

**Ukraine Gap Analysis**  
**Europe and Eurasia Bureau, USAID**  
**Strategic Planning and Analysis Division**  
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**Highlights**

As measured by E&E's five Monitoring Country Progress indices, Ukraine leads the Eurasian countries in *democratic reforms* and in *peace and security*. It is among the Eurasian leaders in *macroeconomic reforms* and in *human capital*; only Georgia and Armenia are notably more advanced in macroeconomic reforms; only Russia and Belarus are more advanced in human capital. However, in striking contrast, Ukraine has the worst *macroeconomic performance* of all 29 countries of the E&E region.

**Economic reforms.** Although Ukraine is among the Eurasian leaders in macroeconomic reforms, second-stage reforms lag considerably behind first-stage reforms; economic governance (enterprise restructuring and competition policy) and infrastructure reforms (in telecommunications, electric power, roads, railways, and water) lag the most. In addition, progress in these reforms has been stagnant since 2007.

**Democratic reforms.** Of the seven democratic reform areas tracked by Freedom House, Ukraine is much more advanced in three: electoral process; civil society; and independent media. On the other four dimensions, national democratic governance, local governance, judicial independence or rule of law, and anti-corruption, Ukraine's progress falls in between the Eurasian and Southern Tier CEE averages. Most of the gains, however, occurred leading up to and soon after the Orange Revolution in November 2004. Since 2007, none of the democracy sectors in Ukraine have advanced, and most have regressed.

**Macroeconomic performance.** Much of the relatively high economic growth in Ukraine prior to the global crisis was presumably fueled by high and rising prices of steel and chemicals (which constitute a significant proportion of exports), large capital inflows, expansionary fiscal policy, and significant growth in bank lending. When some of these dynamics reversed themselves, particularly a steep fall in the price of steel and reduced access to capital markets, Ukraine's economy was hit hard. Ukraine's energy insecurity, measured by energy dependence and inefficiency, is a very significant challenge.

**Human capital.** Health issues appear to be more problematic than the education trends in Ukraine. Life expectancy in Ukraine is 68 years, slightly below Eurasian average and on par with the lower middle income developing countries. Ukraine has one of the highest life expectancy gender gaps in the world; women live 11 years longer than do men. The tuberculosis incidence rate, at 85 per 100,000, is high by E&E standards and much higher than what it was in the early part of the transition period. HIV prevalence in Ukraine is estimated to be 1.1% of the population; this rate is the highest in Eurasia. The gross primary enrollment ratio in Ukraine is near 100%. However, secondary school enrollment ratio is at 60%; as with the Eurasian trend overall, Ukraine's secondary school enrollment rate has changed little since the early 2000s.

**Peace and security.** By MCP indicators, Ukraine is the most peaceful and secure country of Eurasia. It lags the most in transnational crime.

## Introduction

This gap analysis utilizes the dataset and methodology of the *Monitoring Country Progress (MCP)* system developed by the E&E Bureau's Strategic Planning and Analysis Division. The core of the MCP system consists of five indices: economic reforms, democratic reforms, macroeconomic performance, human capital, and peace and security. We draw on public, well-established data sources and standardize the metrics to a 1 to 5 scale, in which a 5 represents the most advanced standards worldwide. Primary data sources include the European Bank for Reconstruction and Development (EBRD), *Transition Report* (November 2010); Freedom House, *Nations in Transit* (June 2010); and the World Bank, *World Development Indicators* (May 2010). Supplemental data and analysis are drawn from several Ukraine-specific documents including UNICEF, *Country Profile Education in Ukraine* (2008); the Economist Intelligence Unit, *Country Report Ukraine* (2011); UNDP, *Millennium Development Goals Ukraine* (2010); the World Bank, *Strategic Choices to Accelerate and Sustain Growth in Ukraine, Country Economic Memorandum* (August 2010); the European Commission, *Progress Report Ukraine* (December 2010); and the IMF, *Ukraine Country Report* (August 2010).

**Economic and Democratic Reforms.** *Figure 1* presents the economic and democratic reform progress of Ukraine in relation to the three geographic sub-regions that the MCP system tracks: Northern Tier Central & Eastern Europe (CEE); Southern Tier CEE; and Eurasia.<sup>1</sup> Reform changes for 2009-2010 are highlighted by arrows. By CEE averages, Ukraine lags considerably in economic and democratic reforms. By the Eurasian average, however, progress in such reforms in Ukraine is advanced. Ukraine is the Eurasian leader in democratic reforms; in macroeconomic reforms among the twelve Eurasian countries, only Georgia and Armenia are notably more advanced than is Ukraine. According to Freedom House, Ukraine regressed in democratic reforms in 2010 due "to deteriorating media freedom, secret service pressure on universities to keep students from participating in protests, government hostility toward opposition gatherings and foreign nongovernmental organizations, and an increase in presidential influence over the judiciary."<sup>2</sup>

**Economic Reforms.** Economic reform indicators from the EBRD have been categorized into two stages. First-stage reforms involve price liberalization, trade and foreign exchange reforms, and small- and large-scale privatization; i.e., reforms that reduce government intervention in the economy. Second-stage economic reforms entail building government capacity to regulate and oversee the private sector; in some sense, they involve getting government back in the economic sphere, albeit in a market-friendly way. Second-stage reforms include enterprise reform, competition policy, banking reform, infrastructure reform, and non-bank financial reform.

*Figure 2* shows the components of the MCP economic reform index alongside the components of the indices for democratic reforms, macroeconomic performance, and human capital. The greater the blue

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<sup>1</sup> Northern Tier CEE consists of Estonia, Latvia, Lithuania, Poland, Slovakia, Czech Republic, Hungary, and Slovenia; Southern Tier CEE consists of Romania, Bulgaria, Croatia, Serbia, Bosnia and Herzegovina, Montenegro, FYR Macedonia, Albania, and Kosovo; Eurasia consists of twelve countries of the former Soviet Union less the Baltic states.

<sup>2</sup> Freedom House, *Freedom in the World 2011*.

area (and higher the number), the greater is the progress. As is the common transition country economic reform profile, first-stage reforms in Ukraine are much more advanced than second-stage reforms. Economic governance (enterprise restructuring and competition policy) and infrastructure reforms (in telecommunications, electric power, roads, railways, and water) lag the most. None of the nine macroeconomic reforms in Ukraine have advanced to standards found in advanced industrial market economies (i.e., to a “5”). Ukraine is more advanced than the Eurasian norm in both first- and second-stage economic reforms, and had been advancing in both dimensions at a slightly greater pace than the Eurasian trend for most of the transition years (*Figure 3*). Since 2007, however, Ukraine has made very little progress in either set of macroeconomic reforms.

We supplement the EBRD macroeconomic reform trends with microeconomic reform trends from the World Bank’s *Doing Business* analysis (*Figures 4 and 5*). The World Bank’s scores are based on ten microeconomic reform aspects of the business environment influenced by government interventions ranging from rules and regulations needed to start a business; employ workers; register business property; access credit; pay taxes; and close a business.<sup>3</sup>

Ukraine’s relative progress in these microeconomic reforms is much less advanced than in the EBRD’s macroeconomic reforms. Among the 28 E&E countries for which data are available (i.e., all countries except Turkmenistan), only Uzbekistan has a more challenging business environment than does Ukraine by this measure. Worldwide, Ukraine ranks 145 out of 183 countries for ease of doing business (*Figure 4*). Of the ten sub-components, Ukraine ranks over 100 in all but two areas, getting credit and enforcing contracts, and scores particularly poorly on paying taxes (181); dealing with construction permits (179); registering property (164); and the ease of closing a business (150).

Moreover, Ukraine’s business environment has deteriorated since 2005 relative to global business environment standards (*Figure 5*), from a 25 percentile ranking in 2005 to a 20 percentile ranking in 2010.<sup>4</sup> This is in striking contrast to impressive gains in a handful of transition countries during the same time period; Georgia and Azerbaijan are two examples.

*Figure 6* provides additional evidence of Ukraine’s challenging business environment by drawing on a survey of businesses in Ukraine co-sponsored by the World Bank and the EBRD, the Business Environment and Enterprise Survey (BEEPS). Enterprises were surveyed on fourteen possible business constraints and the extent to which they are perceived as problematic. For Ukrainian enterprises in 2008, six business challenges stood out, all deemed problematic for anywhere from 59% to 79% of enterprises surveyed. Most problematic were burdensome tax rates (perceived by 79% of firms); followed by corruption (68%); access to financing (60%); access to land (59%); tax administration (59%);

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<sup>3</sup> The technique employed for each *Doing Business* indicator is to define a specific type of business in a specific type of environment, and to compare the experience of that firm in that setting across the countries. In the *Days to Start a Business* indicator, for example, the firm is a limited liability company which operates in the country’s most populous city, is 100% domestically owned, has up to 50 employees, etc. This technique allows for a manageable and precise way to measure trends across countries. However, one may not be able to generalize the results across different parts of any one country.

<sup>4</sup> The sample size of the World Bank’s *Doing Business* dataset has increased annually. Therefore, we calculated the percentile rank in *Figure 5* to compare rankings more credibly over time.

and the skills and education of the workforce (59%). In addition, five of these six challenges appear to have become more problematic since 2005 or at the least pose a problem to a larger proportion of businesses surveyed. Tax rates were the exception, in no small part because they were already highly problematic in 2005; i.e., 78% of Ukrainian firms felt they were burdensome at that time.

Finally, results from one other economic reform index are worth mentioning: the Index of Economic Freedom from the Heritage Foundation. This index attempts to measure ten aspects of economic freedoms essentially from government intervention or intrusion, including those pertaining to trade; business; investment; fiscal; financial; labor; monetary; property rights; government spending; and freedom from corruption. On this index, Ukraine scores poorly and is classified as “repressed” with a global ranking of 164 out of 179 countries. Of the E&E countries, only Turkmenistan ranks lower.

**Democratic Reforms.** *Figure 7* underscores two democratic reform characteristics of Ukraine: (1) Ukraine leads the Eurasian countries in democratic reforms, with progress closer to West Balkan standards; and (2) it is the only Eurasian country which has advanced in democratic reforms on balance since 1998.

*Figure 8* disaggregates the democratic reform progress by the seven areas measured for a more detailed cross-country comparison. Ukraine is much more advanced in three areas: electoral process, civil society, and independent media. In fact, progress in these areas is at least on par with average progress of the nine Southern Tier CEE countries. On the other four dimensions, national democratic governance, local governance, judicial independence or rule of law, and anti-corruption, Ukraine’s progress falls in between Eurasian and Southern Tier CEE averages. Overall, Ukraine’s democratic profile is similar to the common transition country profile in which civil society and electoral process are generally the most advanced aspects of democratization and the fight against corruption and national democratic governance are the least advanced. For Ukraine, an atypically large differentiation in progress between these democratization areas stands out. The democratization “web” chart of *Figure 2* similarly highlights this differentiation or asymmetry between democratization components in Ukraine.

*Figure 9* also highlights this large differentiation between various democratic reform components in Ukraine and suggests that the gap may even be growing. More specifically, since 2003, civil society, electoral process and independent media have advanced notably, while governance and rule of law have regressed. Most of the gains, however, occurred leading up to and soon after the Orange Revolution in November 2004. Since 2007, none of the democracy sectors in Ukraine have advanced, and most have regressed. *Figure 10* shows the democratic reform trends in the aggregate over time in Ukraine and underscores that already by 2005, advances in democratization had been replaced by stagnation followed by some backsliding.

*Figure 11* illustrates Ukraine’s advances in democratization in a global context. In an earlier USAID working paper, we constructed a democracy and governance index for global comparisons.<sup>5</sup> The index combines three indicators from Freedom House’s global dataset (political rights, civil liberties, and

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<sup>5</sup> J. Swedberg and R. Sprout, *Democracy and Governance in Eurasia: A Global Comparison*, USAID/E&E Working Paper Series on the Transition Countries, No. 9 (September 2008).

independent media) with three indicators from the World Bank's global *Governance Matters* dataset (rule of law, control of corruption, and government effectiveness). One-hundred and fifty three countries were included in the dataset. The results underscore that Ukraine, while the Eurasian leader in democratization, is nevertheless doing poorly on this development dimension by global standards, and, in particular, its performance is below the global average on this index.

*Figures 12-15* supplement the analysis of democracy trends by including various additional efforts to measure aspects of democracy. *Figure 12* compares measures of the perceptions of corruption (from Transparency International's Corruption Perceptions Index 2010) with Freedom House's corruption scores. The results are similar in the case of Ukraine, with the perception of corruption being slightly worse than the results from Freedom House's effort to measure corruption. *Figure 12* also suggests that this gap between the perception of corruption and actual corruption may increase as corruption decreases. By either measure of corruption, Ukraine's standing is somewhat better than the Eurasian average of corruption, although generally worse than CEE norms.

Two other measures of democratization provide a means to compare trends with Freedom House data as well as a way to take the empirical analysis further in democratization sub-sectors: the Media Sustainability Index (MSI) from IREX and the NGO Sustainability Index from Management Systems International (NGOSI). The MSI consists of five components that measure the strength of the media sector (legal environment, quality of journalism, the extent of multiple news sources, business capacity, and supporting institutions) and ranks countries from unsustainable to sustainable media systems (*Figure 13*). The scores for Ukraine's media sector are generally consistent with Freedom House's analysis. In particular, Ukraine's media sector has advanced significantly since the early 2000s, and is more advanced than independent media in all of the other Eurasian countries, although it is somewhat below the Southern Tier CEE average. By this analysis, Ukraine's media sector falls into the low-end of the "Near Sustainable" classification, roughly comparable to that found in Serbia and Albania. Of the five components in the sustainability of media, Ukraine is least advanced in the scope of multiple news sources followed by the quality of journalism. As is the general trend in Eurasia and the Southern Tier CEE, Ukraine is the most advanced in supporting institutions.

The NGOSI consists of seven components shown in *Figure 14*. As with Freedom House's measure of civil society, the development of Ukraine's non-governmental organizations according the NGOSI is more advanced than all of the other NGO sectors in Eurasia. *Figure 14* highlights that this is generally the case in all seven dimensions of the NGOSI. Civil society in Ukraine is most advanced in advocacy and, as is the case in the other Eurasian countries, lags the most in financial viability.

Finally, the Economist Intelligence Unit has developed a democracy index which consists of five components: electoral process and pluralism, civil liberties, functioning of government, political participation, and political culture (*Figure 15*). The results for the E&E region and Ukraine are similar to that of Freedom House's analysis. In this index, Ukraine shares the Eurasian lead in democratization with Moldova. These two countries are the only two Eurasian countries which fall into the analysis' range of "flawed democracy"; all other Eurasian political systems range from authoritarian regimes to hybrid regimes. Nevertheless, Ukraine's democracy witnessed the largest regression from 2008 to 2010 among

countries in E&E. Moreover, of all the regions of the world, the E&E region experienced the largest decline on average in democracy since 2008 (19 out of 28 E&E countries regressed from 2008 to 2010).

**Economic and Democratic Reforms Projected** (*Figure 16*). We averaged the progress of economic and democratic reforms over the past five years in Ukraine and projected the average annual rate of change forward to see how soon Ukraine might approach the proposed economic and democratic reform threshold (of reform progress on average of Bulgaria, Romania, and Croatia in 2006). Recognizing the limitations of taking projections out too far, we find that Ukraine will slowly approach the threshold over the next five years (to 2015), but it will not attain it within that time period if it continues at the average rate of progress from the past five years.

**Economic Performance and Human Capital.** *Figure 17* presents a bird's-eye view of progress in macroeconomic performance and human capital across the transition region. The economic performance index is composed of key structural economic indicators as well as indicators focused on macroeconomic stability and growth. The human capital index is composed of health, education, and income indicators. To provide some assurance that progress in economic and democratic reforms is sustainable, it is important to see sufficient progress in macroeconomic performance and human capital. As with progress in economic and democratic reforms (shown in *Figure 1*), Ukraine is among the Eurasian leaders in human capital; only Russia and Belarus are more advanced. In striking contrast, however, Ukraine has the worst macroeconomic performance of all 29 transition countries.

**Economic Performance.** *Figures 18-21* put Ukraine's economic growth performance in recent years in global context. In the recent years prior to the global financial crisis, Ukraine's economy had been expanding at a relatively fast pace. From 2002 to 2007, economic growth in Ukraine averaged an annual rate of 7.5%. This rate equaled or exceeded economic growth in the E&E region, which in turn well exceeded the global average and most of the regions in the developing world (*Figures 18 and 19*). However, the E&E region was disproportionately adversely affected by the global economic crisis in 2009, contracting by 5% on average among the 29 countries. Overall, the world economy contracted by less than 1% in 2009. As highlighted in *Figures 20 and 21*, there was significant variation among the E&E countries in the degree to which the global economic crisis had its impact. Ukraine was among the most severely affected. Its economy shrank 15% in 2009; of the 29 E&E countries, only Latvia's economy contracted more (almost 18%). Economic growth resumed at a reasonably healthy pace in 2010 in Ukraine, due in part to the huge contraction the year before as well as recovery in steel prices.

*Figures 22 and 23* illustrate Ukraine's economic output path since the transition began, comparing it to performances across E&E. All of the transition countries experienced some degree of transition depression after the collapse of communism. Ukraine's economic depression was one of the more severe cases. Similarly, Ukraine's economy, alongside Moldova's, took the greatest number of transition years to resume economic growth; not until 2000 did the economy begin expanding again. In fact, Ukraine's economy is still well below its pre-transition size. Twenty years since the breakup of the Soviet Union, this fact sheds as much light on the social conditions of the population (and Ukrainians' generally dismal view of their economic well-being) as it does on the competitiveness of the economy.

Much of the economic growth in Ukraine prior to the global crisis was presumably fueled by high and rising prices of steel and chemicals (which constitute a significant proportion of exports), large capital inflows, expansionary fiscal policy, and significant growth in bank lending. When some of these dynamics reversed themselves, particularly a steep fall in the price of steel and reduced access to capital markets, Ukraine's economy was hit hard. Ukraine's export sector as a proportion of GDP is quite large (42% in 2008, *Figure 24*) and continues to be dominated by metallurgy exports. In fact, the proportion of metals and mineral products in Ukraine's export sector constitutes more than 50% of the exports and represents an increase in concentration since the mid to late 1990s (*Figure 25*).

Ukraine's energy insecurity, measured by energy dependence and inefficiency, is a key characteristic of and challenge for Ukraine's economy (*Figures 26-28*). Ukraine consumes three and a half times the amount of oil that it produces and four times the amount of natural gas (*Figure 26*). These imbalances have changed very little over the past ten years or so. Net fuel imports as a percent of trade is larger in Ukraine (and in Moldova) than anywhere else in the E&E region (*Figure 27*). Not only is the volume of energy imports important, but also the origin of the energy imports. As noted in USAID/Ukraine's 2011 Parameter Identification Paper, the main supplier of Ukraine's energy is Russia, which makes Ukraine "extremely vulnerable to political and economic pressure from Russia." According to the World Bank, about 70% of the total natural gas consumed in Ukraine is imported from Russia.<sup>6</sup>

*Figure 28* attempts to capture fundamental aspects of energy dependency and energy inefficiency in Ukraine and elsewhere in the world. Ukraine, similar to many countries in the world including the U.S., falls into the quadrant of greatest energy insecurity. It is both energy dependent (with significant energy imports relative to energy use) and energy inefficient (with a very low GDP per unit of energy use ratio). The global average score for GDP per unit of energy use is 5.8 (which is the dividing line in *Figure 28* between energy efficiency and energy inefficiency). As measured by this broad indicator, the extent of Ukraine's energy inefficiency has changed very little over the years. By this measure, Ukraine and a handful of other Eurasian countries are among the most energy inefficient countries in the world. According to the World Bank, Ukraine's energy efficiency remains at a level similar to Poland in the early 1990s. Moreover, "roughly 41 percent of all Ukrainian steel is still produced using open-hearth furnaces, which have been replaced in nearly every country in the world."<sup>7</sup>

**Human Capital.** We previously noted that Ukraine's human capital (consisting of a composite of health, education, and income indicators in the MCP human capital index) is advanced compared to the Eurasian average. As shown in *Figure 17*, Ukraine leads all Eurasian countries in human capital except Russia and Belarus. However, as shown in *Figure 29*, Ukraine's human capital index score masks considerable diversity of results in the indicators which make up the index. On the basis of the available data, health issues appear to be more problematic than the education trends in Ukraine. In addition, limited evidence has emerged suggesting that the global economic crisis has at the least slowed advancements in human capital.

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<sup>6</sup> World Bank, *Ukraine Country Economic Memorandum* (August 2010).

<sup>7</sup> World Bank, *Ukraine Country Economic Memorandum* (August 2010).

*Health.* Perhaps the most fundamental health indicator is life expectancy. Life expectancy in Ukraine is 68 years, slightly below Eurasian average (*Figure 30*). According to World Bank analysis, 68 years is the average life expectancy for the lower middle income developing countries; for specific comparisons outside the E&E region, the Iraqi population has a life expectancy of 68 years; Thailand, 69 years; and Pakistan, 67 years. In contrast to the general trend of increasing life expectancy in the E&E region, Ukraine's life expectancy has been stagnant in the past ten years, and, in fact, remains below its pre-transition life expectancy of 70 years.

