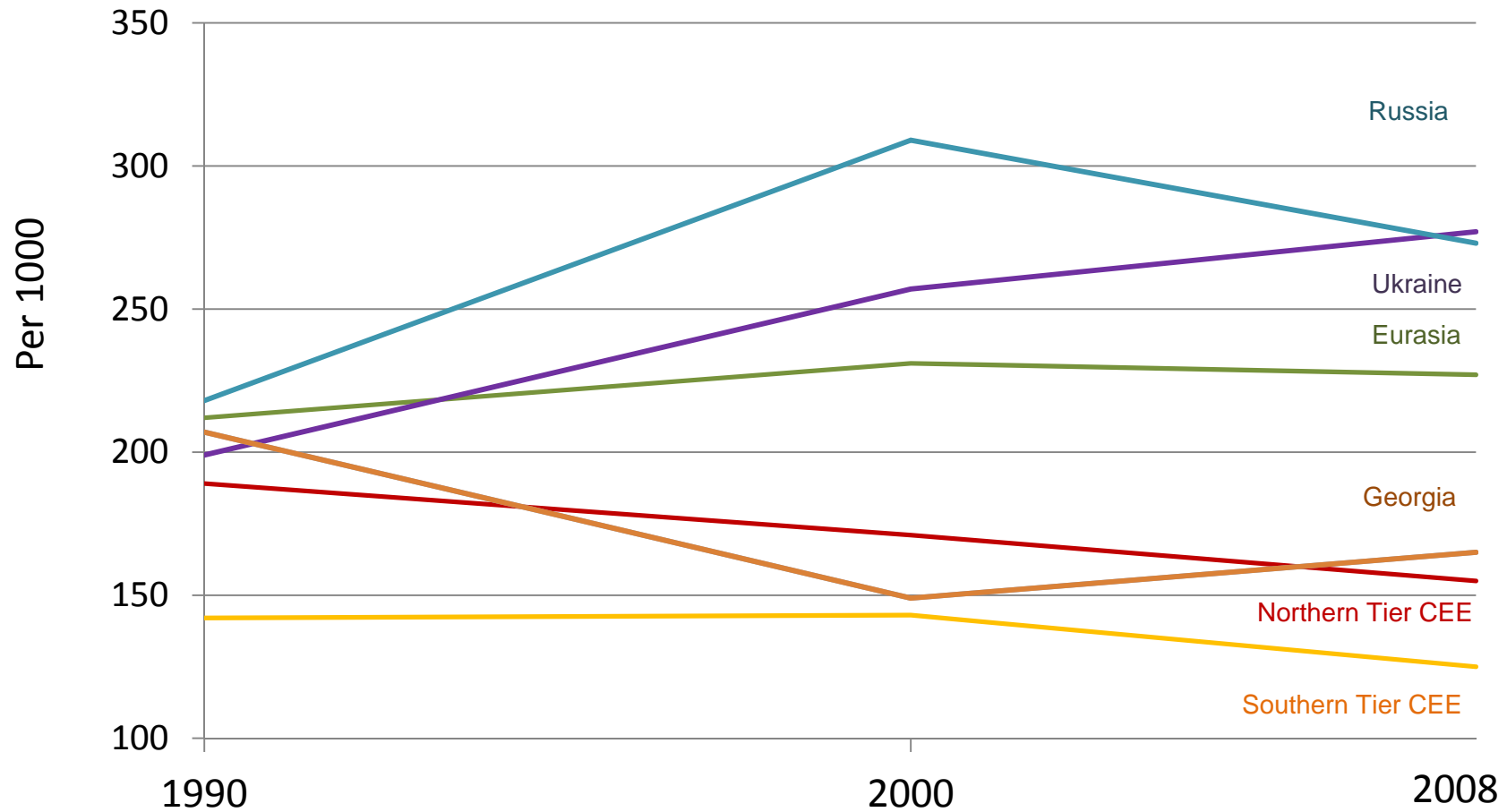
Life Expectancy Gender Gap



*Global average. The life expectancy gender gap is female life expectancy minus male life expectancy. Source: World Bank, *World Development Indicators 2008* (April 2008).