*Figure 31* highlights a relevant adverse health characteristic of the E&E region, namely, life expectancy gender gap (or the gap between longer living females and shorter living males). The life expectancy gender gap average between women and men in Ukraine is eleven years and is among the highest in the E&E region and worldwide (*Figure 28*). Outside the E&E region, the highest life expectancy gender gaps are found in El Salvador (9 years), followed by Uruguay, Puerto Rico, Colombia, Sri Lanka, and Iraq (8 years). These gaps in Ukraine and elsewhere in E&E remain higher today than at the outset of the transition in 1990.

The life expectancy gender gap in Ukraine and elsewhere in E&E stems fundamentally from the fact that many adult deaths are caused by non-communicable diseases, which in turn are the result in large part of lifestyle choices (in particular, those related to alcohol, smoking, diet, and exercise-related conditions). A related indicator is the adult mortality rate which reflects the probability of dying between the ages of 15 and 60. In Ukraine, adults have more than 25% chance of dying before reaching 60 years (*Figure 32*). This is high by global standards; of the regions of the world, only Sub-Saharan Africa is higher. However, male adult mortality is notably increasing the overall death rate in Ukraine. In fact, male adult mortality rate in Ukraine is close to the Sub-Saharan Africa average: 385 deaths per 1,000 people in Ukraine versus 395 per 1,000 deaths in Sub-Saharan Africa (while female adult mortality rates diverge significantly: 142 per 1,000 in Ukraine versus 362 per 1,000 in Sub-Saharan Africa).

It is also striking to note that the most recent estimate of the adult mortality rate in Ukraine (in 2008) is higher than in 2000 (*Figure 33*). By contrast, the adult mortality rate in Russia, which had been consistently higher than Ukraine's, now has fallen below the Ukraine rate (273 deaths per 1,000 compared to 277 per 1,000).

Trends in under-five and infant mortality rates in Ukraine are more encouraging than adult mortality rate trends. Ukraine's under-five mortality rate was 15 deaths per 1,000 in 2008 (latest year for which data are available) down from 21 per 1,000 in 1990. This compares favorably to the Eurasian average rate of 31 deaths per 1,000 and also the European average of 14 per 1,000, although it is still more than twice as high as that found in the high income developed countries (7 per 1,000).

Trends in infectious diseases in Ukraine are troubling. The tuberculosis incidence rate, at 85 per 100,000, is high by E&E standards and much higher than rates in the early years of the transition in Ukraine (*Figure 34*). Additionally, Ukraine has one of the highest incidence rates of multi-drug resistant TB (MDR-TB) in the world: 16% of new cases in 2009 compared to 4% worldwide according to recent estimates. MDR-TB costs ten times as much to treat as TB, with a cure rate of only 60%. HIV prevalence in Ukraine

is estimated to be 1.1% of the population; this rate is the highest in Eurasia and second only to Estonia (1.2%) for the transition countries (*Figure 35*). It is higher than the estimated HIV prevalence in Ukraine in 2001.

*Poverty, unemployment, and the global economic crisis.* The World Bank estimates that the absolute poverty rate in Ukraine is much lower today than what it was in the early 2000s (*Figure 36*). As we have observed in a number of other E&E countries, the poverty rate in Ukraine seems to be very responsive to economic growth trends.<sup>8</sup> More specifically, the relatively high average annual economic growth rate of 7.5% from 2002-2007 in Ukraine coincided with a significant decrease in the absolute poverty rate (of \$5/day) from a rate of roughly 45% in 2002 to less than 10% by 2008. As estimated by the World Bank (and as shown in *Figure 36*), the global economic crisis likely altered the trend of falling poverty in Ukraine substantially. With the resumption of economic growth in Ukraine in 2010, the decrease in the poverty rate has resumed as well, although at a slower pace than prior to the global crisis. In other words, the poverty rate of 10% attained in Ukraine in 2008 may not be attained again until 2013, or five years later.

A similar story is found in the unemployment rate trend in Ukraine (*Figure 37*). The unemployment rate had been steadily falling until 2009; it is forecast to resume falling in 2011, although it may not attain the 2008 rate of approximately 6% until 2012 or 2013.

*Figure 38* shows trends in relative poverty rates in Ukraine, defined as 75% of the median income per adult. Unlike absolute poverty, overall relative poverty has remained stable in recent years leading up to the global economic crisis; i.e., as incomes rose during this period from 2000-2008, roughly the same proportion of the population (27%) remained notably below the median income. Restated, by this measure, from 2000-2008, the distribution of income changed very little overall. What did change, however, was the geographic distribution of where the poor resided. Specifically, rural poverty increased as urban poverty decreased. The urban-rural poverty gap in 2008 was significantly larger than in 2000; 16% in 2008 versus 4% in 2000.

*Education.* Ukraine's education gaps may not be as significant as compared to other human capital development dimensions, although a key challenge in analyzing trends in this sector is the availability and reliability of the data. Our primary source for education enrollment trends has been UNICEF's Transmonee dataset, an E&E region-specific dataset on human capital trends. However, in the past year, UNICEF significantly changed the methodology and revised results of some of its education statistics for the region. Some data, previously available, are now unavailable. Education data from different sources, in particular from UNICEF, UNESCO, and the World Bank, do not always align closely.

With this considerable caveat in mind, available credible data suggest that the gross primary enrollment ratio in Ukraine is high, near 100% (*Figure 39*). However, the gross secondary school enrollment ratio is considerably below the primary enrollment ratio, at 60%; as with the Eurasian trend overall, Ukraine's secondary school enrollment ratio has changed little since the early 2000s (*Figure 39*). Drawing from incomplete data from UNICEF, we estimate that the gross tertiary enrollment ratio may be closer to 40%

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<sup>8</sup> See *Monitoring Country Progress in E&E*, #10, August 2006, pp. 50, 58-67.

(other sources have the ratio even higher); above Eurasian average. The pre-primary net enrollment ratio in Ukraine may be close to 70%. In this statistic we have the benefit of an urban-rural disaggregation, which shows a significant though decreasing urban-rural gap in pre-primary enrollment ratios (*Figure 40*). Both urban and rural pre-primary enrollment ratios have increased since at least 2000; rural rates have increased more.

To better address the quality of the education system in Ukraine, we draw on two types of evidence. First are the cross-country surveys focused on educational performance: the Trends in International Mathematics and Science Study (TIMSS); the Program for International Student Assessment (PISA); and the Progress in International Reading Literacy Study (PIRLS). These surveys attempt to test students' abilities to apply math, science, and reading to practical "real world" (market economy) problems. *Figure 41* provides a summary of the results in E&E compared to the OECD level. To date, Ukraine has participated in only one test, the TIMSS in 2007, and the results are quite favorable; i.e., test results from Ukrainian students are close to OECD standards. Ukraine has agreed to participate in the 2011 surveys for both the TIMSS and PISA.

The second type of evidence draws on the Business Environment and Enterprise Performance Survey (BEEPS) (shown in *Figure 6*). The BEEPS surveyed what proportion of businesses in Ukraine found the skills and education of the workforce to be a significant hurdle toward doing business. In 2005, 47% of businesses found the labor force skills to be problematic; this increased to 59% by 2008. The results from the Ukrainian businesses conform to a general trend. As noted by the World Bank in its *Turmoil at Twenty* (2010) summary update of transition progress in E&E since the collapse of communism, for the first time since the BEEPS started a decade ago, firms are identifying workers' education and skills as a major impediment to their growth prospects.<sup>9</sup>

*Environmental Performance.* Yale and Columbia University's Environmental Performance Index (EPI) ranks 163 countries on 25 performance indicators tracked across 10 policy categories covering both environmental public health and ecosystem vitality. Environmental health categories include: (1) water (effects on humans); (2) air pollution (effects on humans); and (3) environmental burden of disease. Ecosystem vitality categories include: (1) forestry; (2) fisheries; (3) agriculture; (4) climate change; (5) air pollution (effects on ecosystem); (6) water (effects on ecosystem); and (7) biodiversity and habitat. On each measure, countries are scored from 0 to 100 based on the percent proximity to an established international environmental policy target.

Overall, Ukraine ranks 87 out of 163 countries on the 2010 EPI. Ukraine ranks near the bottom of the Eurasian countries, followed only by Kazakhstan, Uzbekistan and Tajikistan. Ukraine scores better overall in environmental health than in ecosystem vitality, although there is considerable diversity in results within each category (*Figure 42*). The most significant gap in environmental health is in the environmental burden of disease, which measures the number of disability adjusted life years (or DALYs) lost due to environmentally influenced diseases. The most significant gap in ecosystem vitality in Ukraine is in biodiversity habitat followed by climate change and air pollution.

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<sup>9</sup> P. Mitra, M. Selowsky, and J. Zalduendo, *Turmoil at Twenty: Recession, Recovery, and Reform in Central and Eastern Europe and the Former Soviet Union*, the World Bank (2010).

**Peace and Security.** The MCP peace and security index was developed to mirror the six primary elements of the peace and security objective developed several years ago by the Director of Foreign Assistance. These elements include combating weapons of mass destruction, combating transnational crime, counter-narcotics, counter-terrorism, stabilization operations and security sector reforms, and conflict mitigation. By this measure, Ukraine is the most peaceful and secure country of Eurasia (*Figure 43*). It is also more peaceful and secure than most countries of the West Balkans. More so than usual, however, Ukraine's average peace and security score masks considerable diversity of results in the components of the index (*Figure 44*). Results in Ukraine of three of the six components are roughly Eurasian average: stabilization and security sector reform; counter-narcotics; and transnational crime. Ukraine lags the most in transnational crime, although this score improved slightly after the government made steps to comply with the minimum standards of the Trafficking Victims Protection Act and was taken off the Department of State's watch list. Ukraine, nevertheless, continues to be a "source, transit and increasingly destination country for men, women, and children subjected to trafficking in persons, specifically forced labor and forced prostitution," according to the most recent *Trafficking in Persons Report 2010* (Department of State).



# Ukraine MCP Gap Analysis

USAID

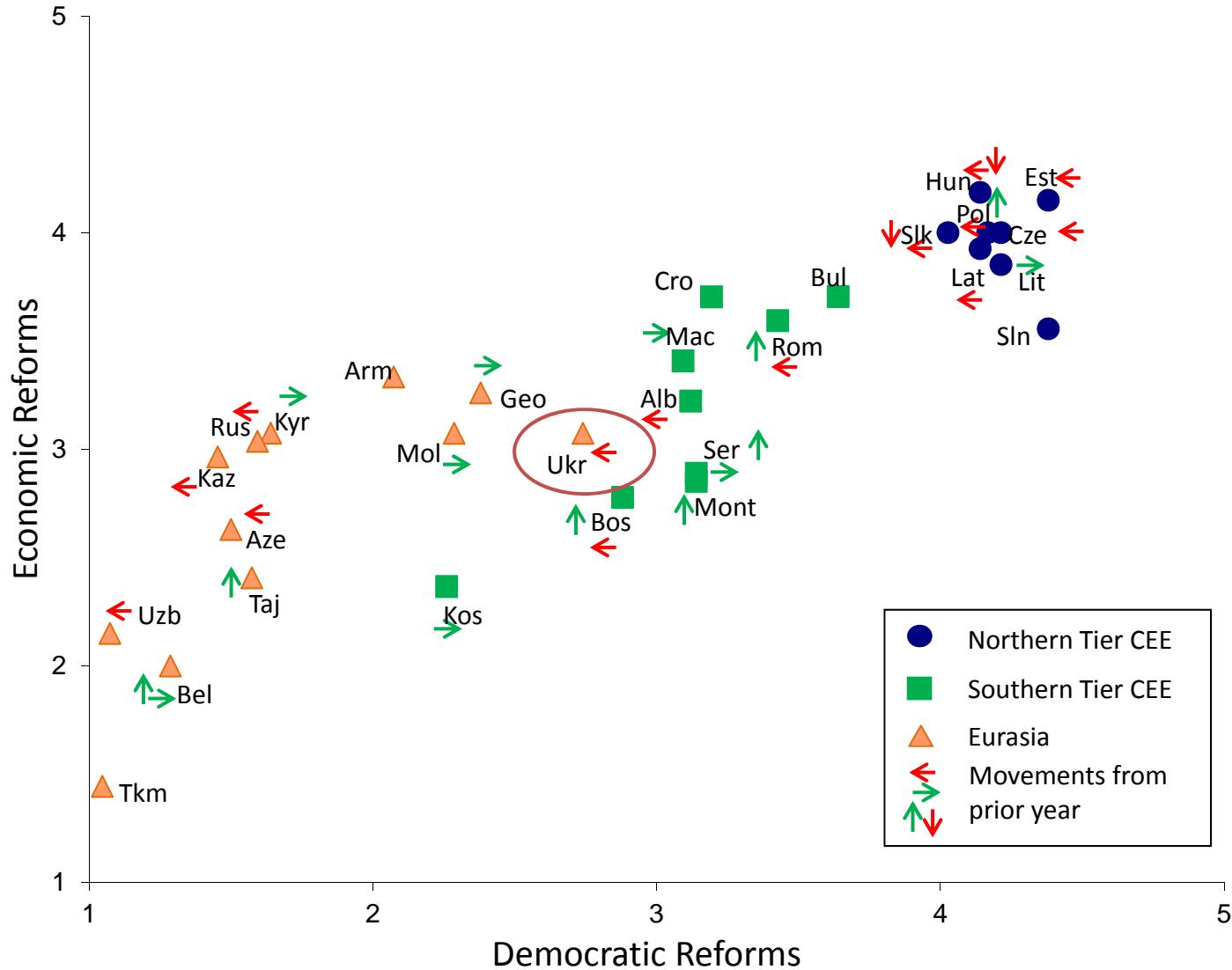
E&E Bureau

Strategic Planning and Analysis Division

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Figure 1

# Economic and Democratic Reforms in 2009-2010

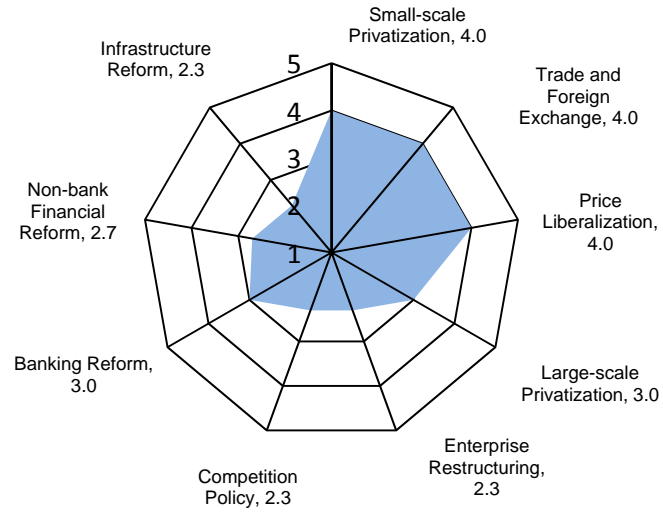


Ratings are based on a 1 to 5 scale, with 5 representing most advanced. Freedom House, *Nations in Transit 2010* (2010); and EBRD, *Transition Report 2010* (November 2010). Economic reforms data are 2010; Democratic Reforms 2009-10.

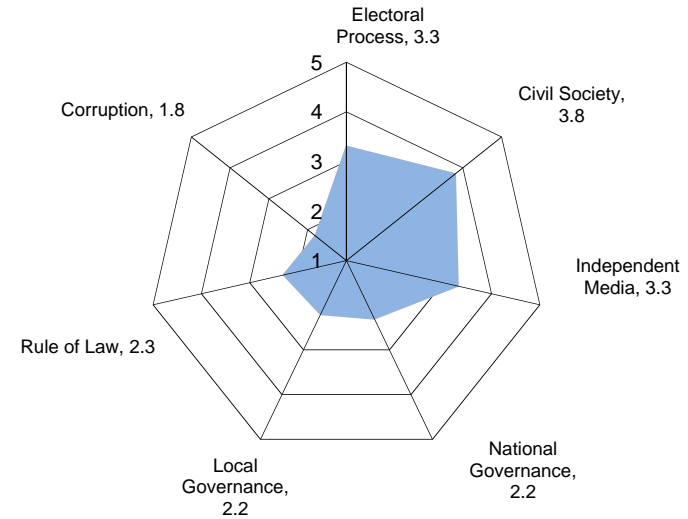
Figure 2

# Ukraine

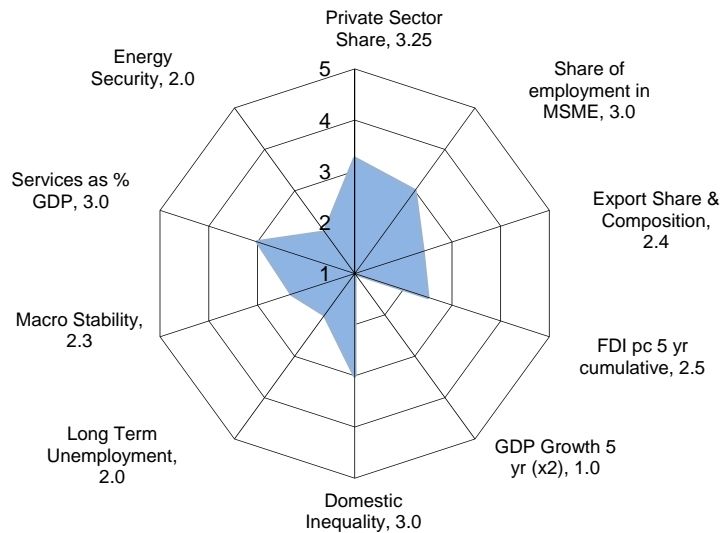
## Economic Reforms, 2010



## Democratic Reforms, 2009



## Economic Performance, 2008-2010



## Human Capital, 2008-2010

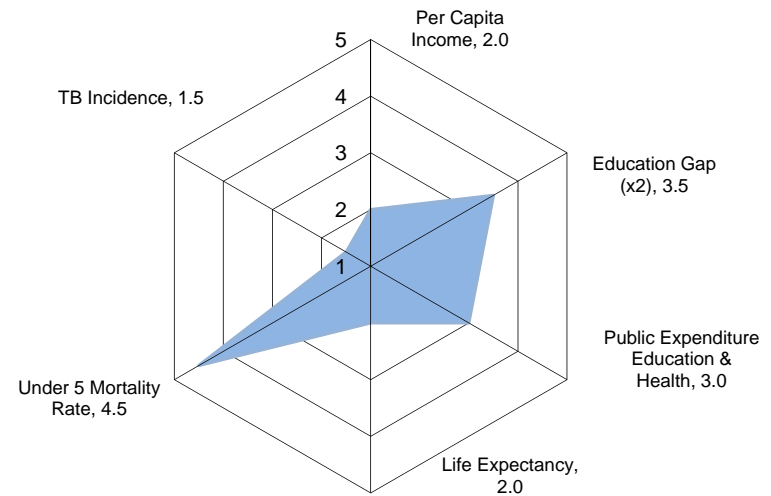
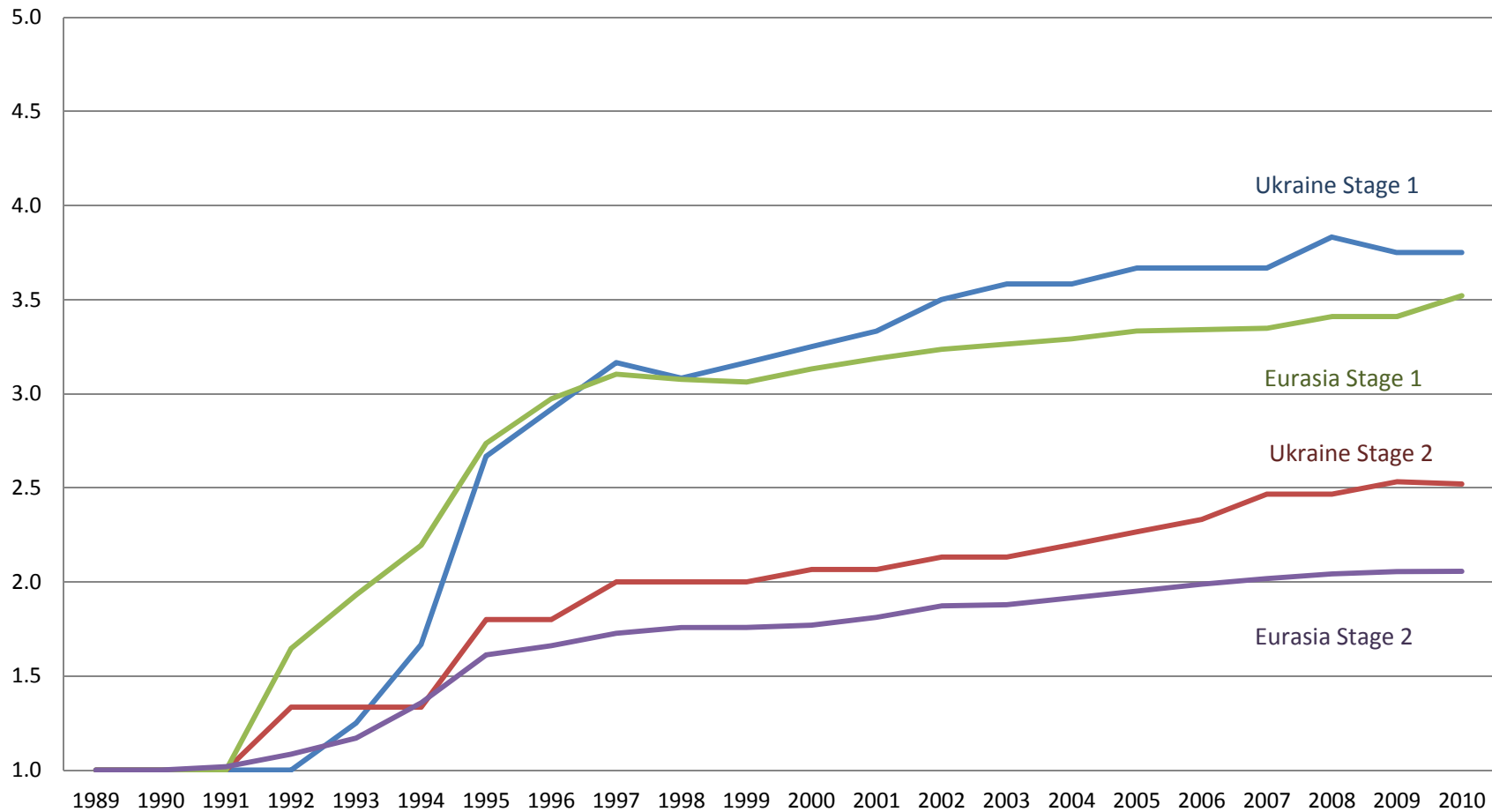


Figure 3

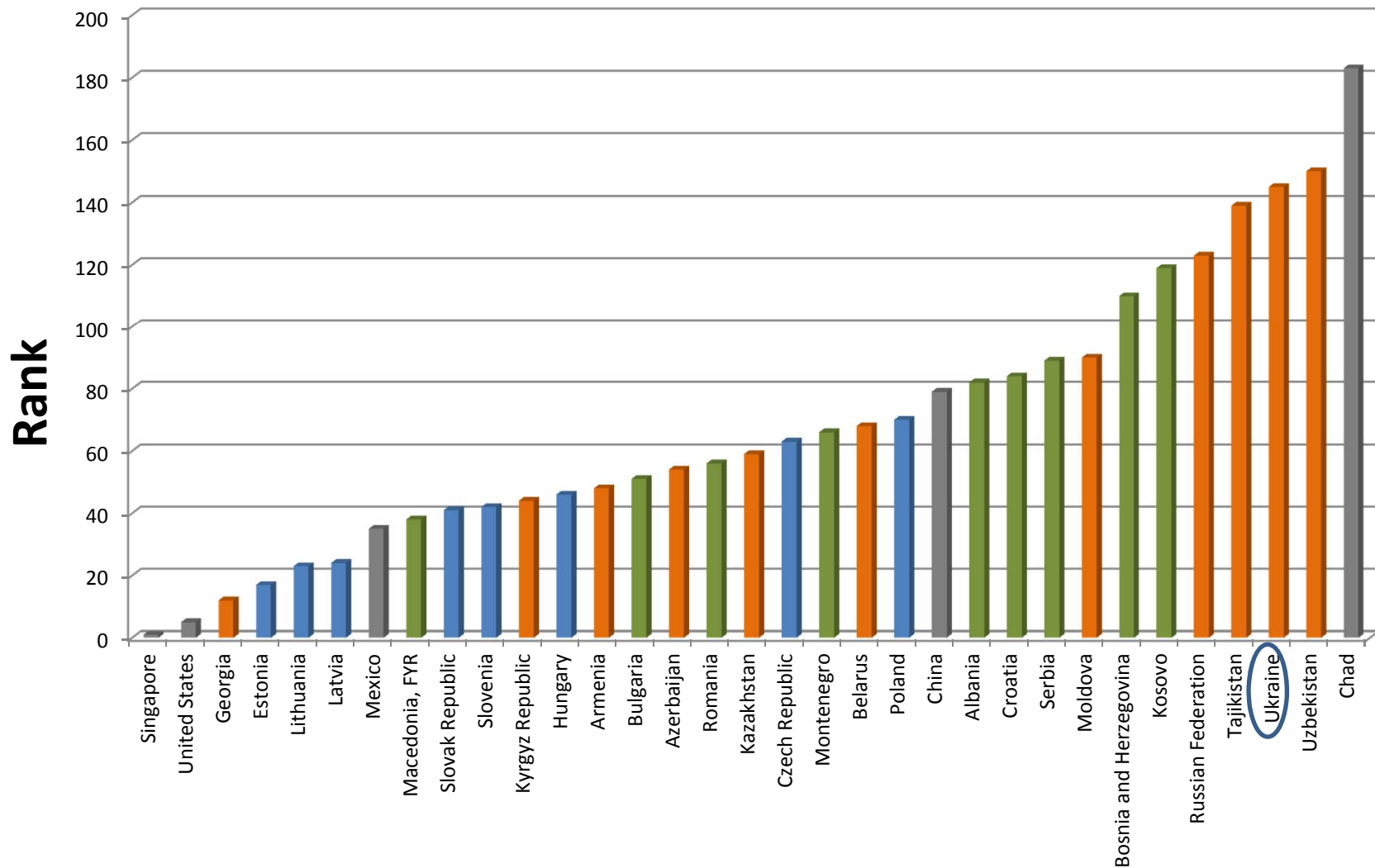
## Economic Reform in Ukraine, Stage 1 vs. Stage 2



Stage 1: Small Scale Privatization, Trade and Foreign Exchange, Price Liberalization, Large Scale Privatization. Stage 2: Enterprise Reform, Competition Policy, Banking Reform, Non-Bank Financial Reform, Infrastructure. Ratings are based on a 1 to 5 scale, with 5 representing most advanced. Data are drawn from the EBRD, *Transition Report 2010*

Figure 4

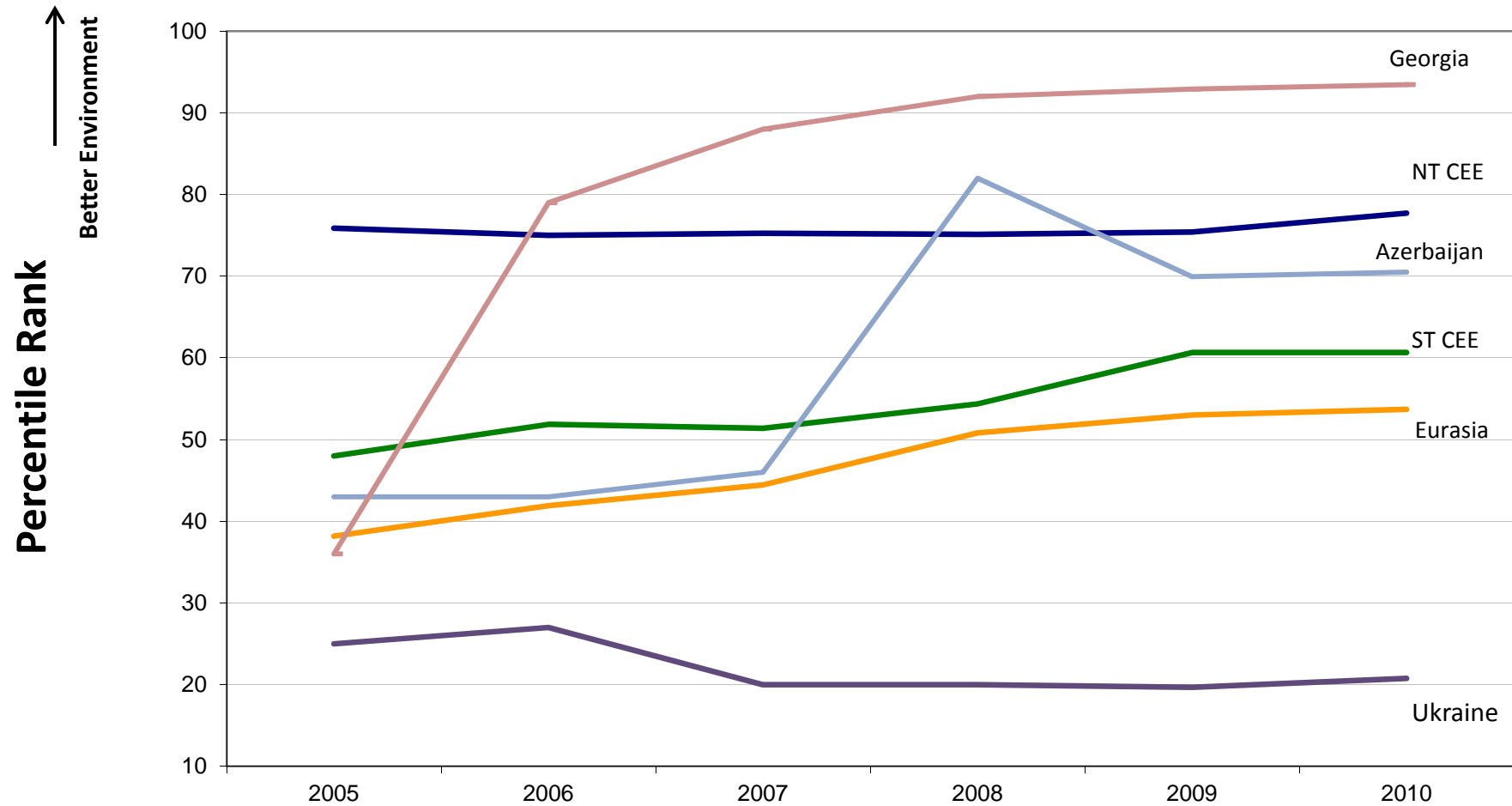
# Business Environment in 2010



World Bank Doing Business in 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 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 6

# Business Problems as Indicated by Firms in Ukraine

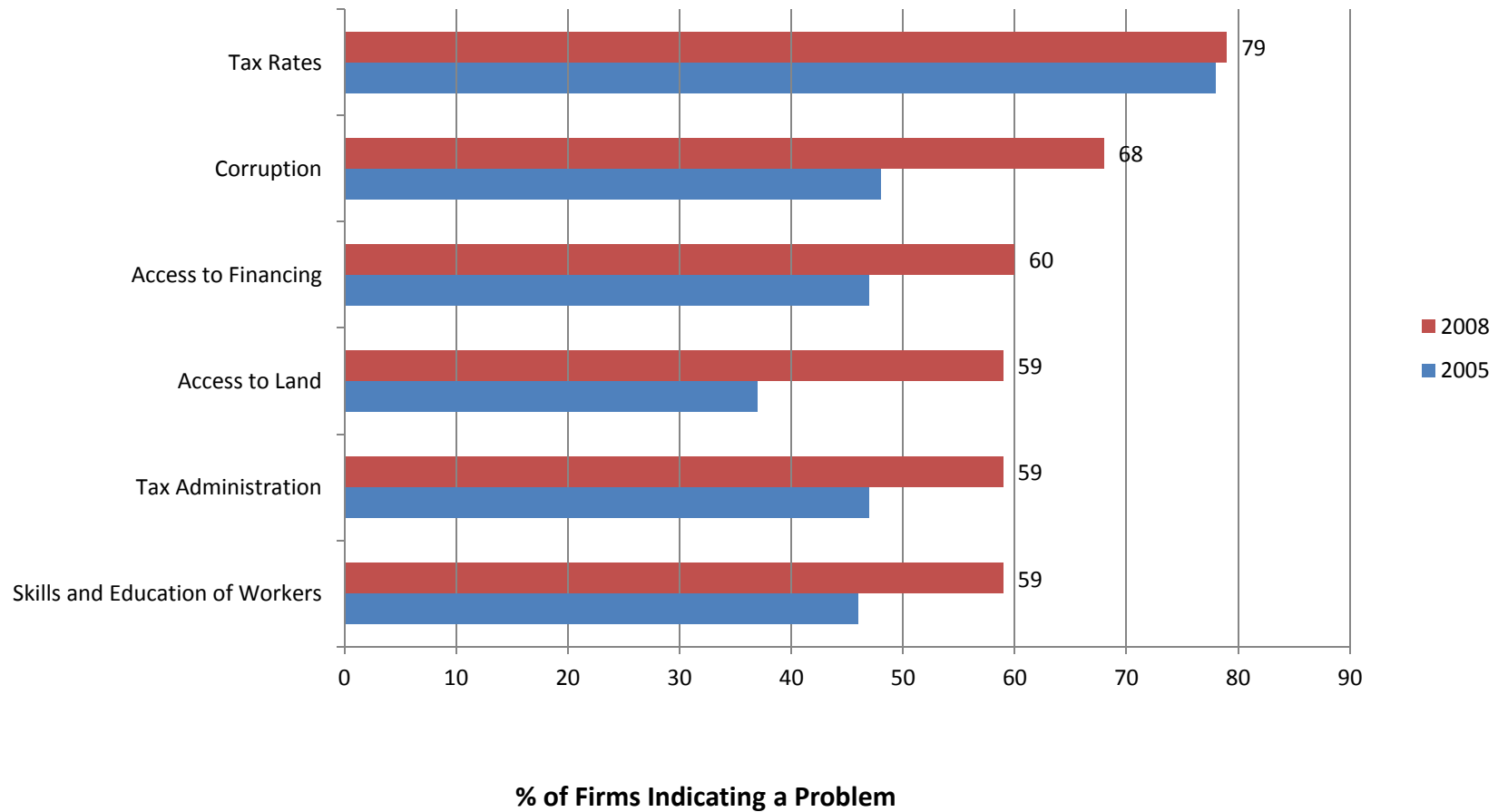


Figure 7

# Democracy Trends in Europe and Eurasia

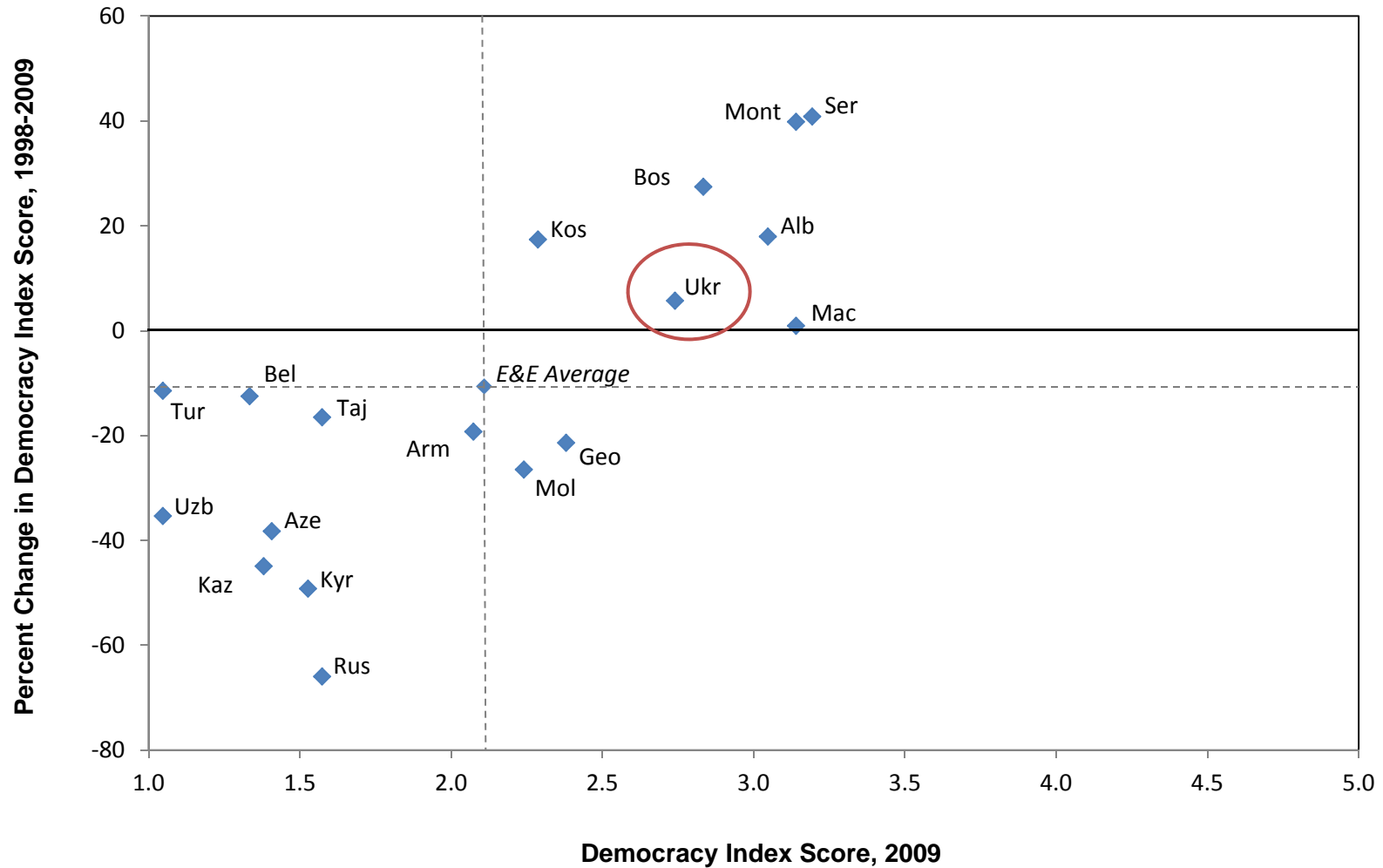


Figure 8

# Democratic Reforms

## Regional Comparison

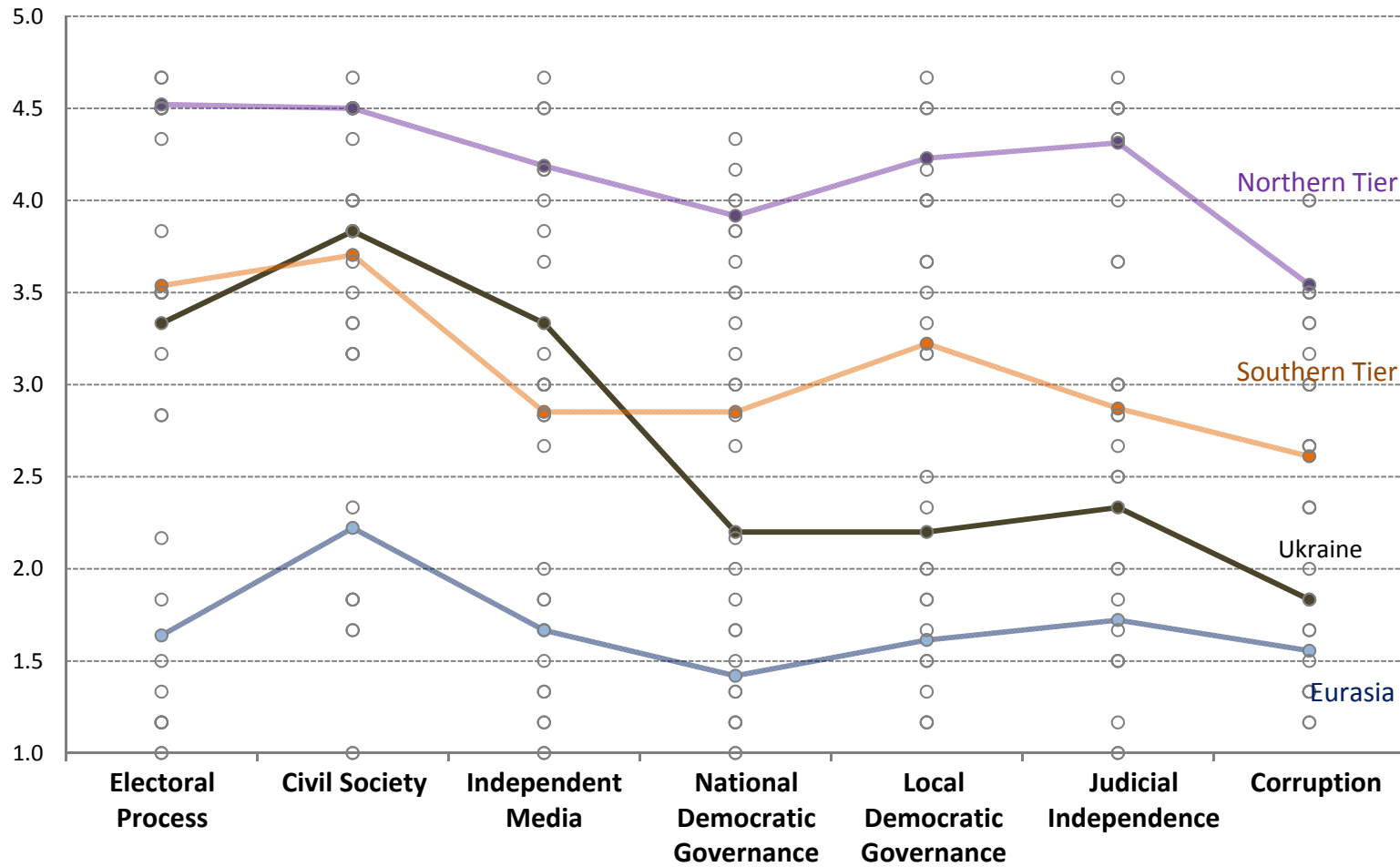
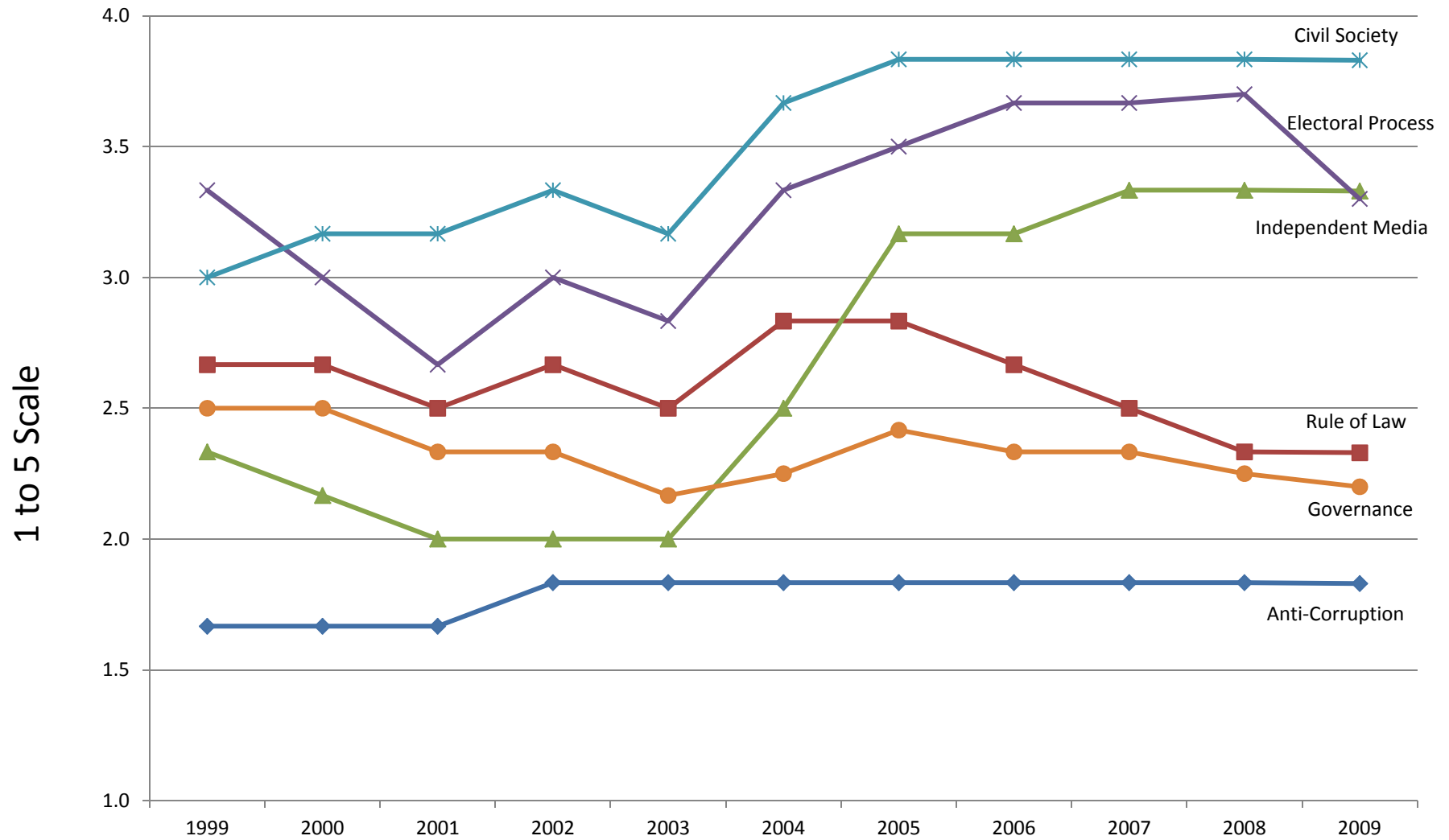