Figure 19

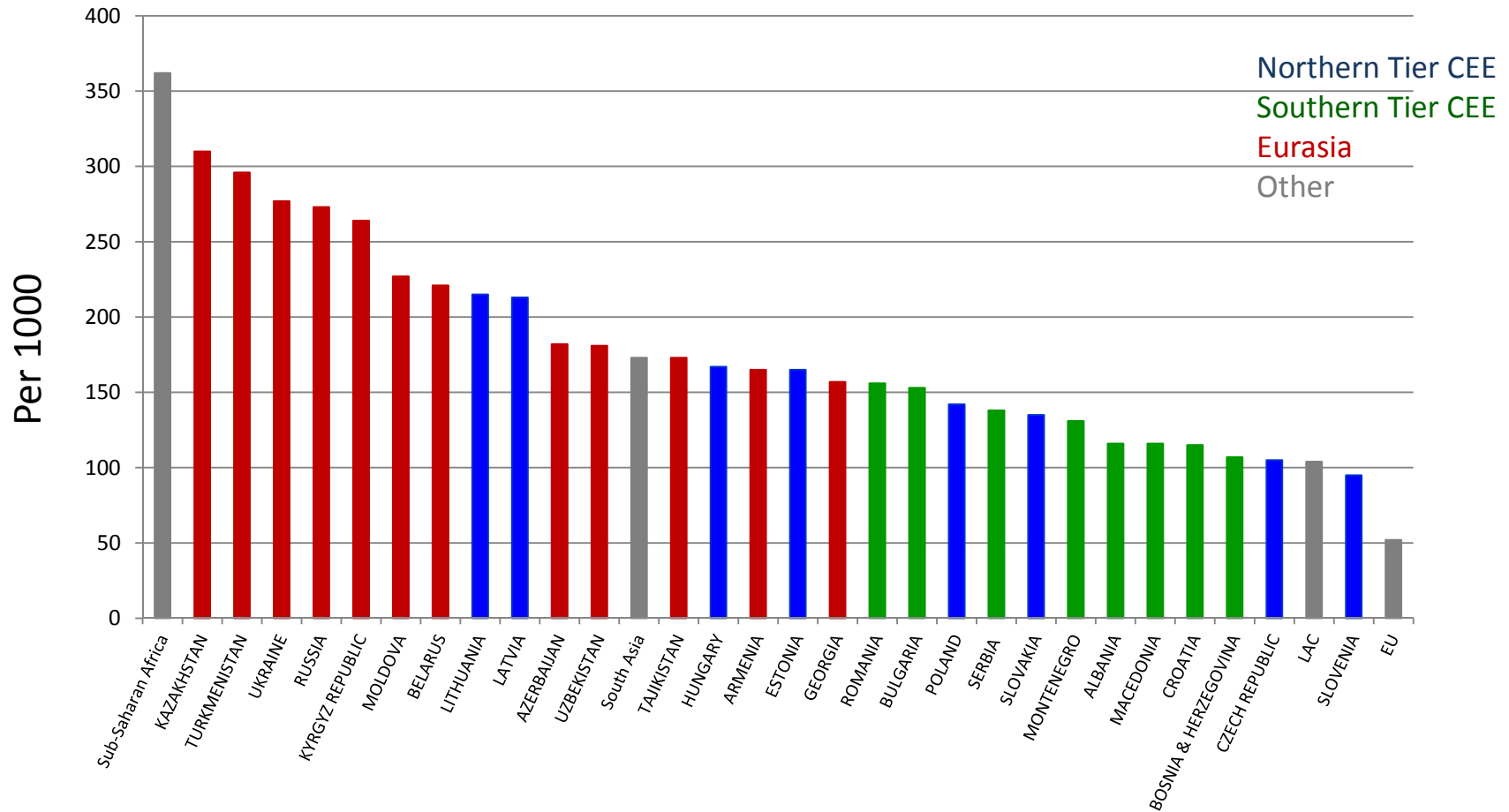
Adult Mortality Rate in Eastern Europe and Eurasia, 1990-2008



AMR is chance of dying between the ages of 15-60 per 1000 population. Source: WHO World Health Statistics, 2010.

Figure 20

Adult Mortality Rate in Eastern Europe and Eurasia, 2008



AMR is chance of dying between the ages of 15-60 per 1000 population. Source: WHO World Health Statistics, 2010.