Figure 9

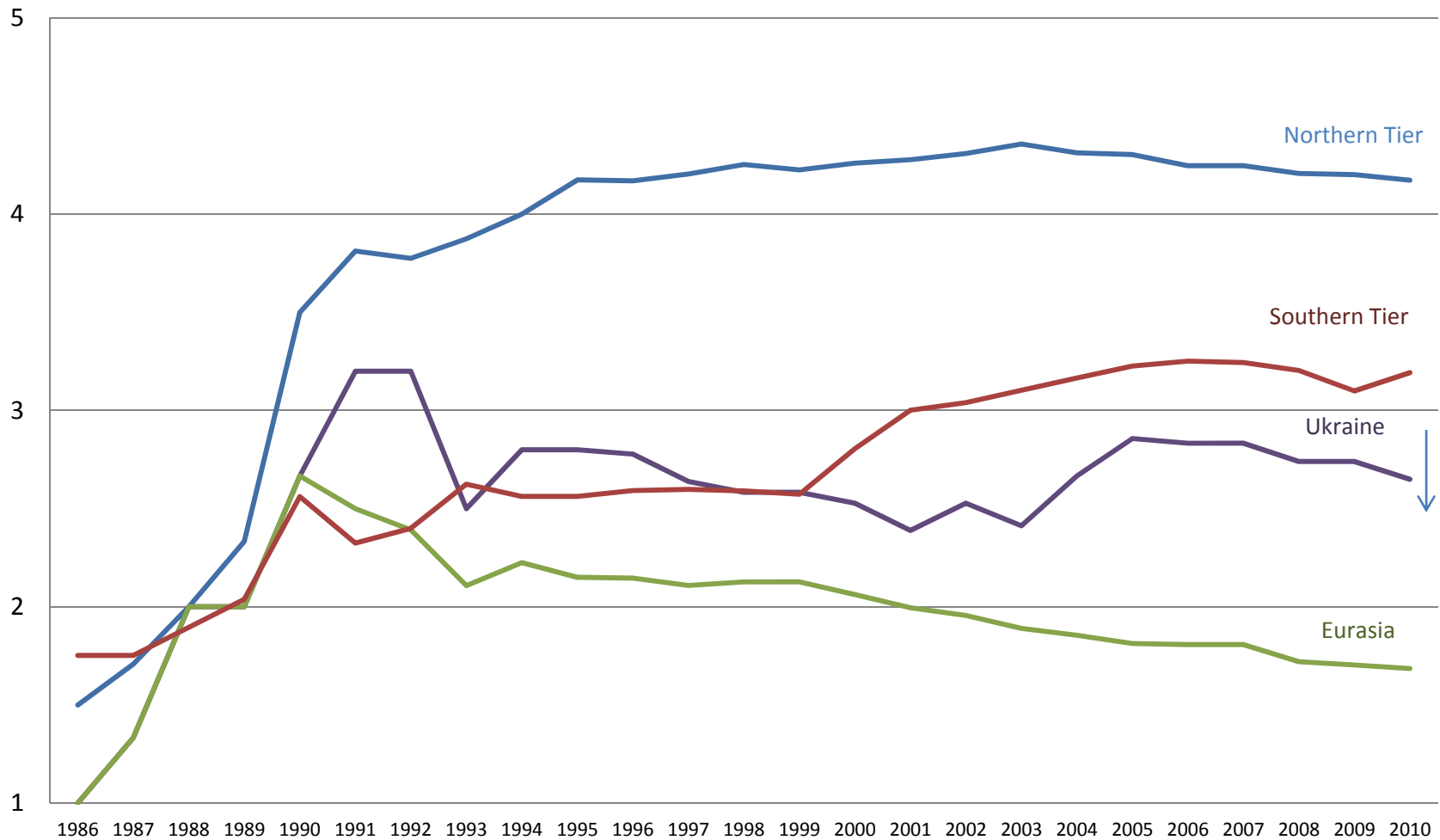
# Democratic Reforms in Ukraine, 1999-2009



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

Figure 10

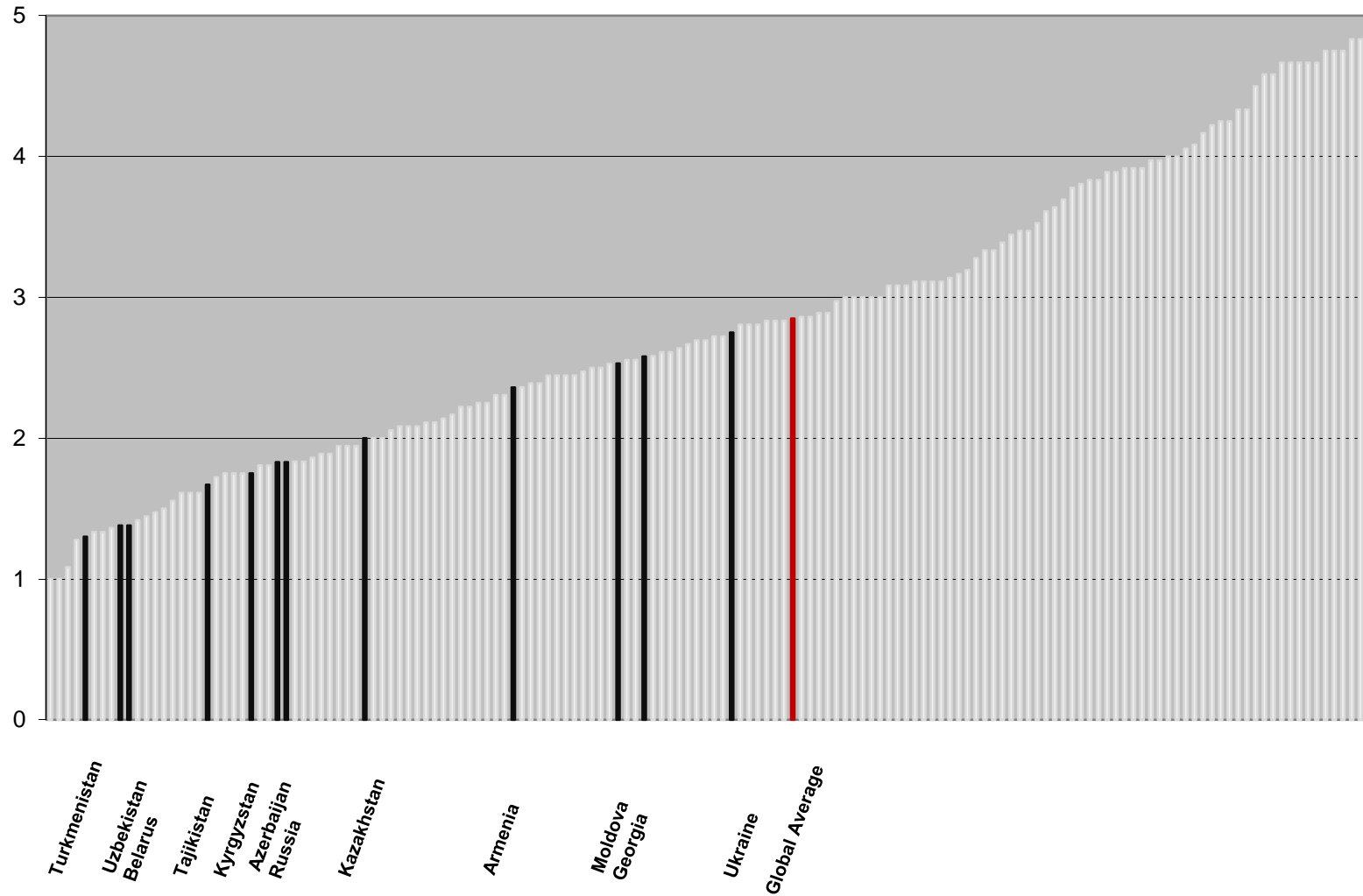
# Democratic Reforms



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

Figure 11

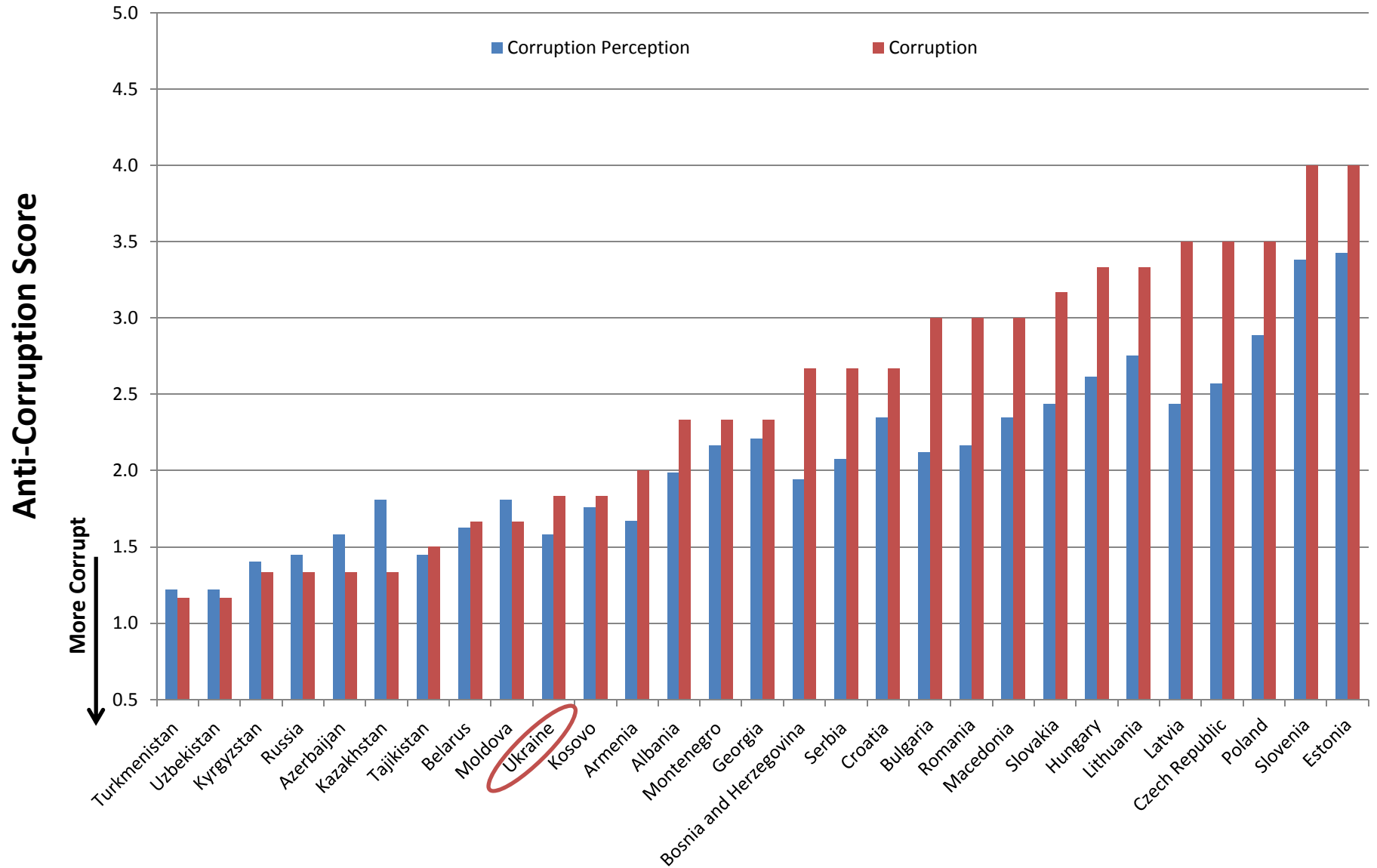
# Eurasia vs. Global Dataset for Governing Justly and Democratically



Note: n=153. Ratings are based on a scale from 1 to 5, with 5 representing the best score. Sources: World Bank Institute, *Governance Matters Indicators* (2007 and 2010); Freedom House, *Freedom in the World* (2008 and 2010) and *Freedom of the Press* (2008 and 2010).

Figure 12

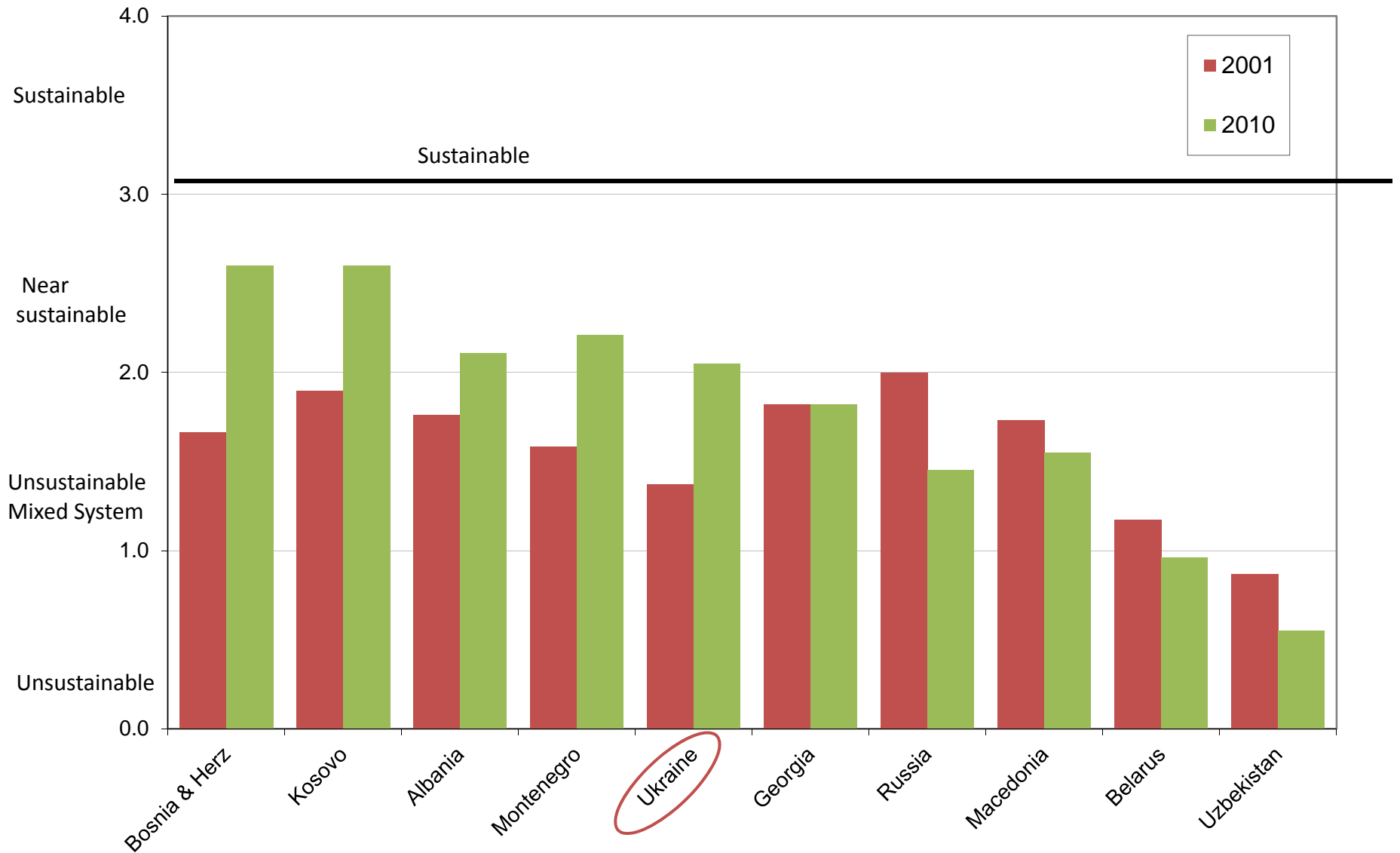
## Corruption and Perceptions of Corruption Central and Eastern Europe and Eurasia



Freedom House *Nations in Transit* 2010 and Transparency International, *Corruption Perception Index* (2010).

Figure 13

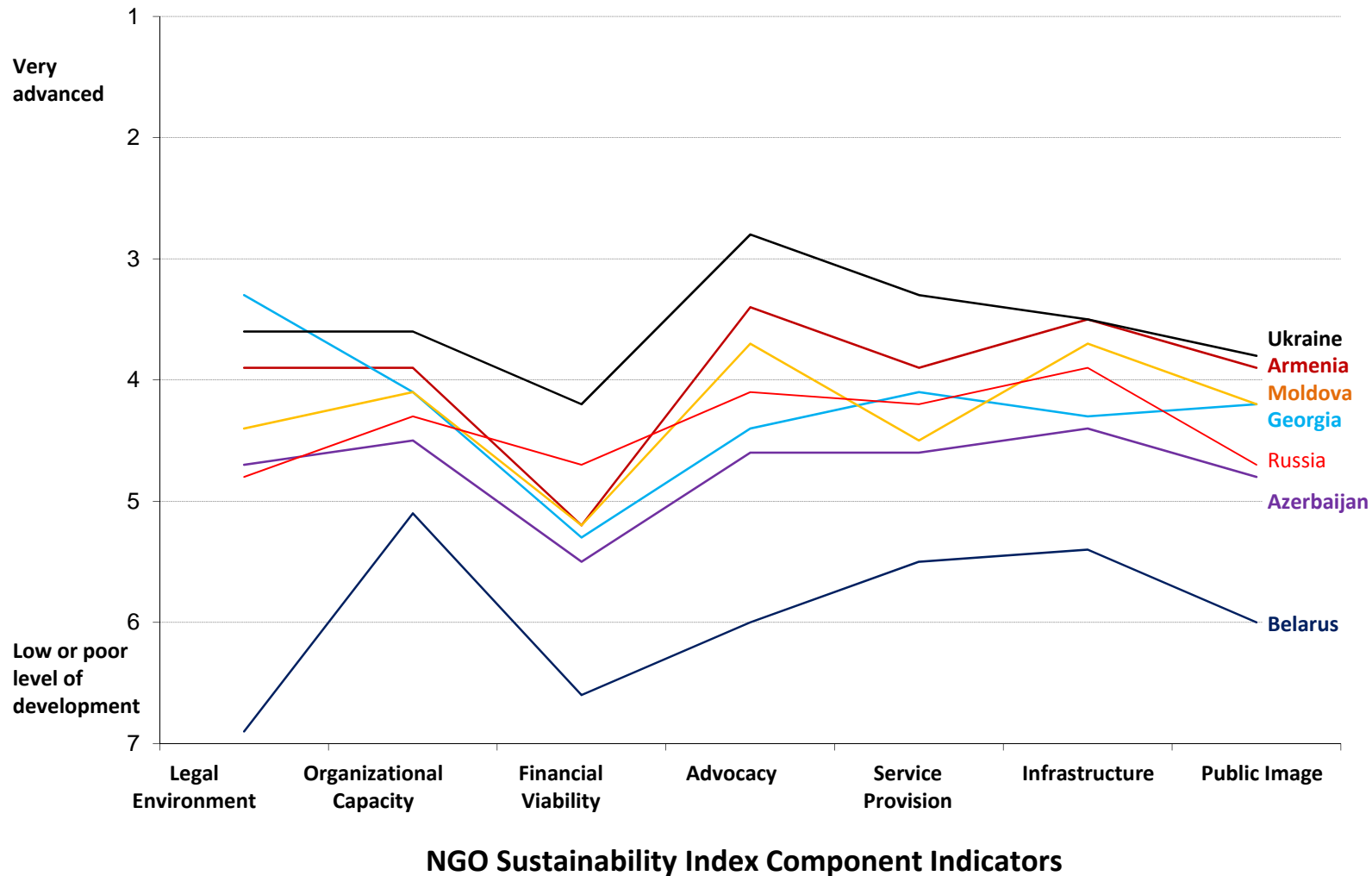
# Media Sustainability Index



IREX, *Media Sustainability Index 2010*. Scale of 0 to 4 where 4 is the most sustainable.