Figure 21

Under-5 Mortality Rate in E&E

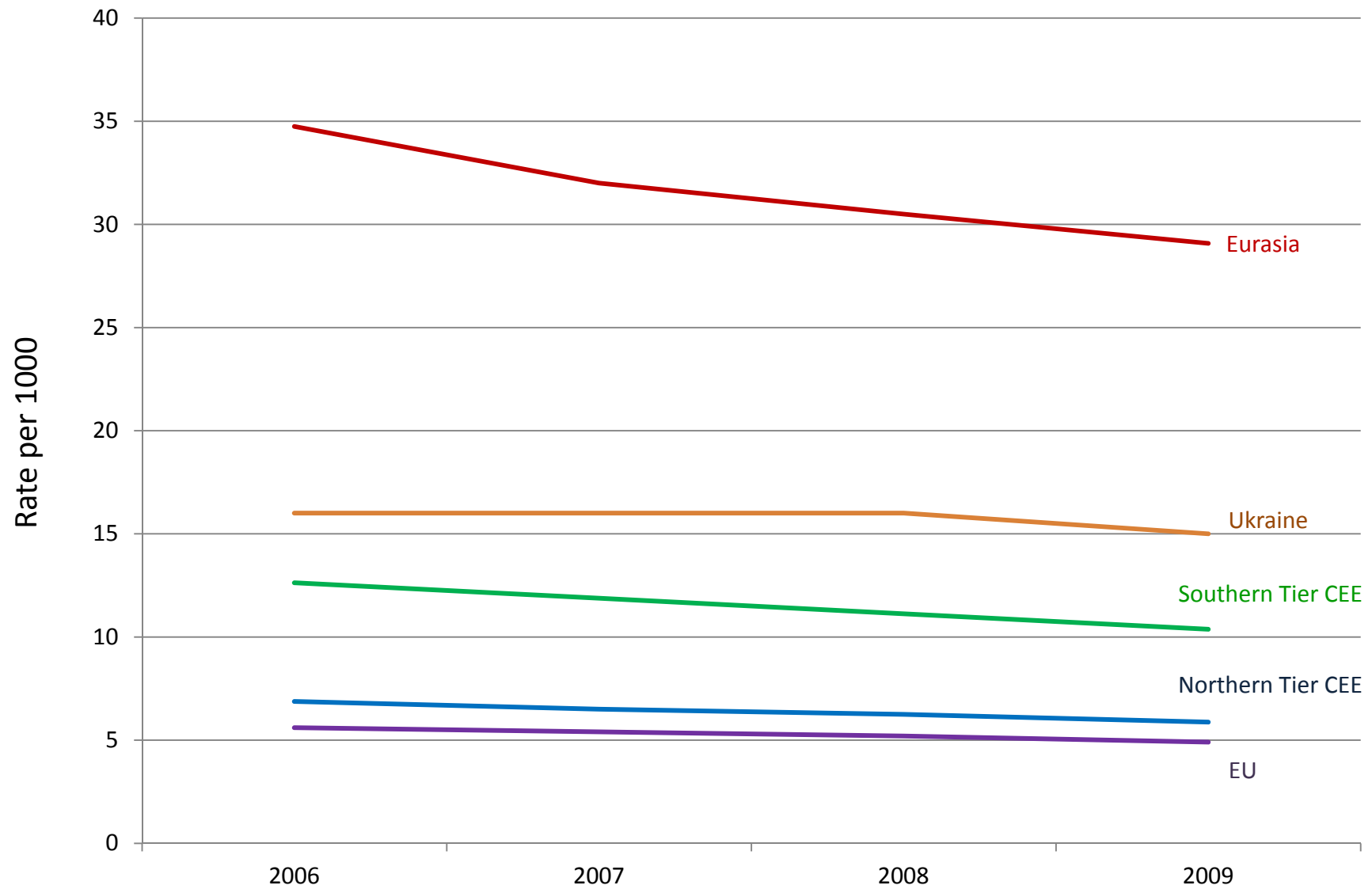
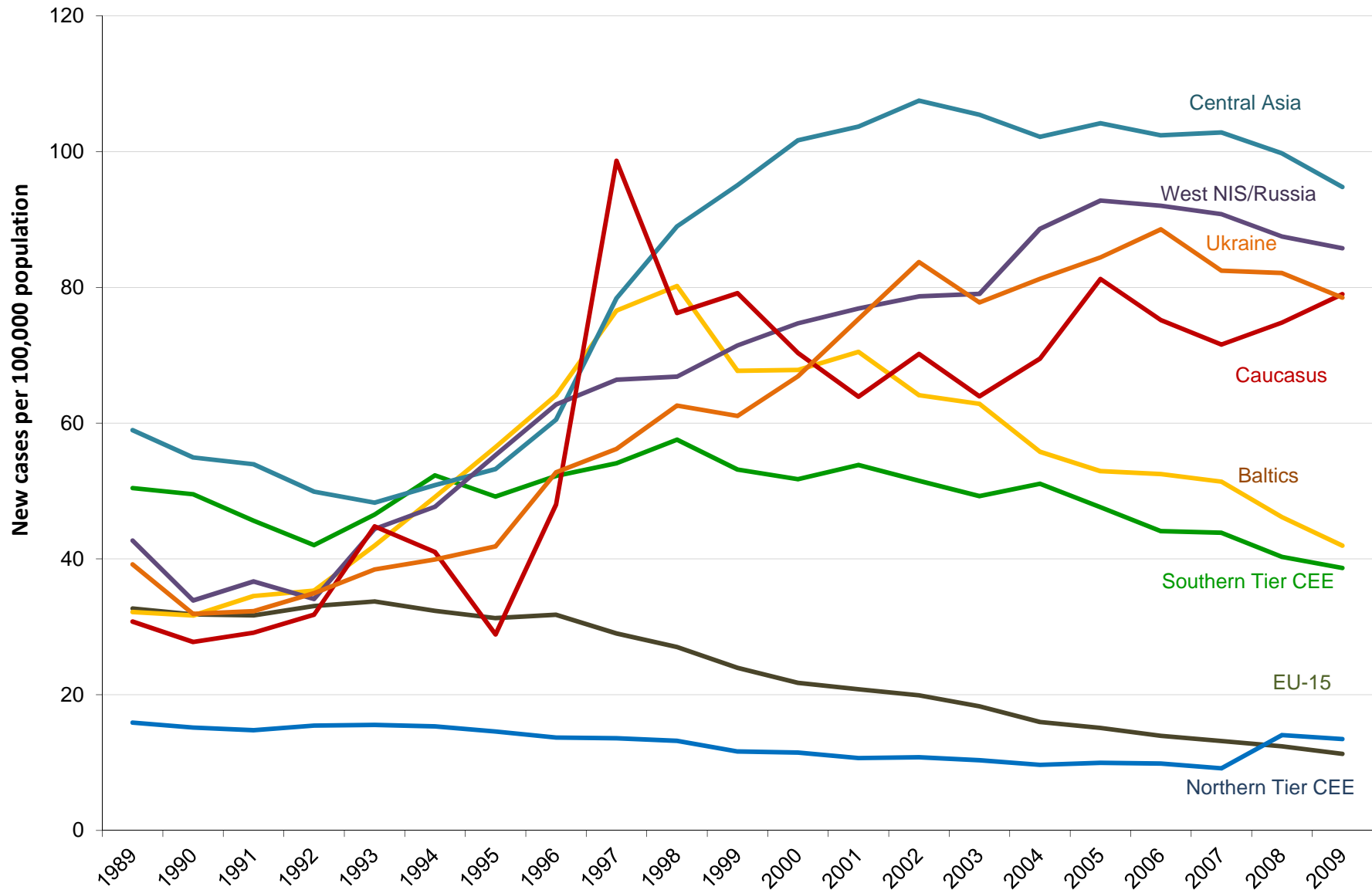


Figure 22

Tuberculosis Incidence



World Health Organization, *European Health For All Database* (2011).

Figure 23

Adult HIV Prevalence Rates, 2000-2009

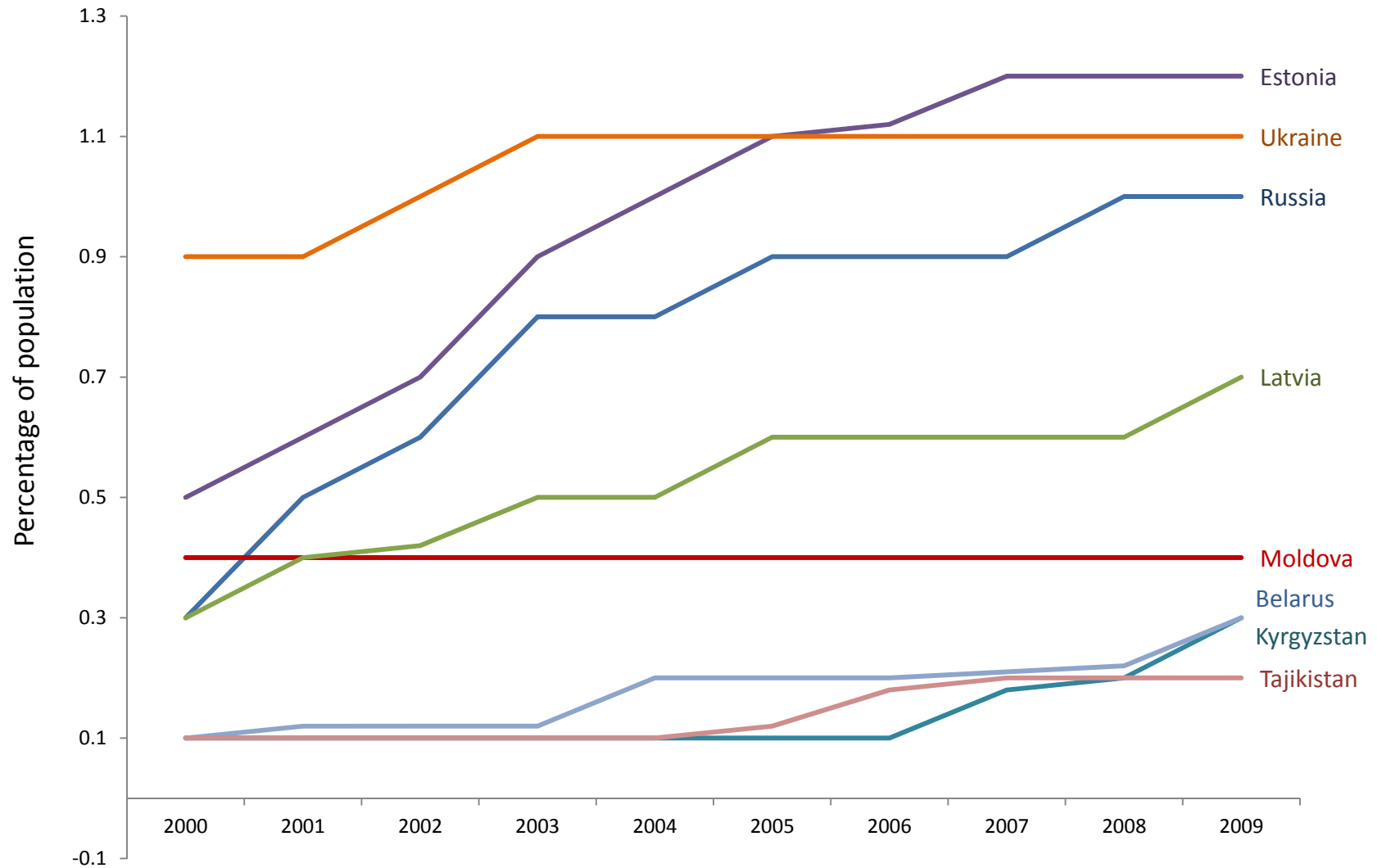
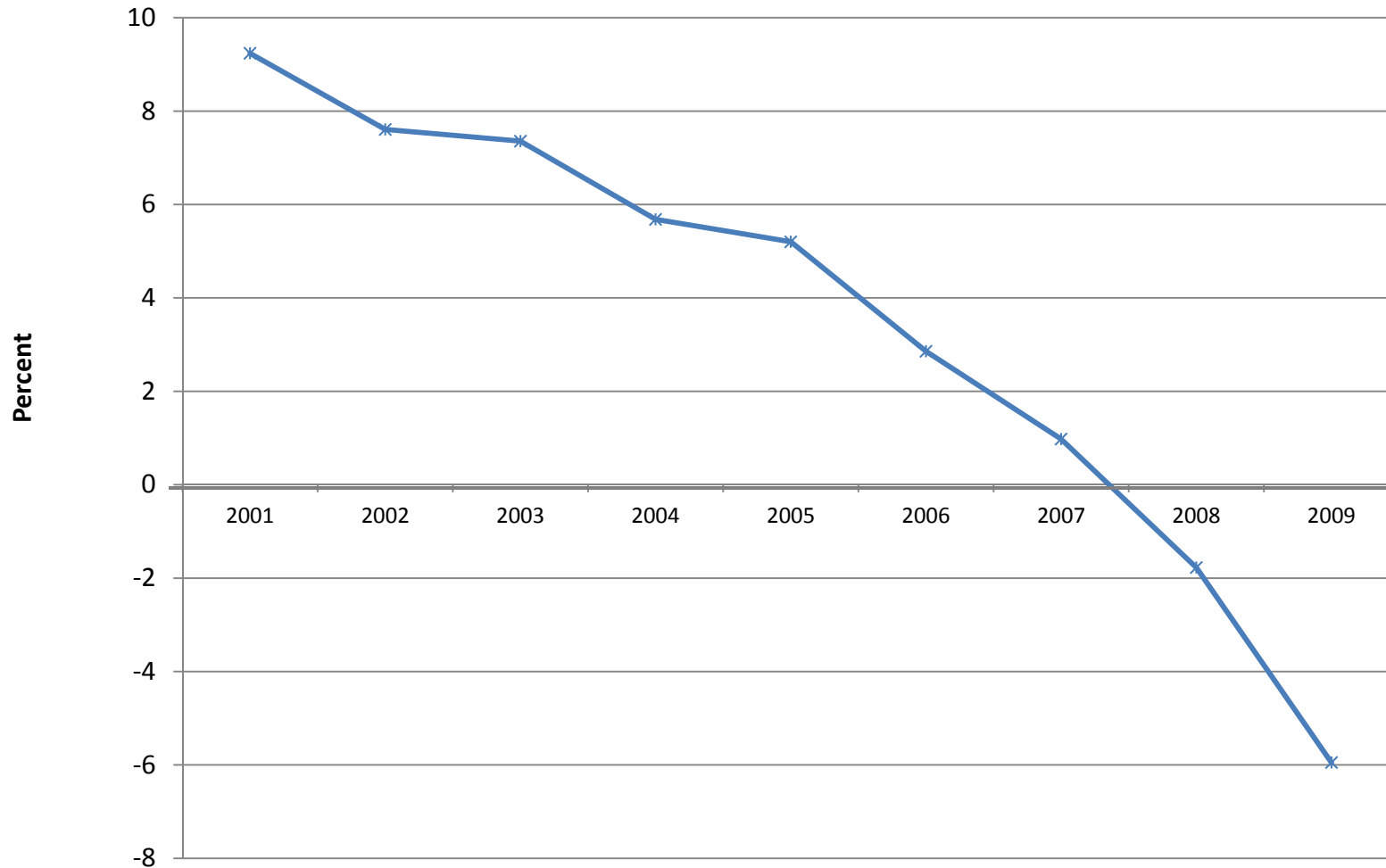