Figure 14

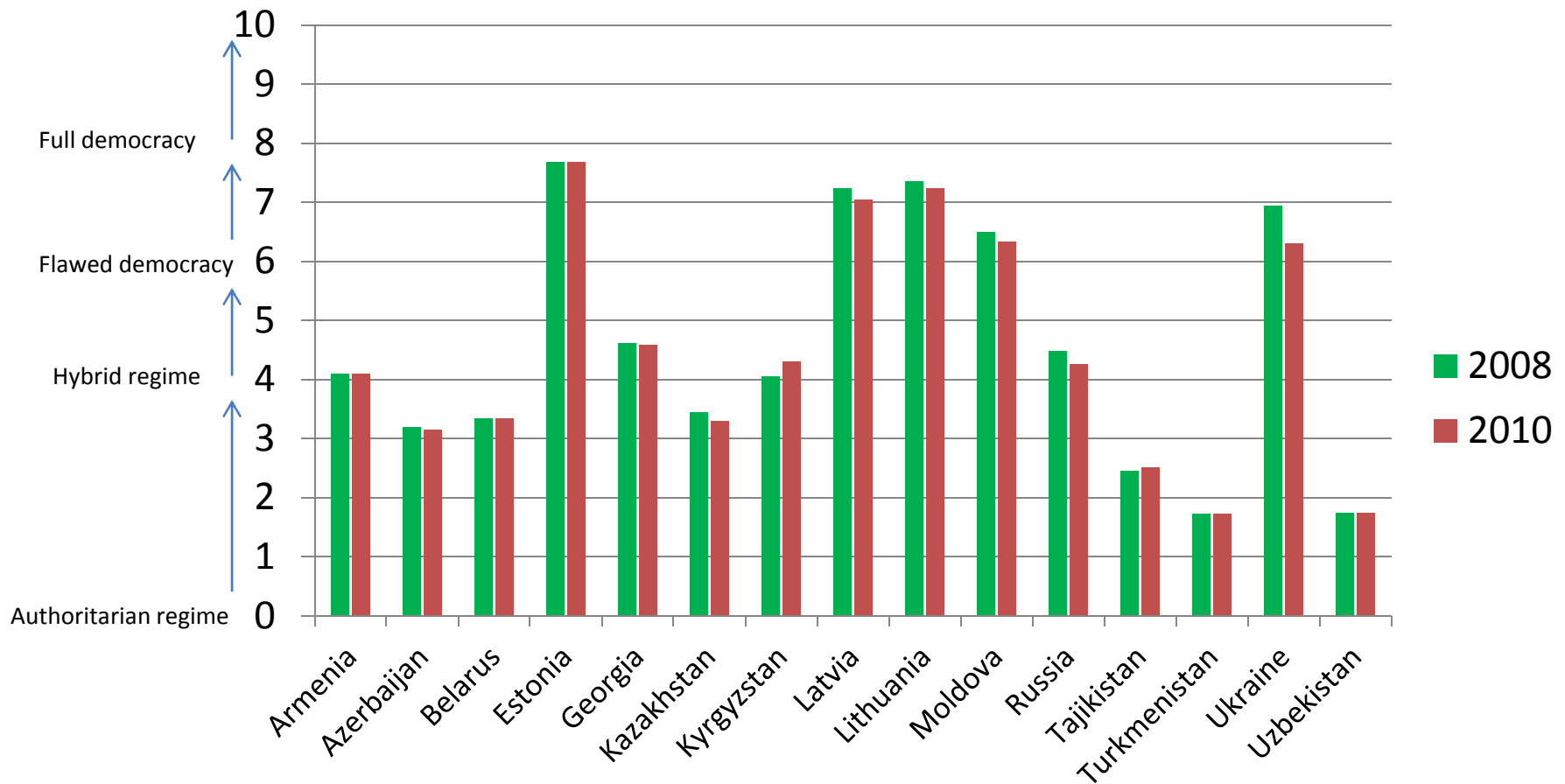
# NGO Sustainability Index



Source: USAID, 2009 NGO Sustainability Index for Central and Eastern Europe and Eurasia, 13<sup>th</sup> Edition – June 2010. Scale of 1 to 7 where 7 indicates a low or poor level of NGO development and 1 indicates a very advanced NGO sector. Scores of 5-7 are Considered “Early transition” phase; scores of 3-5 are considered “Mid-transition” phase; and scores of 1-3 are considered “Consolidation” phase.

Figure 15

# Democracy Index

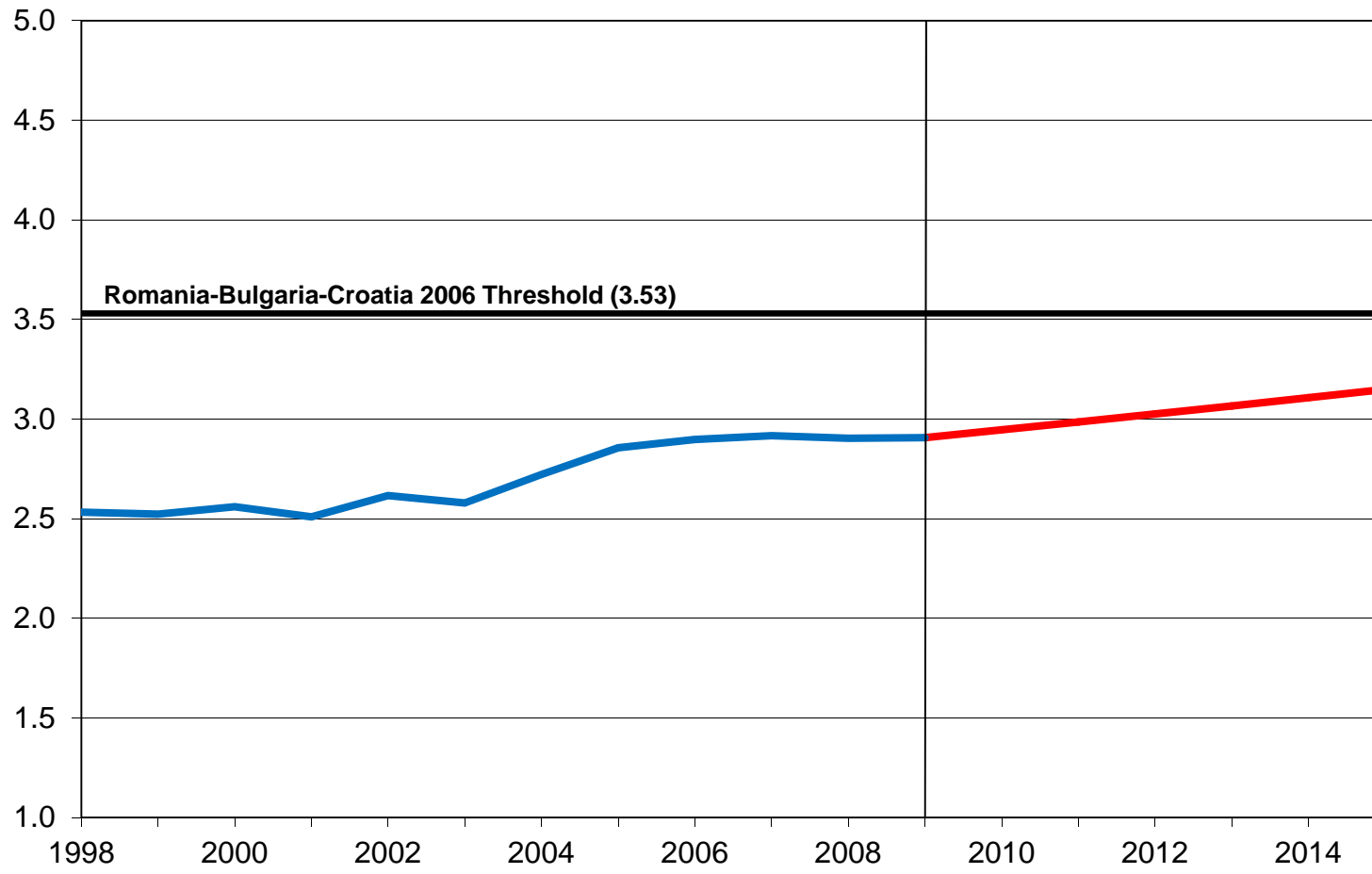


Score as of November 2010. Rankings are based on five categories: electoral process and pluralism; civil liberties; functioning of government; political participation; political culture. Source: Economist Intelligence Unit, *Democracy Index 2010: Democracy in Retreat*, 2010.

Figure 16

# Ukraine Projection

**Economic &  
Democratic Reforms**



**Actual 1998-2009**

**Projected 2010-2015**

Figure 17

# Human Capital and Economic Performance, 2009-2010

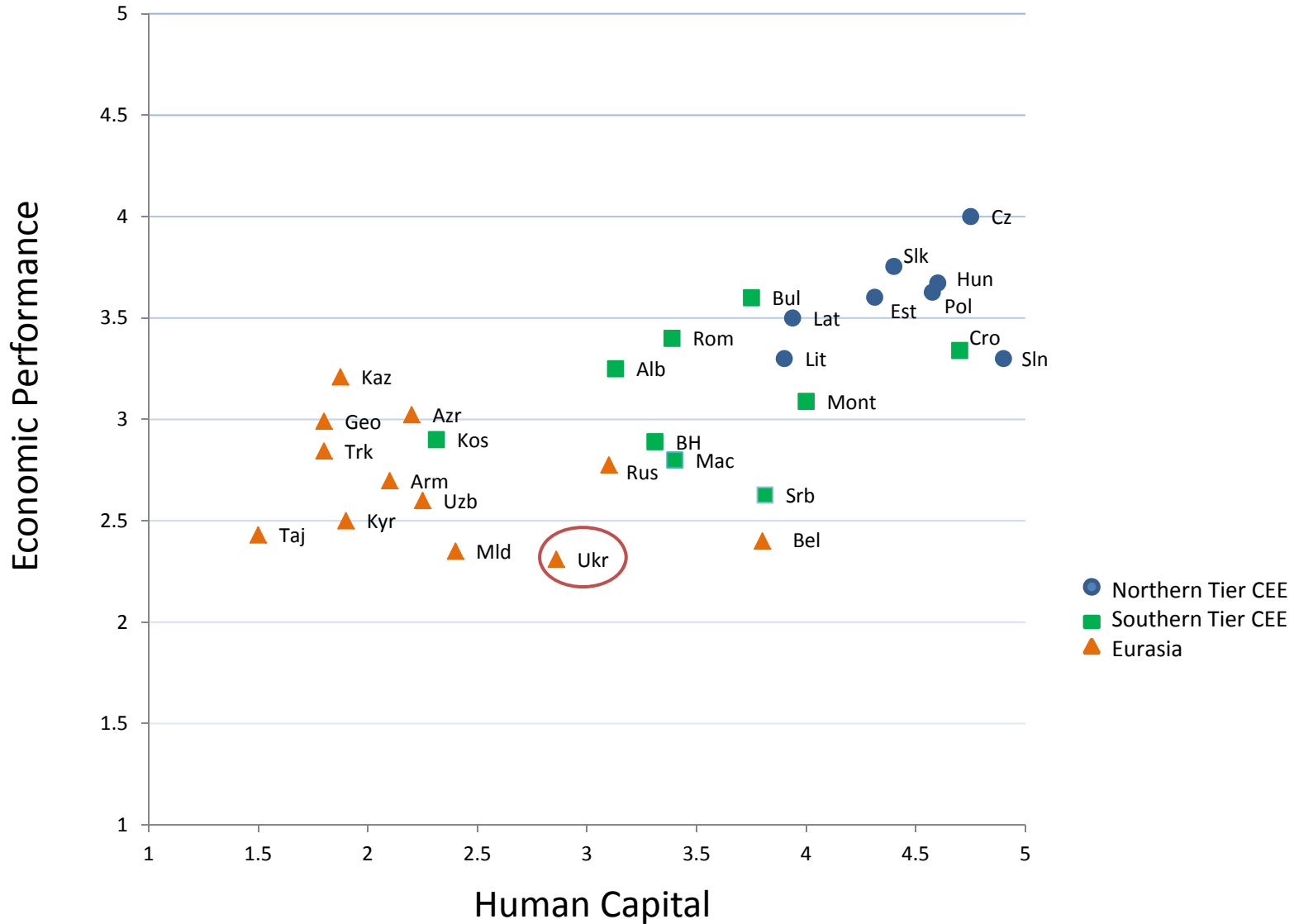
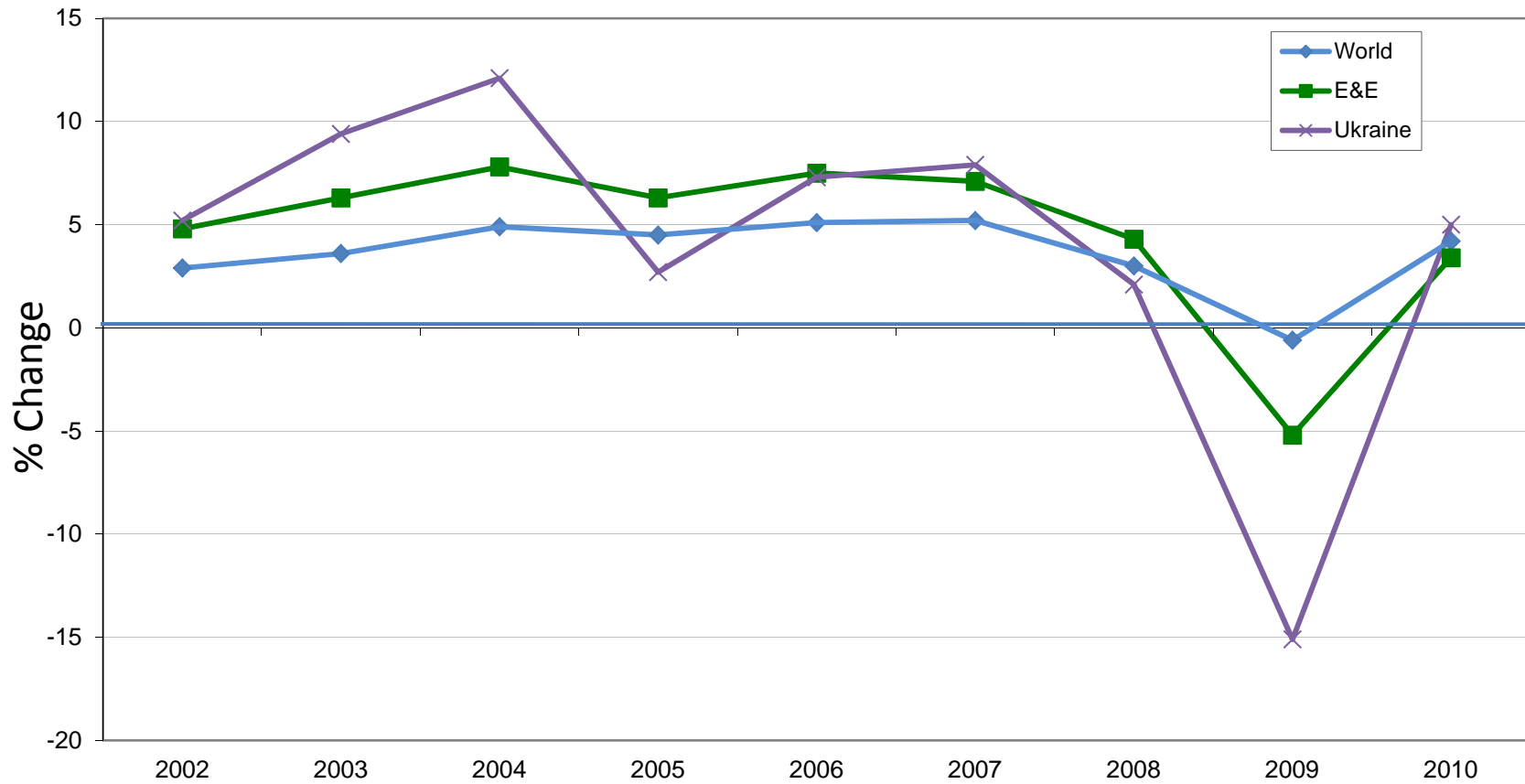


Figure 18

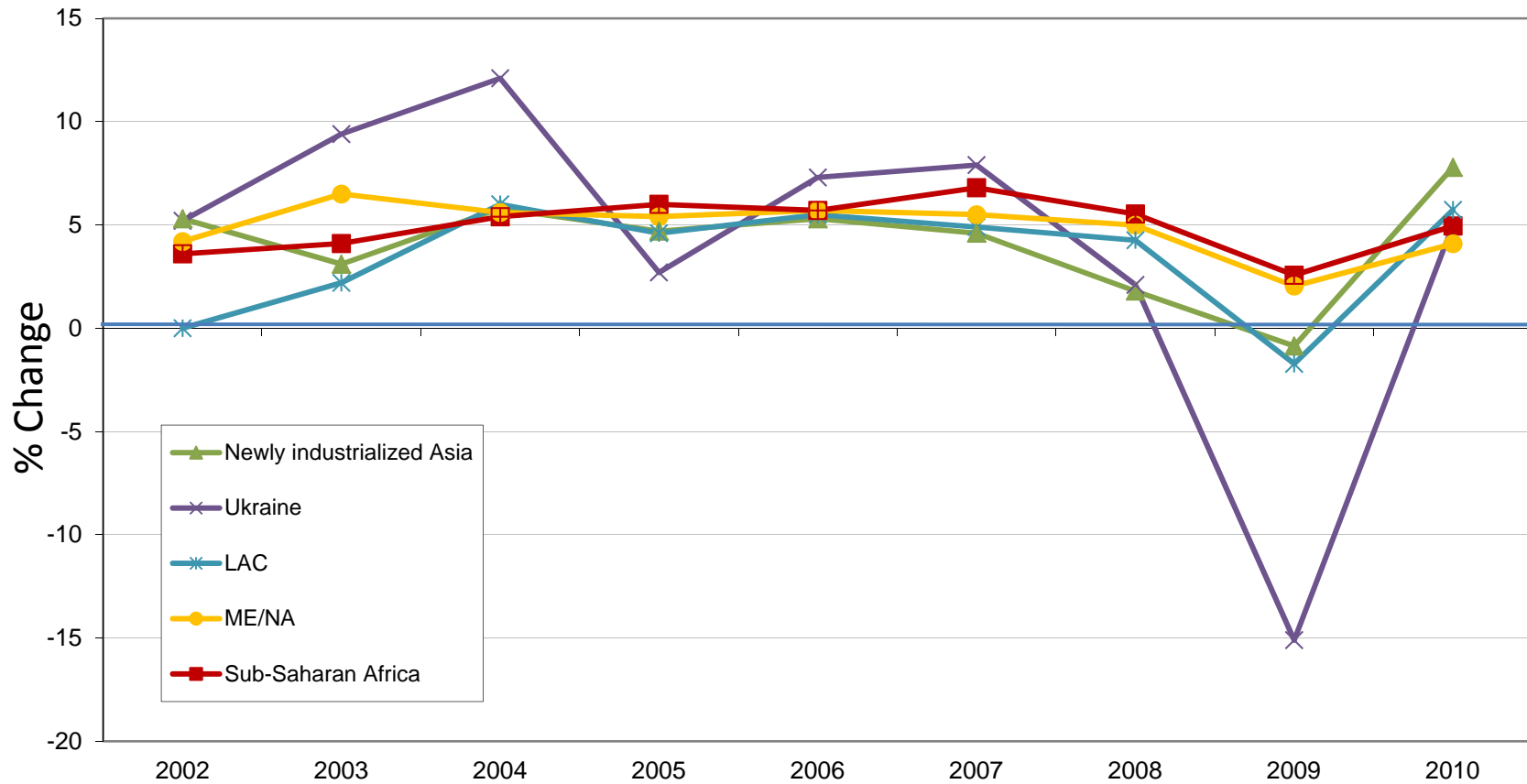
# Economic Growth in Ukraine Compared to the World and EE



Source: IMF, World Economic Outlook October 2010.