Figure 24

Change in Tertiary Enrollments in Ukraine, 2001-2009

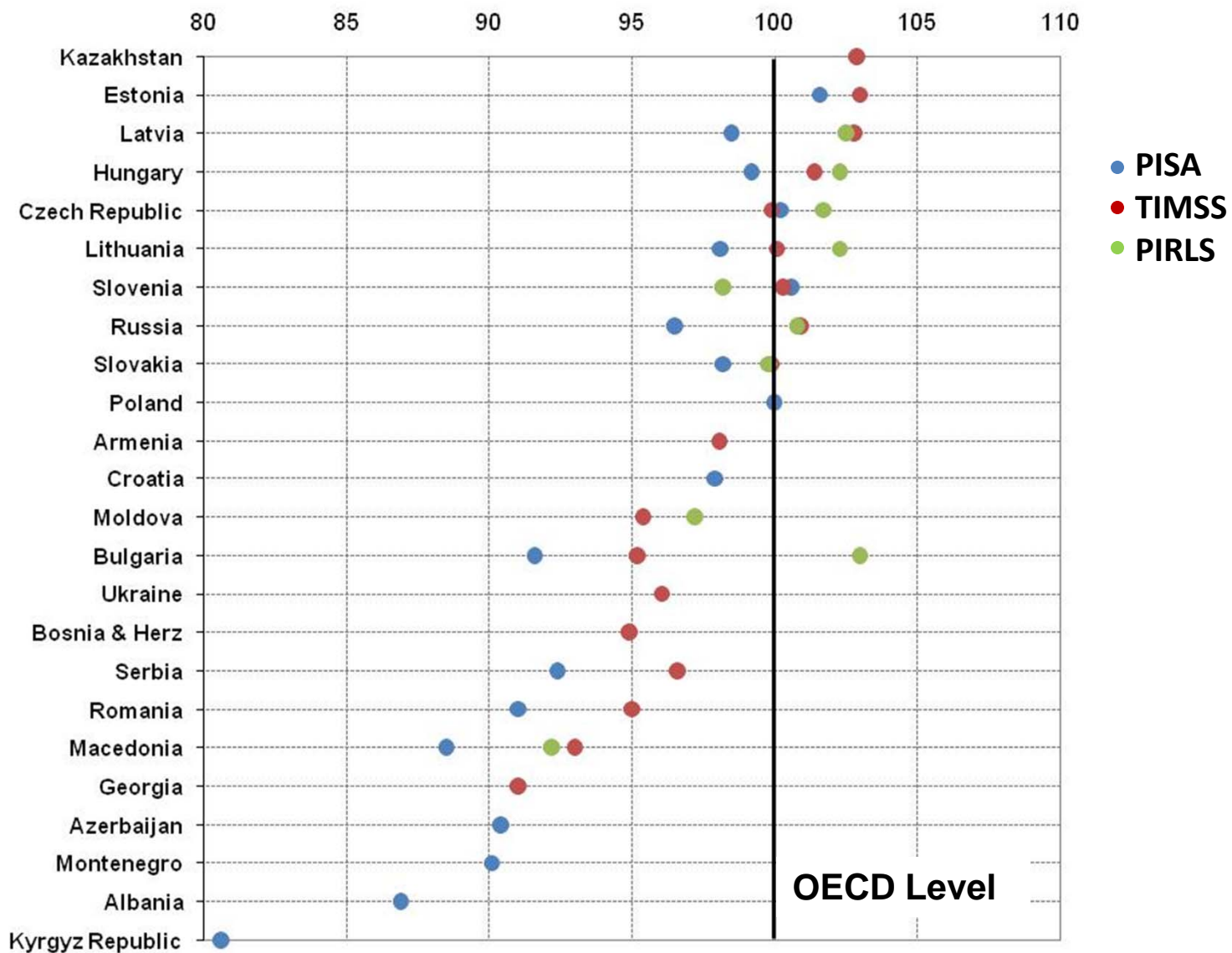


Calculated from UNICEF, *TransMONEE Database* (2011 and earlier editions).

Figure 25

Functional Literacy

PISA vs. TIMSS vs. PIRLS



International Association for the Evaluation of Educational Achievement (IEA), *TIMSS International Mathematics Report (2008)*, *TIMSS International Science Report (2008)* and *PIRLS International Report (2008)*; and Organization for Economic Cooperation and Development (OECD), *First Results from PISA 2006 (2007)*.