Figure 19

# Economic Growth in Ukraine Compared to Regions of the World



Source: IMF, World Economic Outlook October 2010.

Figure 20

# Economic Growth and Contraction: The Better Performers in 2010

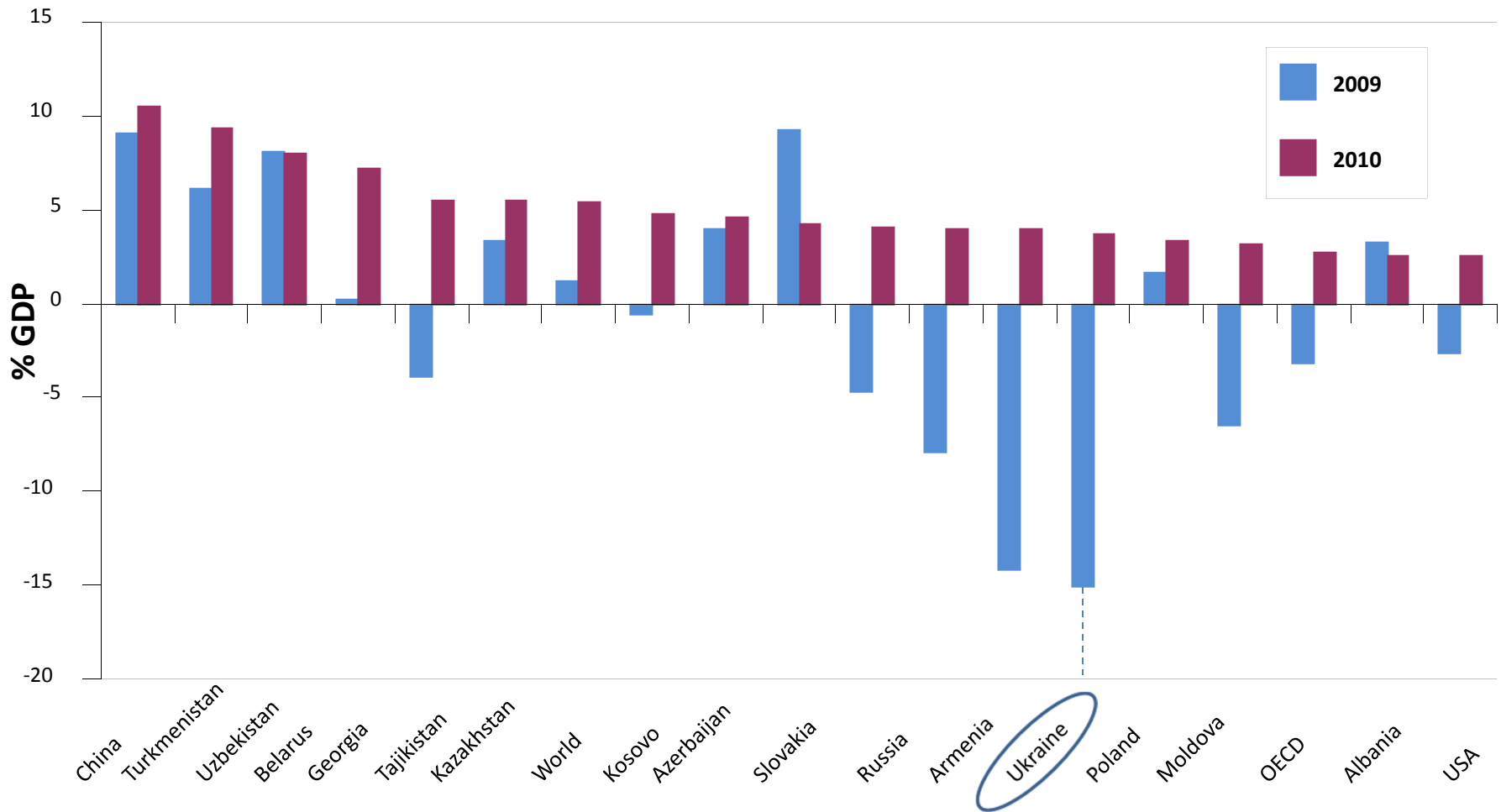


Figure 21

## Economic Growth and Contraction: the Poorer Performers in 2010

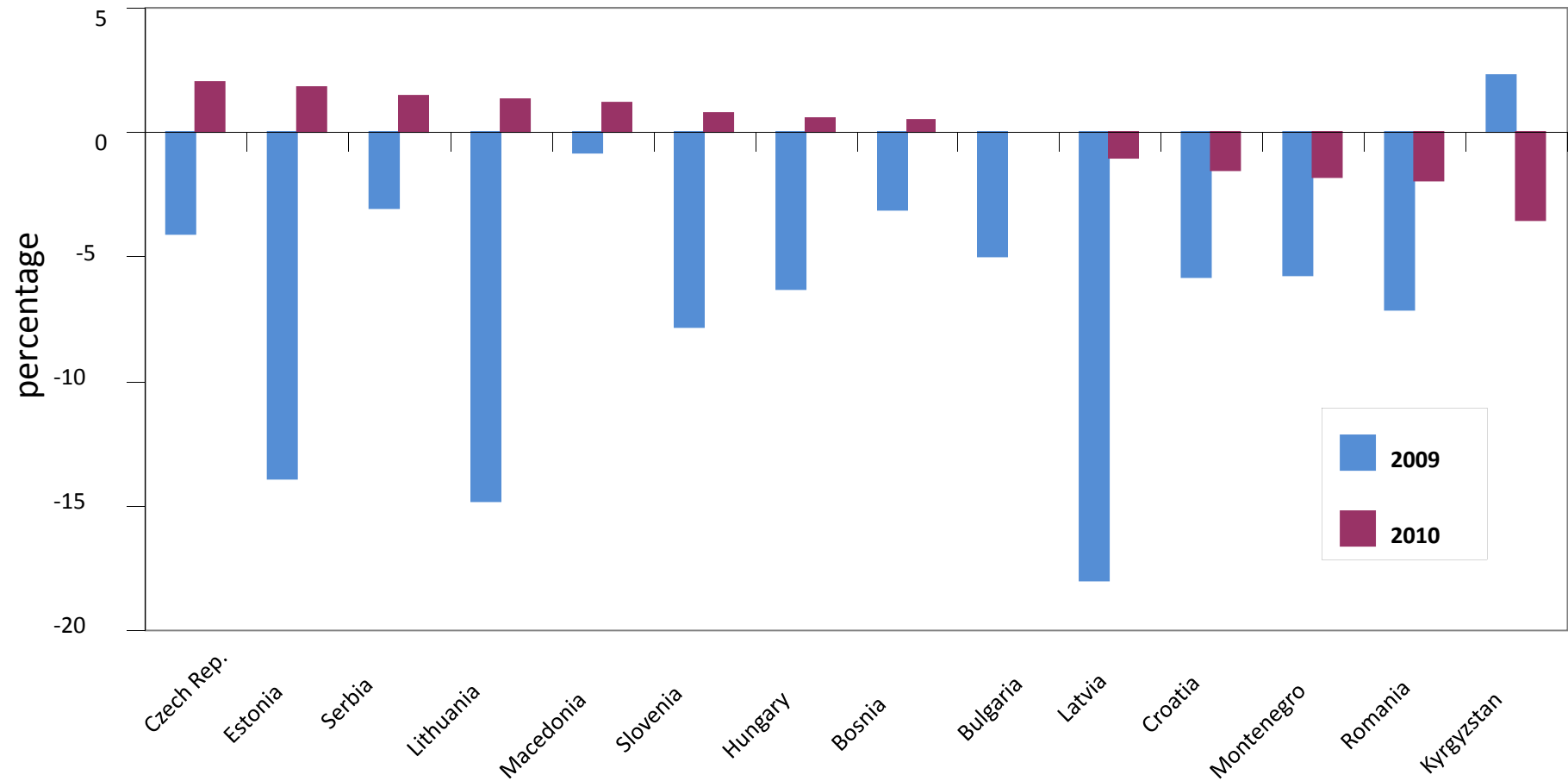


Figure 22

# GDP as % of 1989 GDP

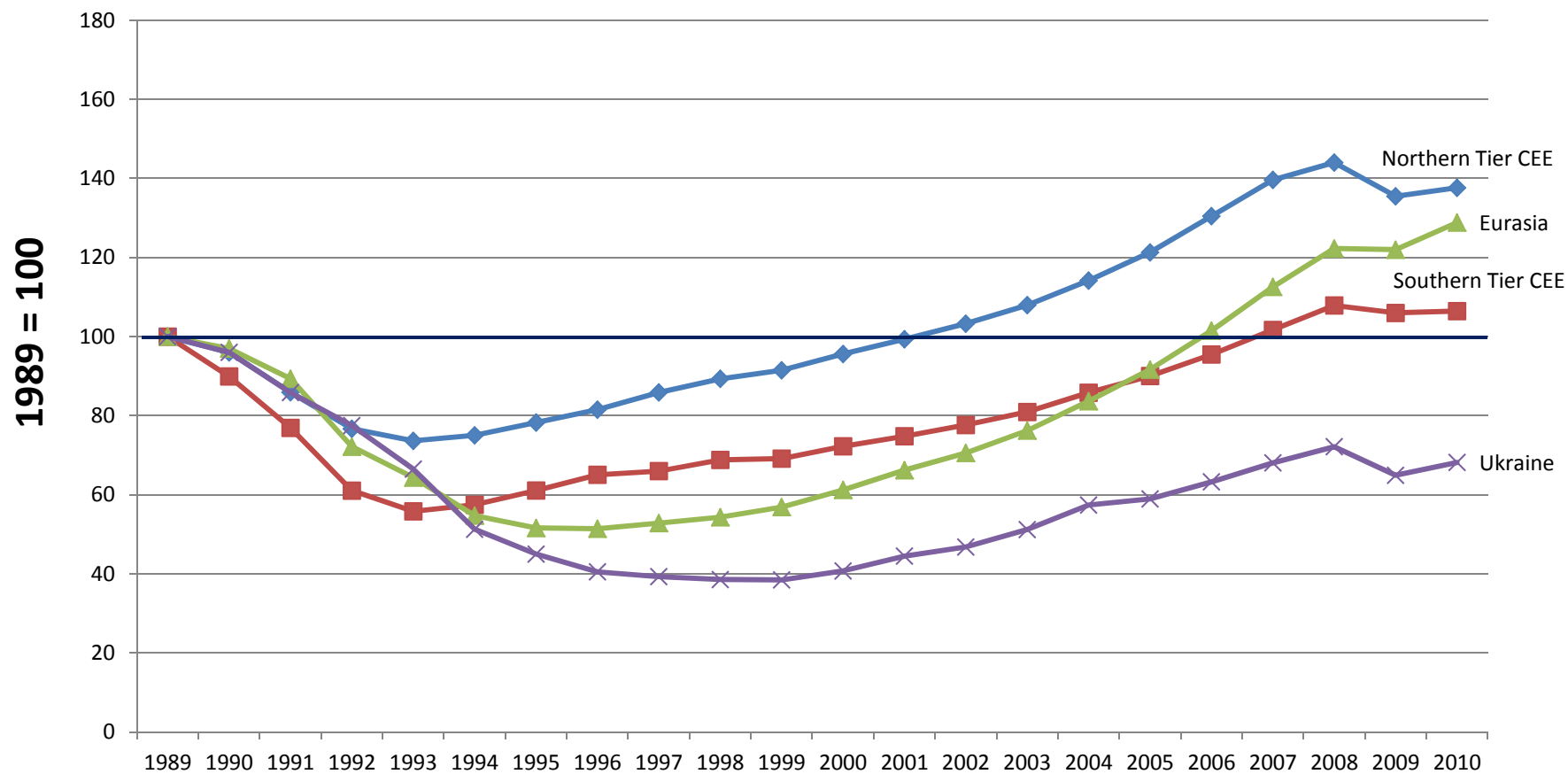


Figure 23

# GDP as % of 1989 GDP

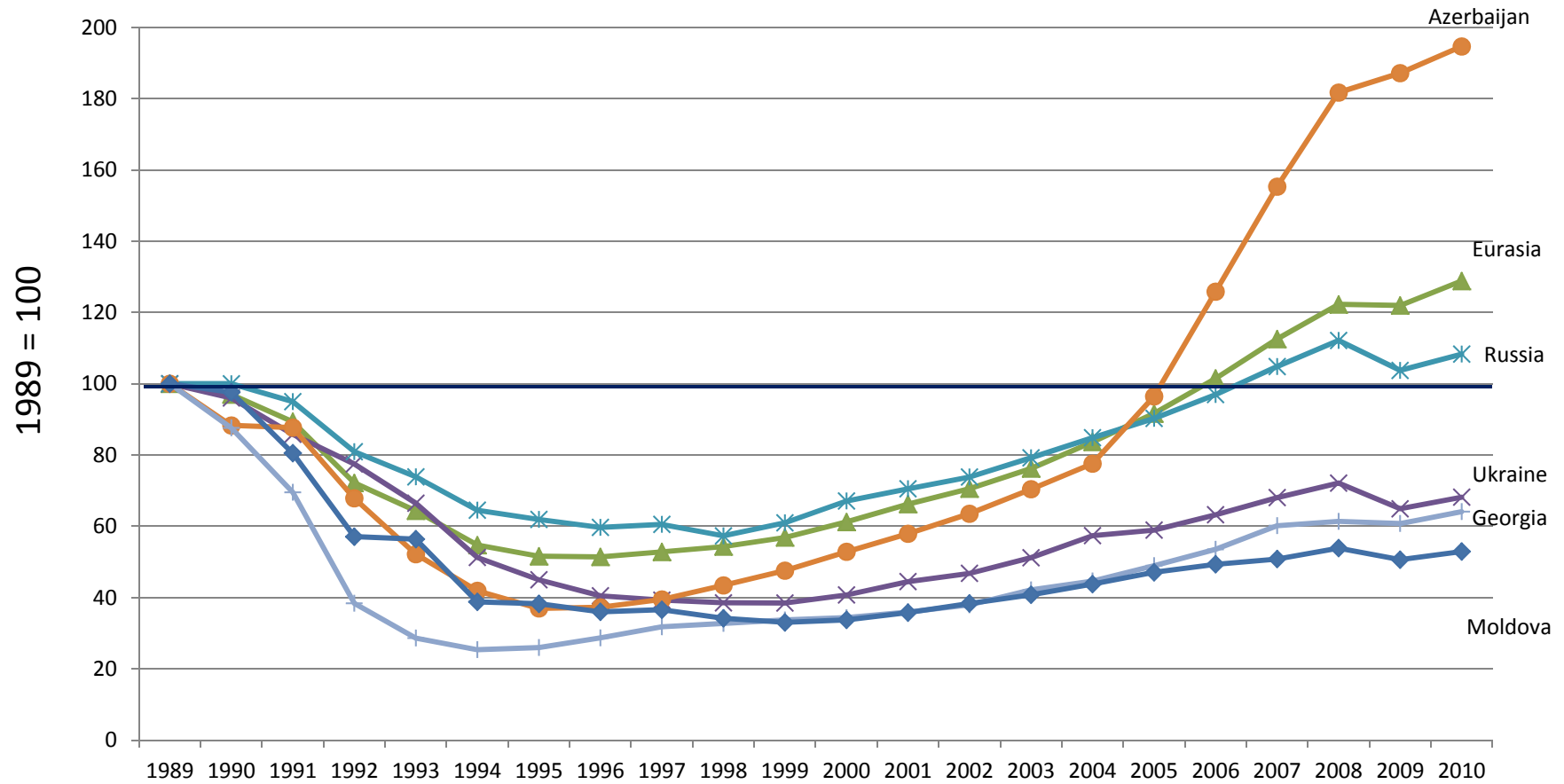


Figure 24

# Exports as % of GDP

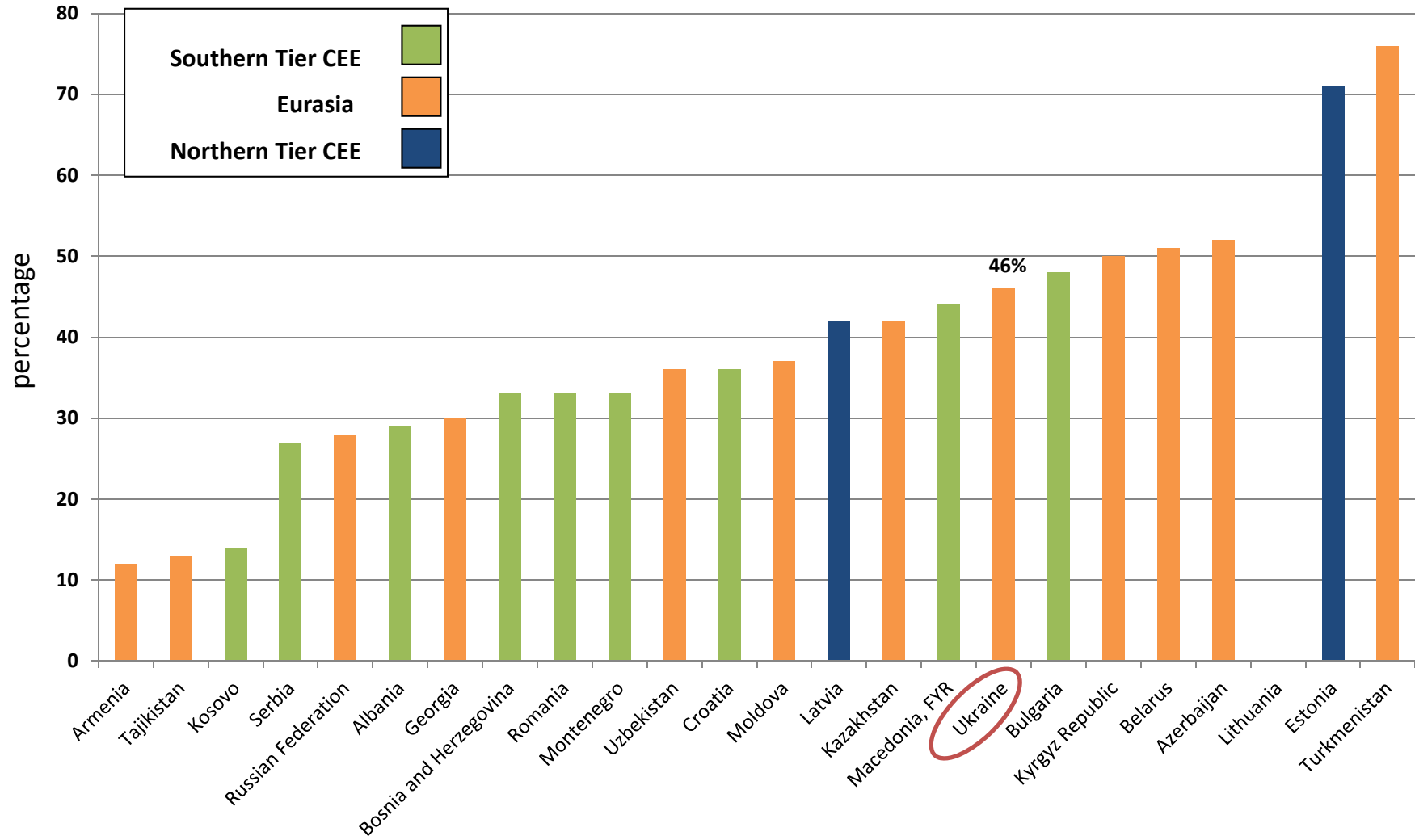
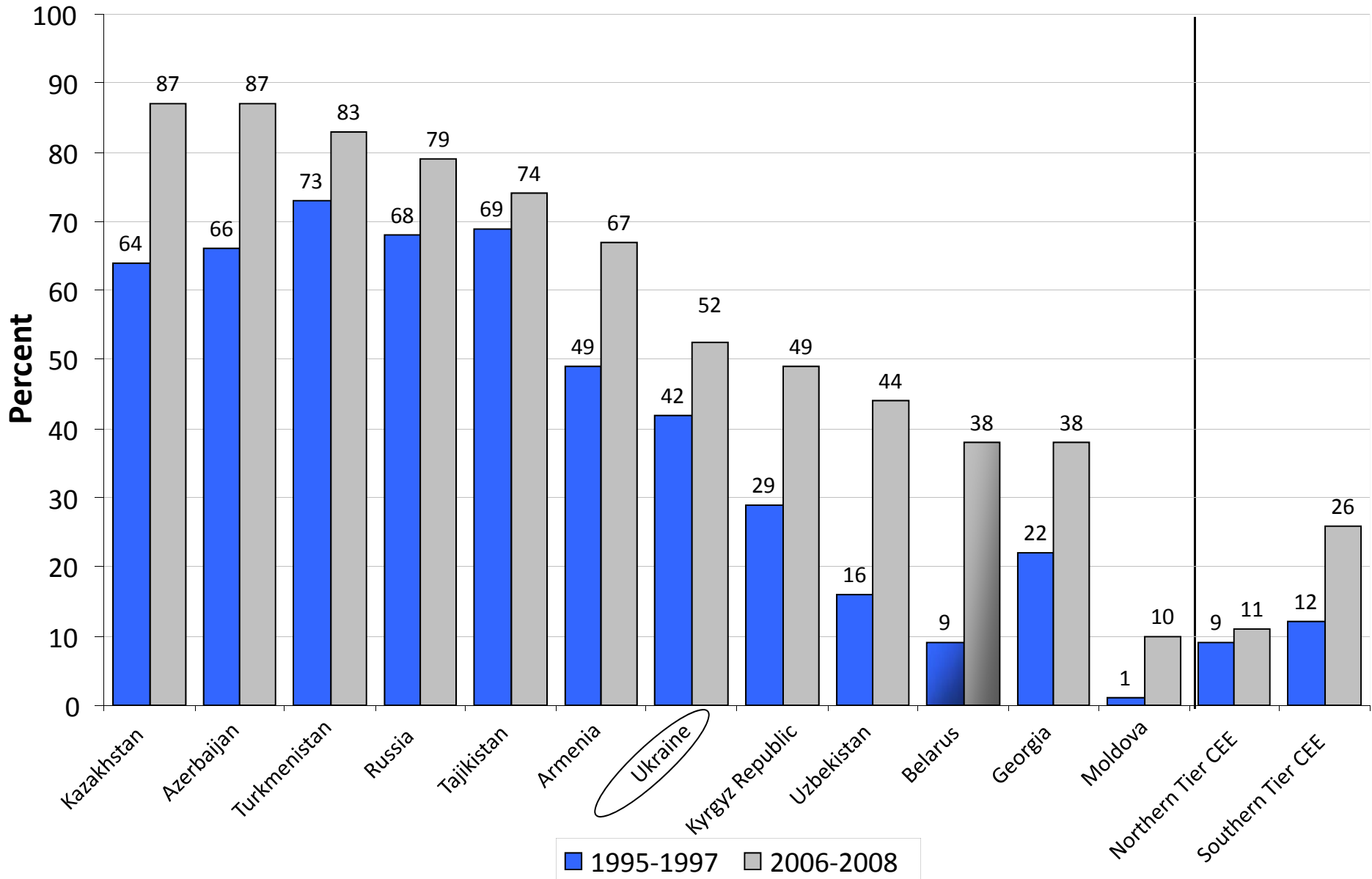


Figure 25

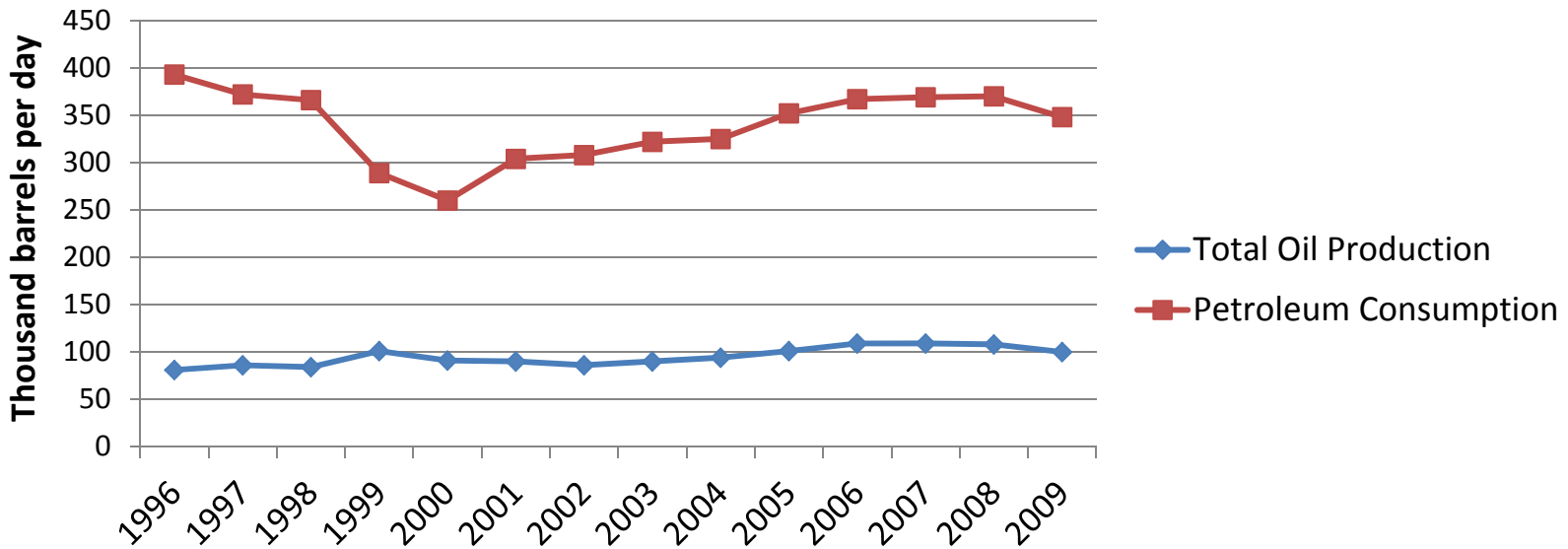
## Fuels, Ores, Metals and Precious Stones Exports as a Percentage of Total Exports



Economist Intelligence Unit, various Country Reports and World Bank, *World Development Indicators 2009* (May 2009). Most recent data for Turkmenistan is 2001; Uzbekistan, 2005.

Figure 26

## Oil Production and Consumption in Ukraine



## Natural Gas Production and Consumption in Ukraine

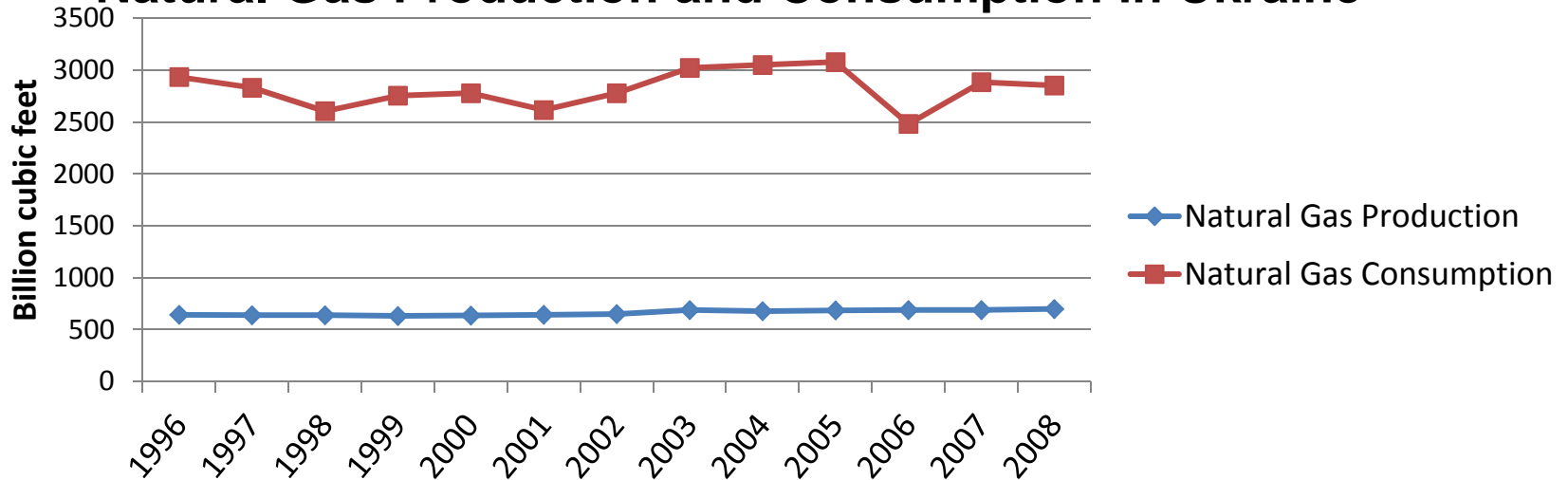


Figure 27

# Net Fuel Exports as % of Merchandise Trade in 2007

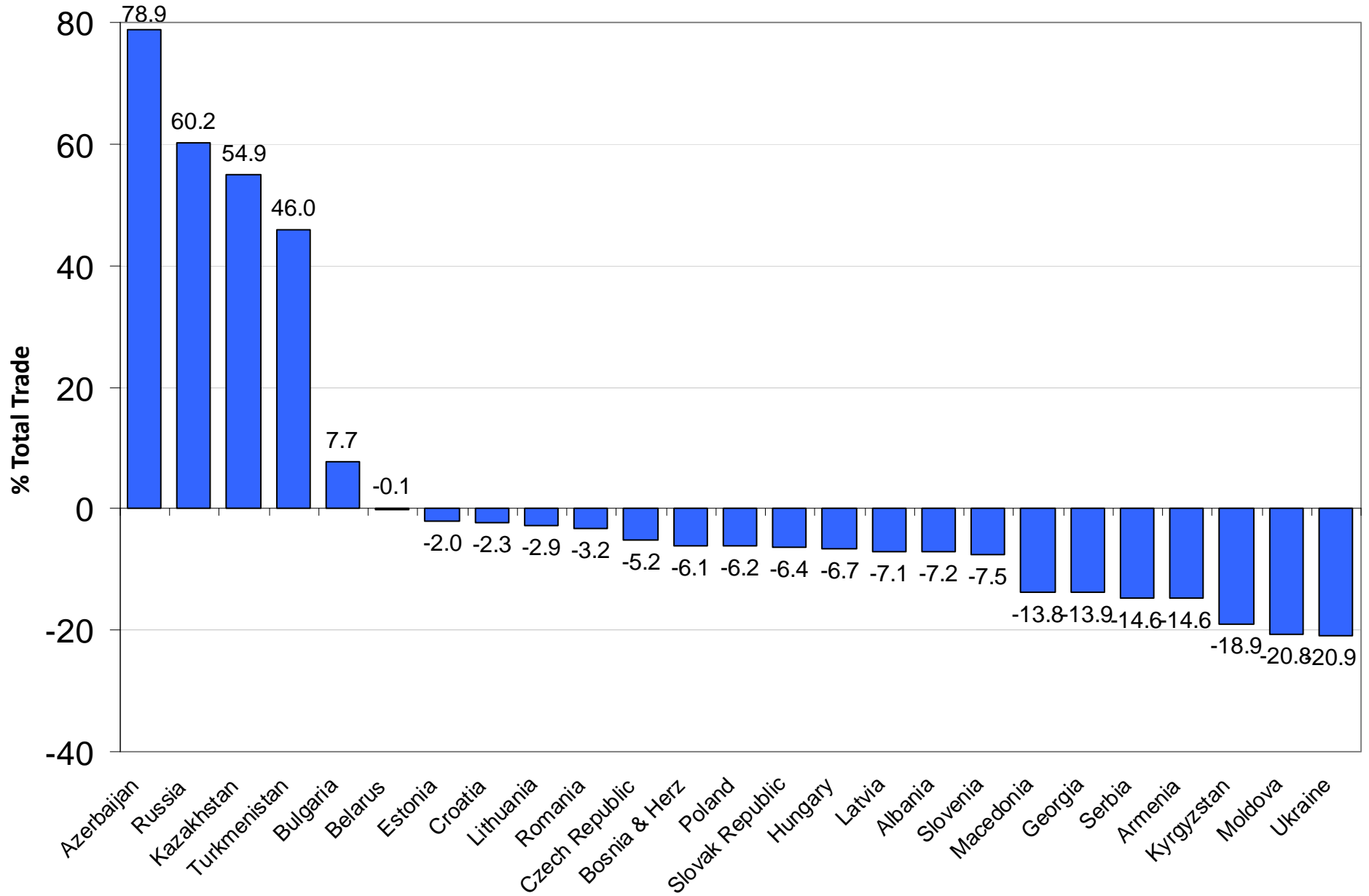
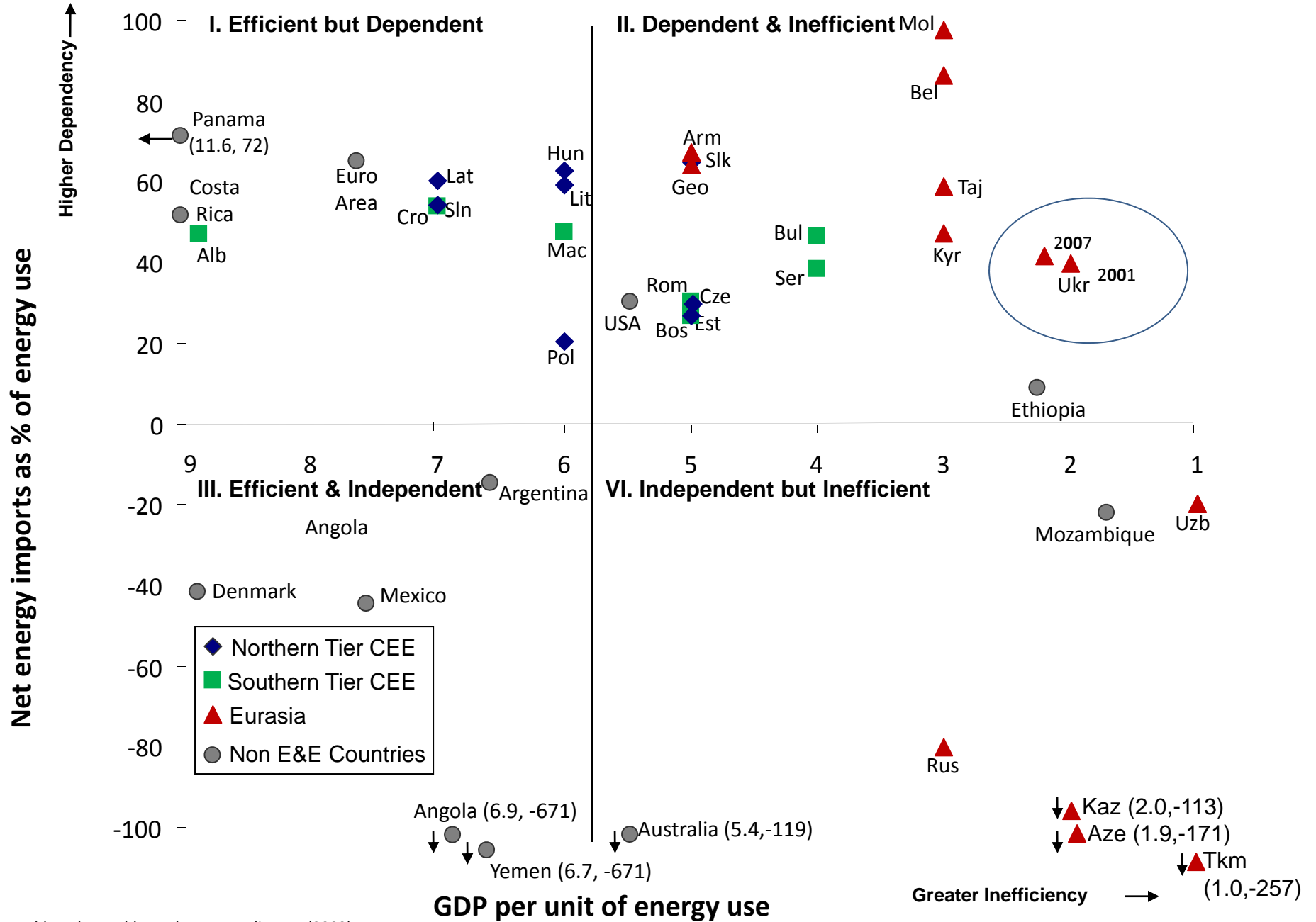


Figure 28

# Energy Dependency and Efficiency



World Bank, *World Development Indicators* (2009).

Figure 29

# Human Capital Comparison



Figure 30

# Life Expectancy at Birth

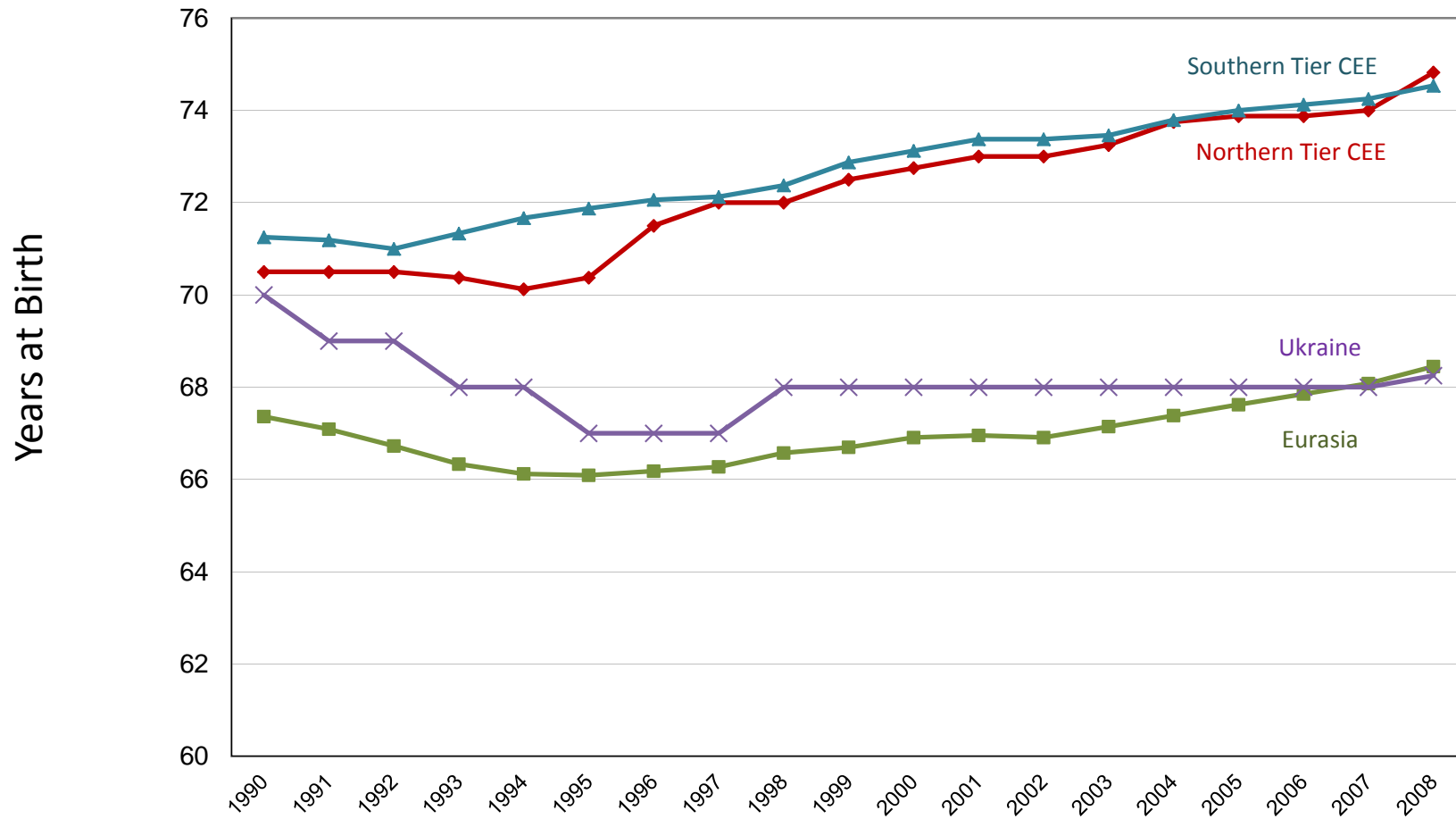
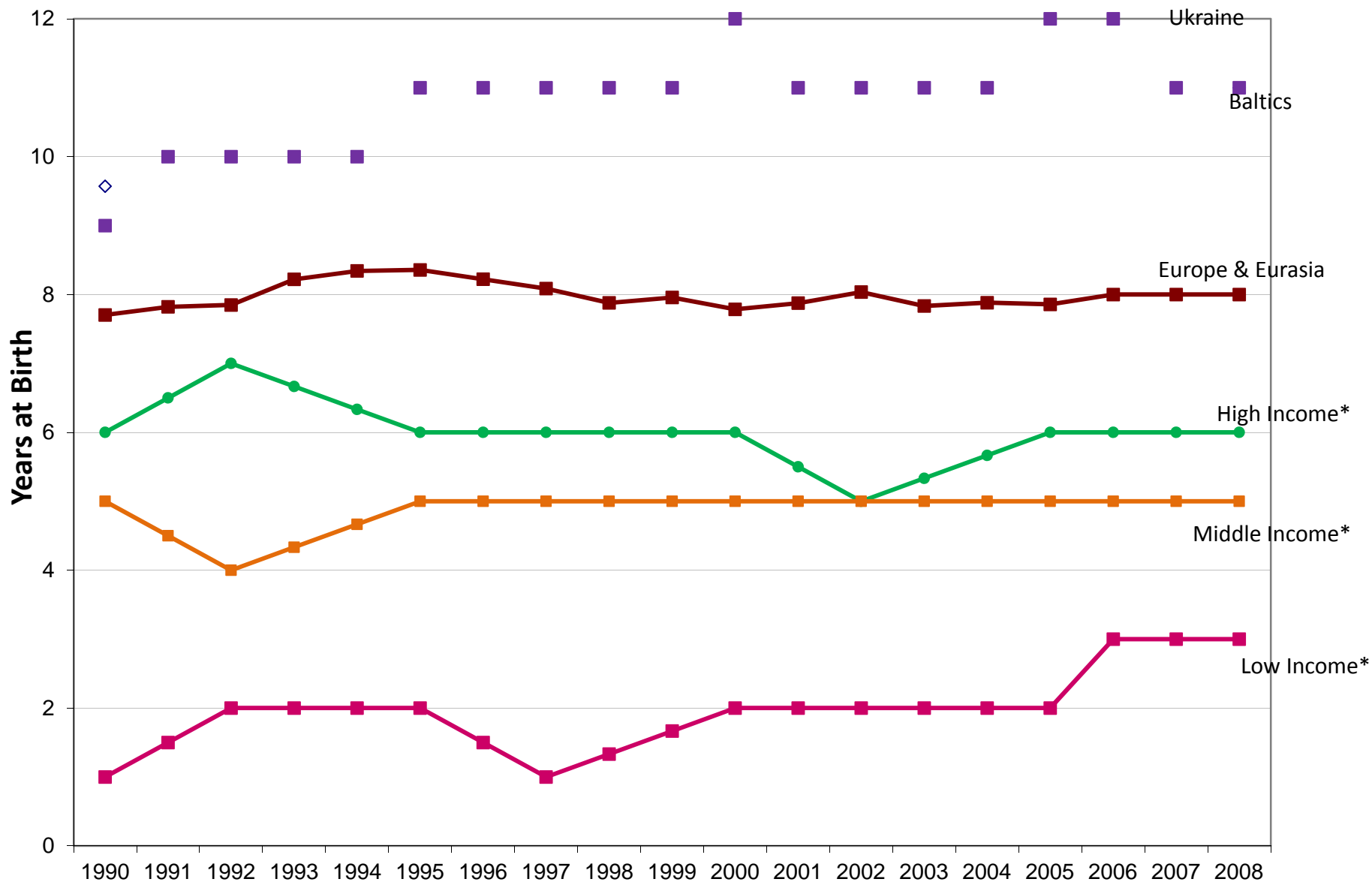