Figure 26

Global Gender Inequality Index

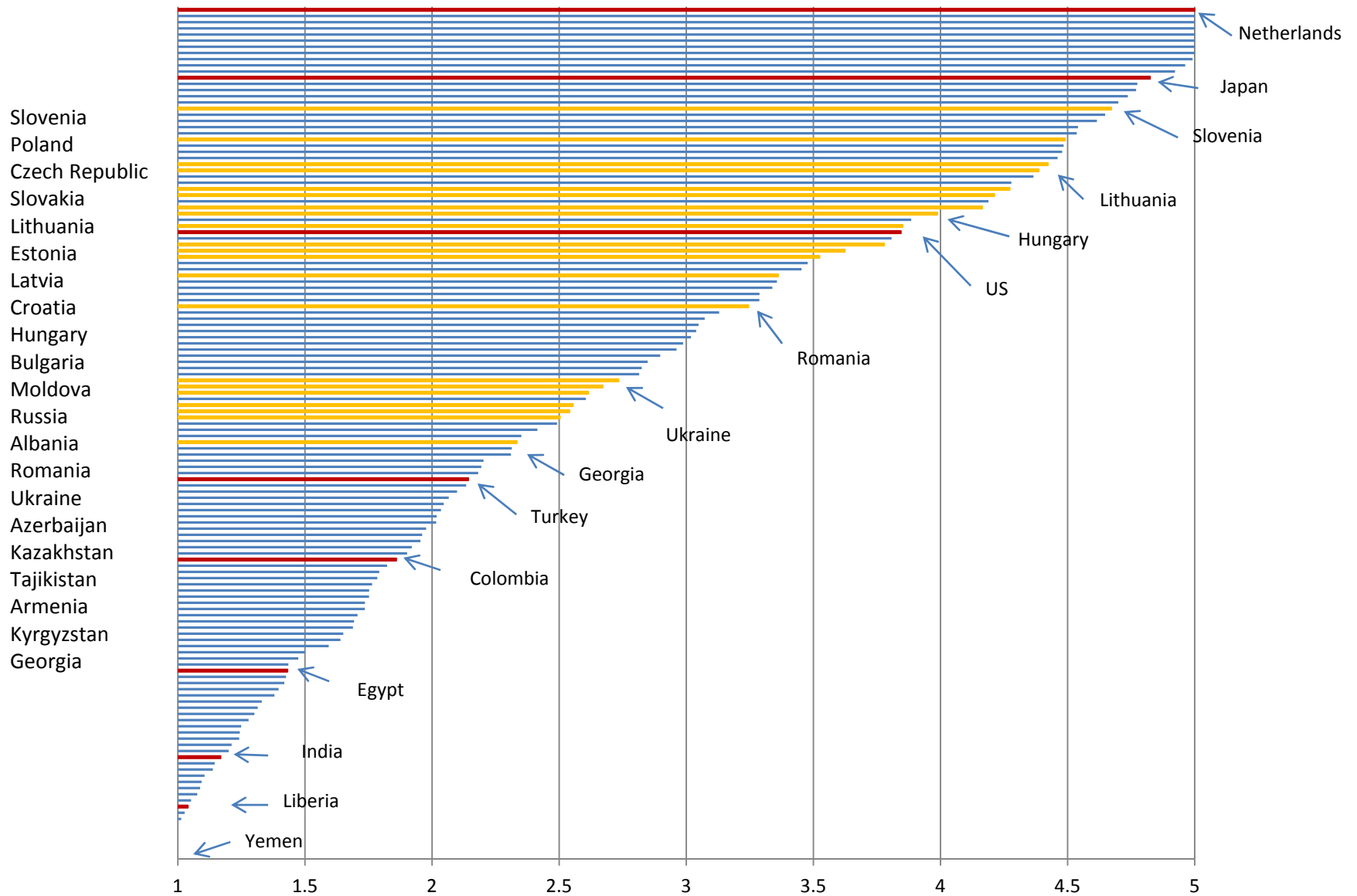
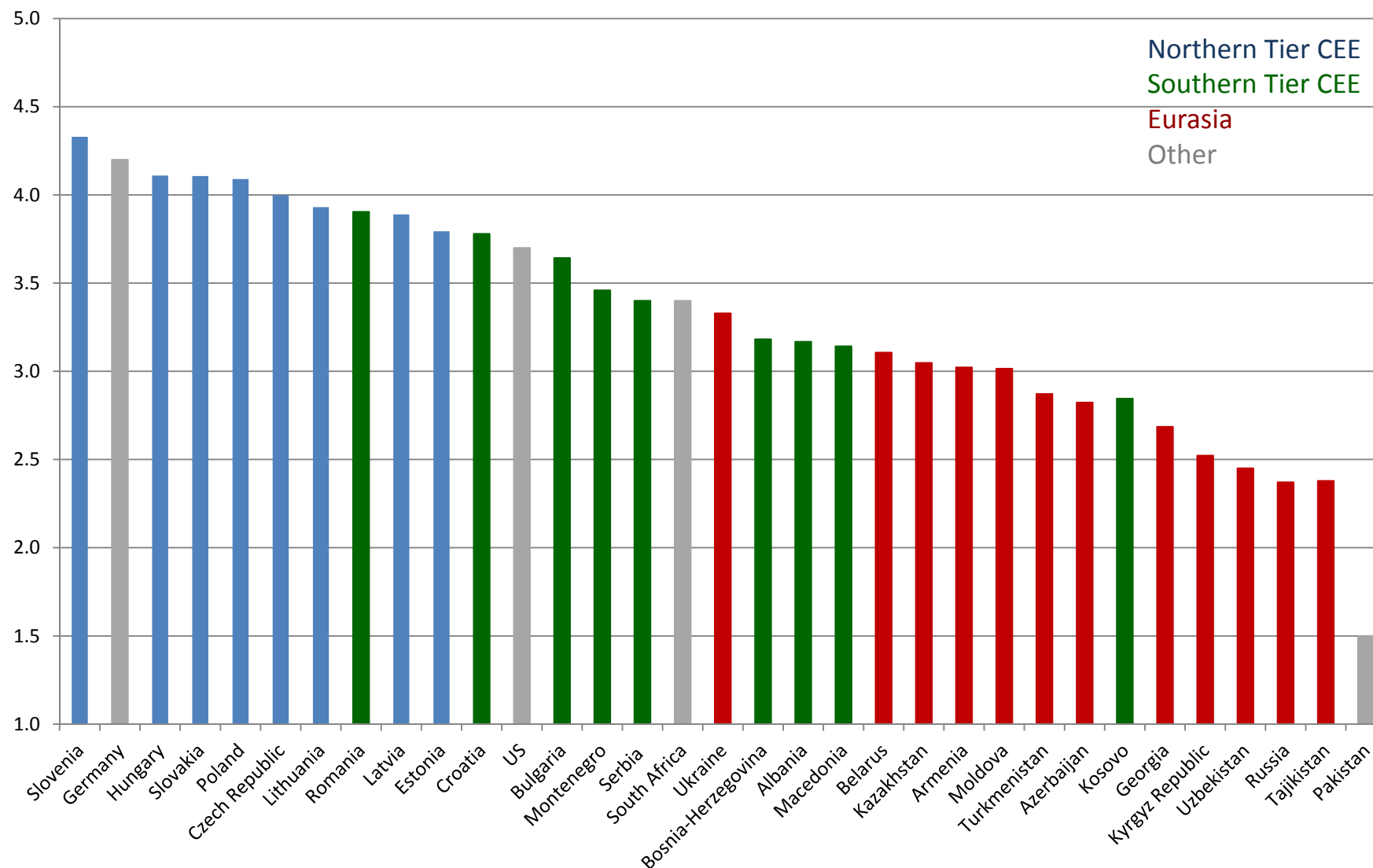


Figure 27

Peace and Security in Europe and Eurasia, 2009/2010



See *Appendix* for elaboration of the methodology. Scores calibrated on MCP 1 to 5 scale, with 5 representing the most advanced.