Figure 31

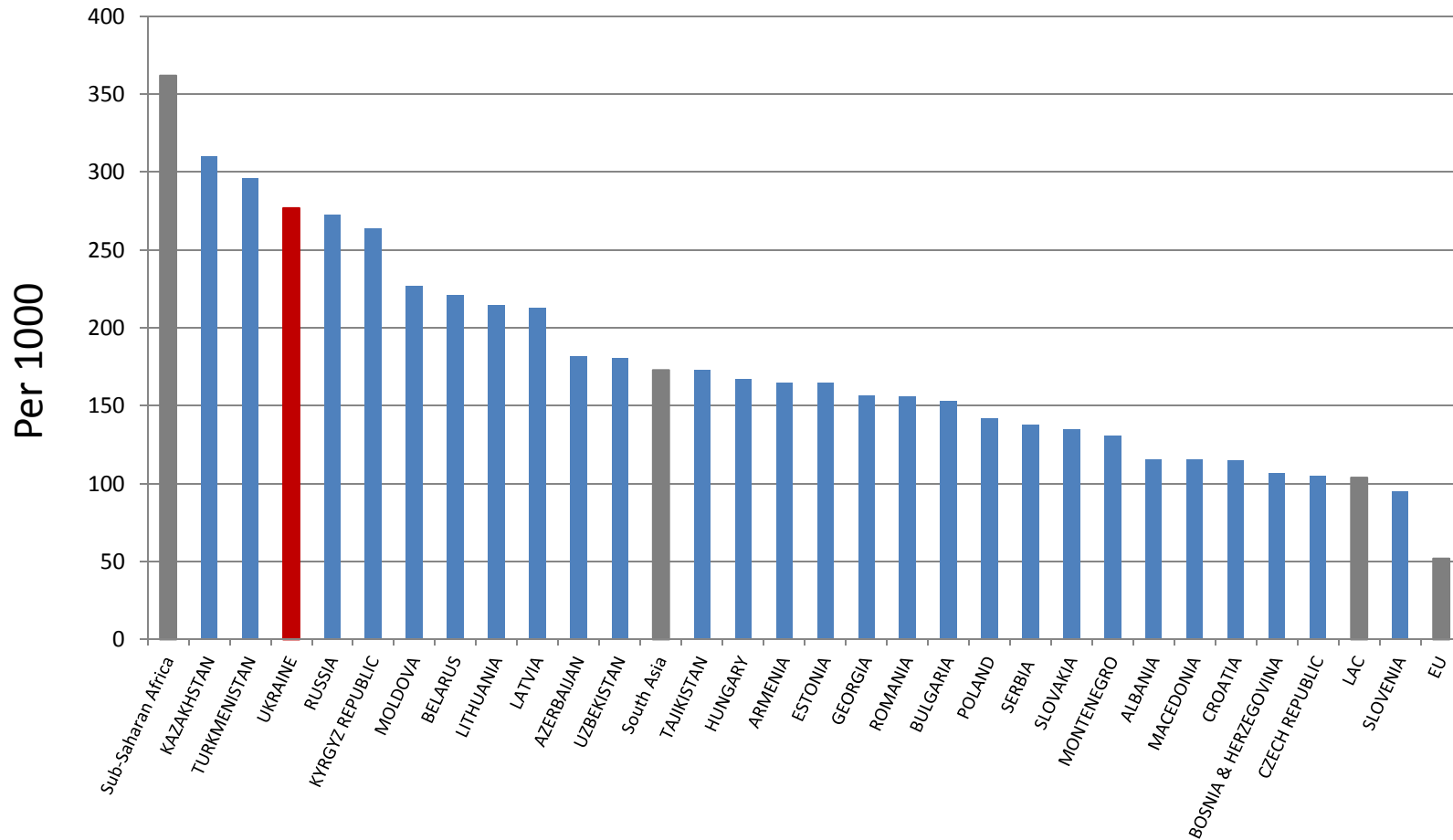
# Life Expectancy Gender Gap



\*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 32

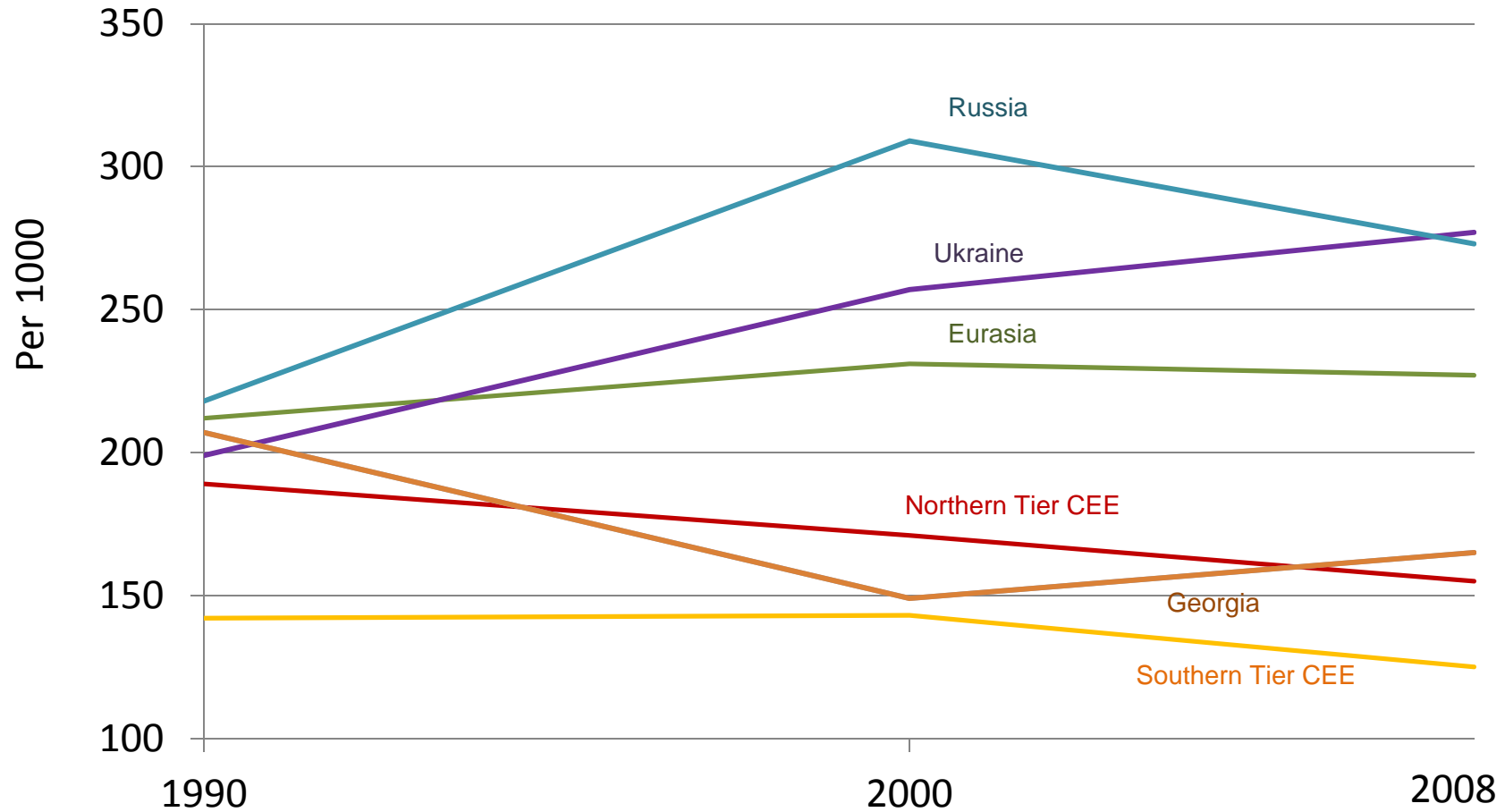
# Adult Mortality Rate in Eastern Europe and Eurasia, 2008



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

Figure 33

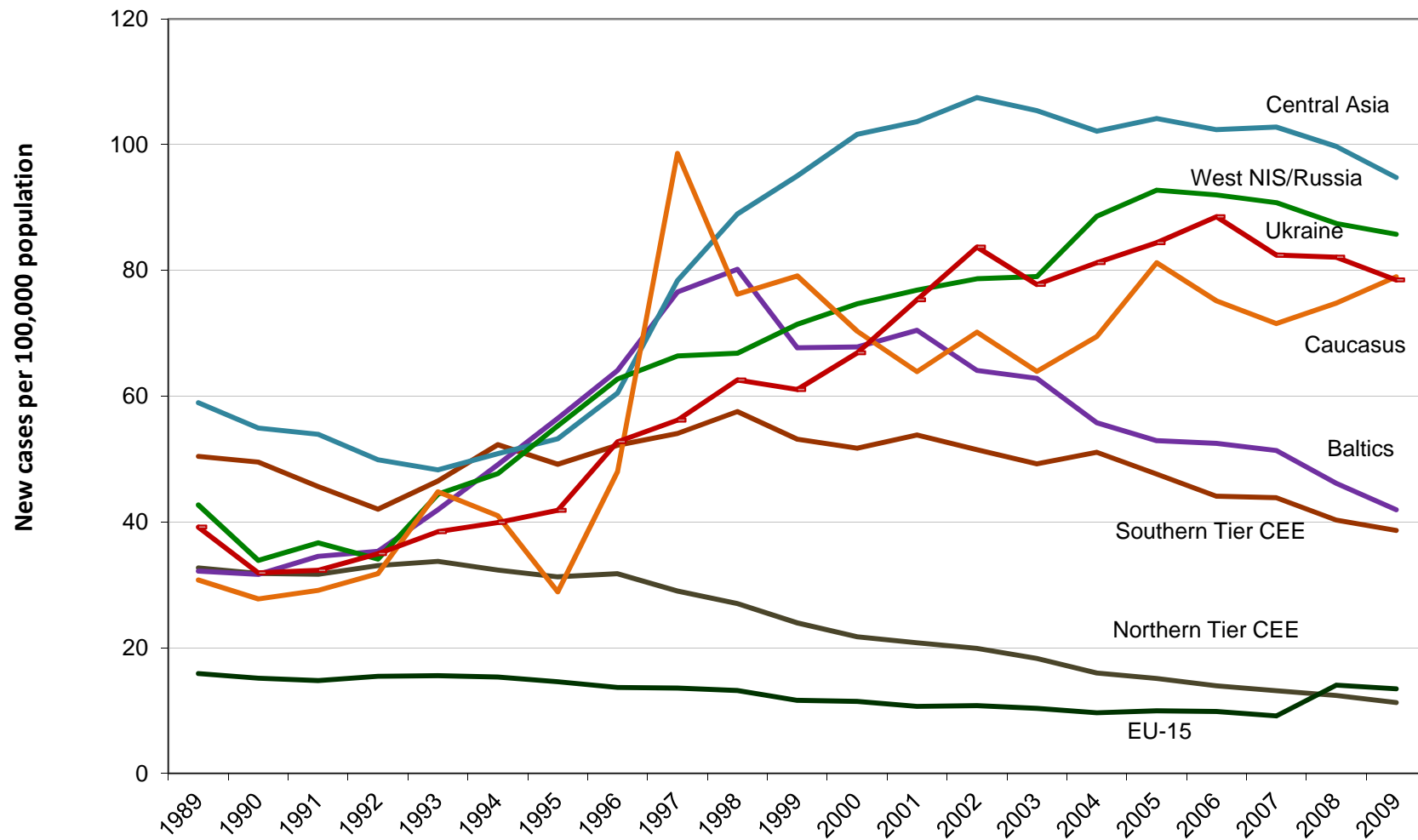
## Adult Mortality Rate in Eastern Europe and Eurasia, 1990-2008



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

Figure 34

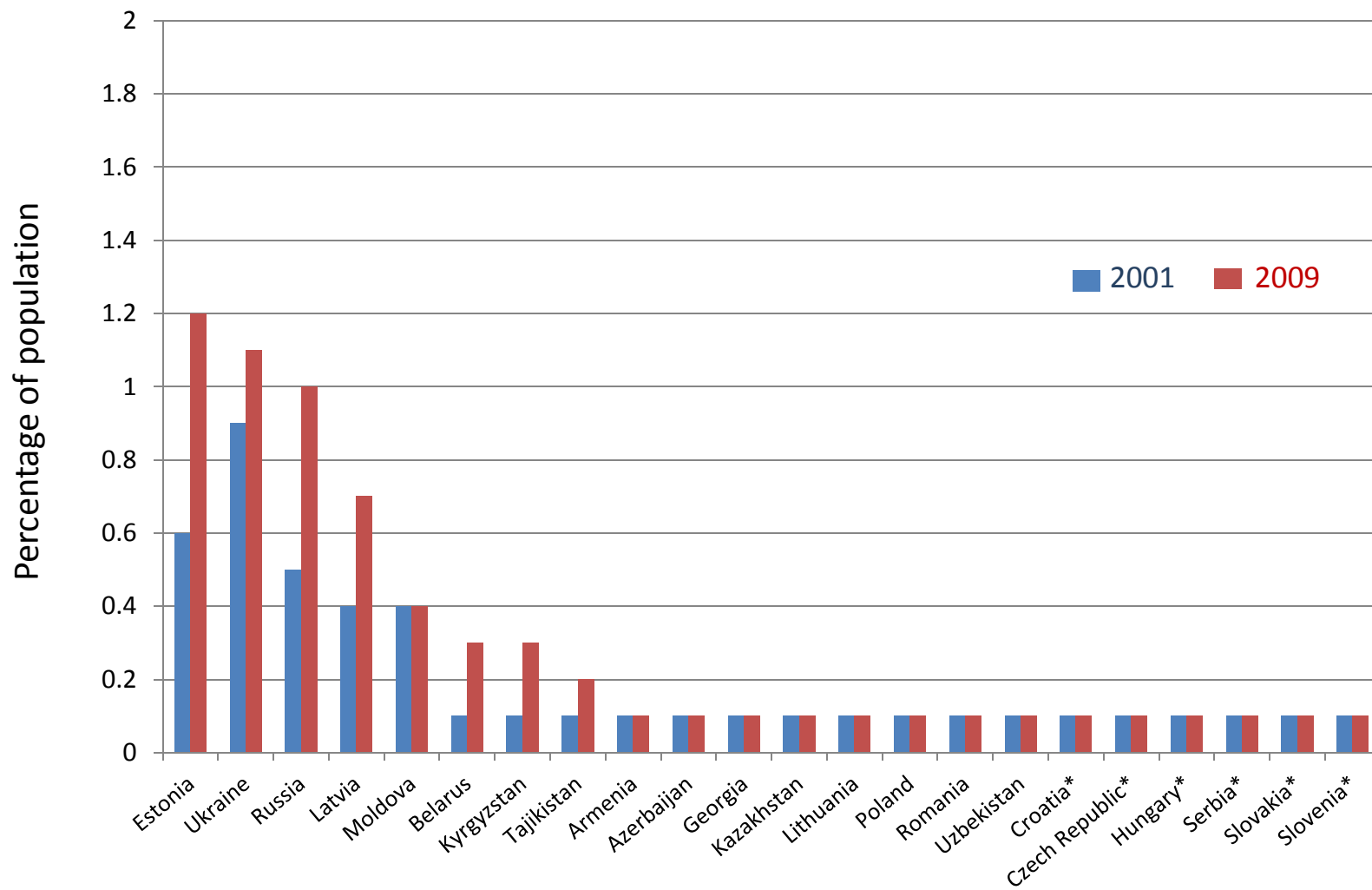
# Tuberculosis Incidence



Source: World Health Organization, *European Health For All Database*.

Figure 35

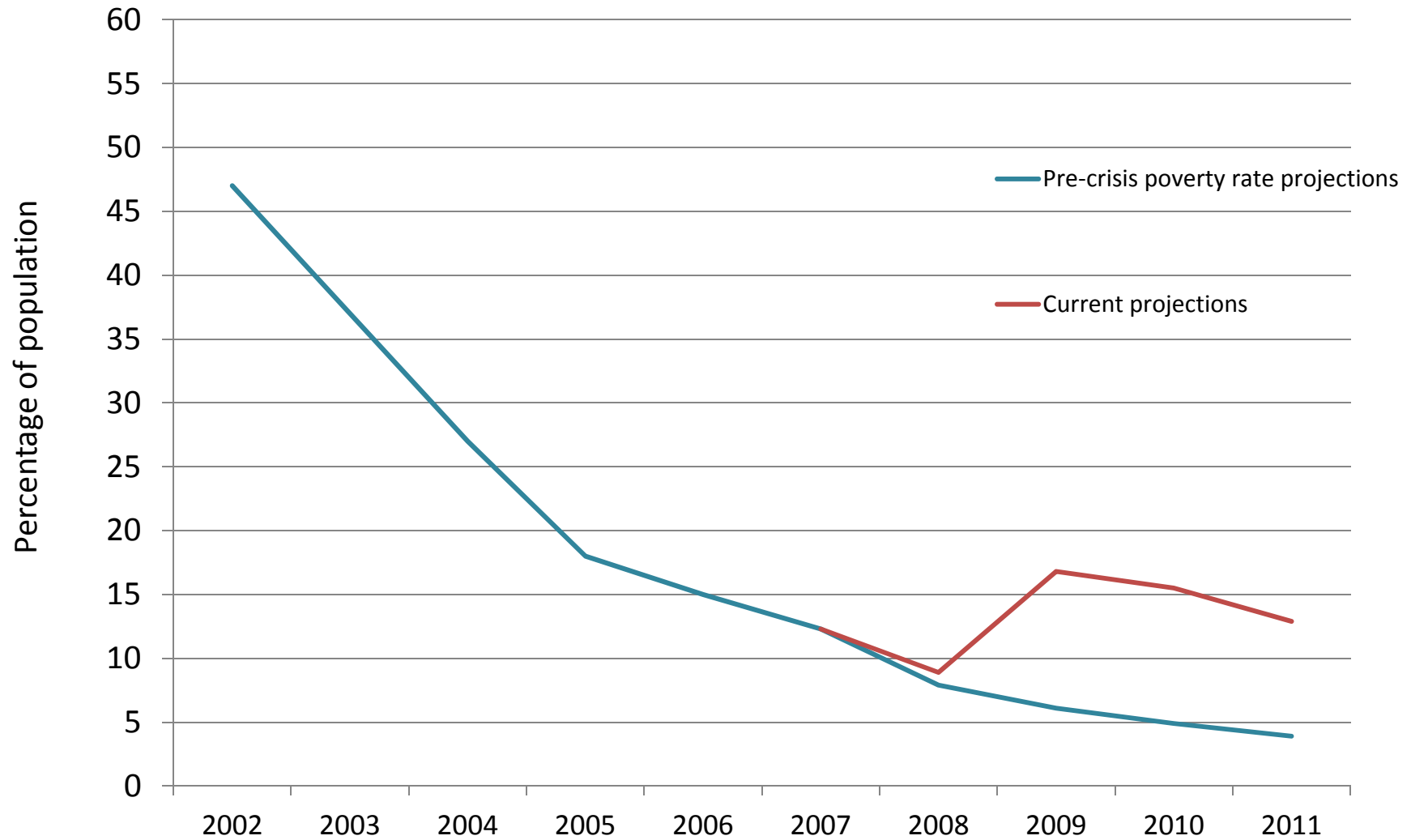
# Adult HIV Prevalence Rates, 2001 and 2009



\* Rates are less than 0.1%. Source: UNAIDS Global Report, 2010.

Figure 36

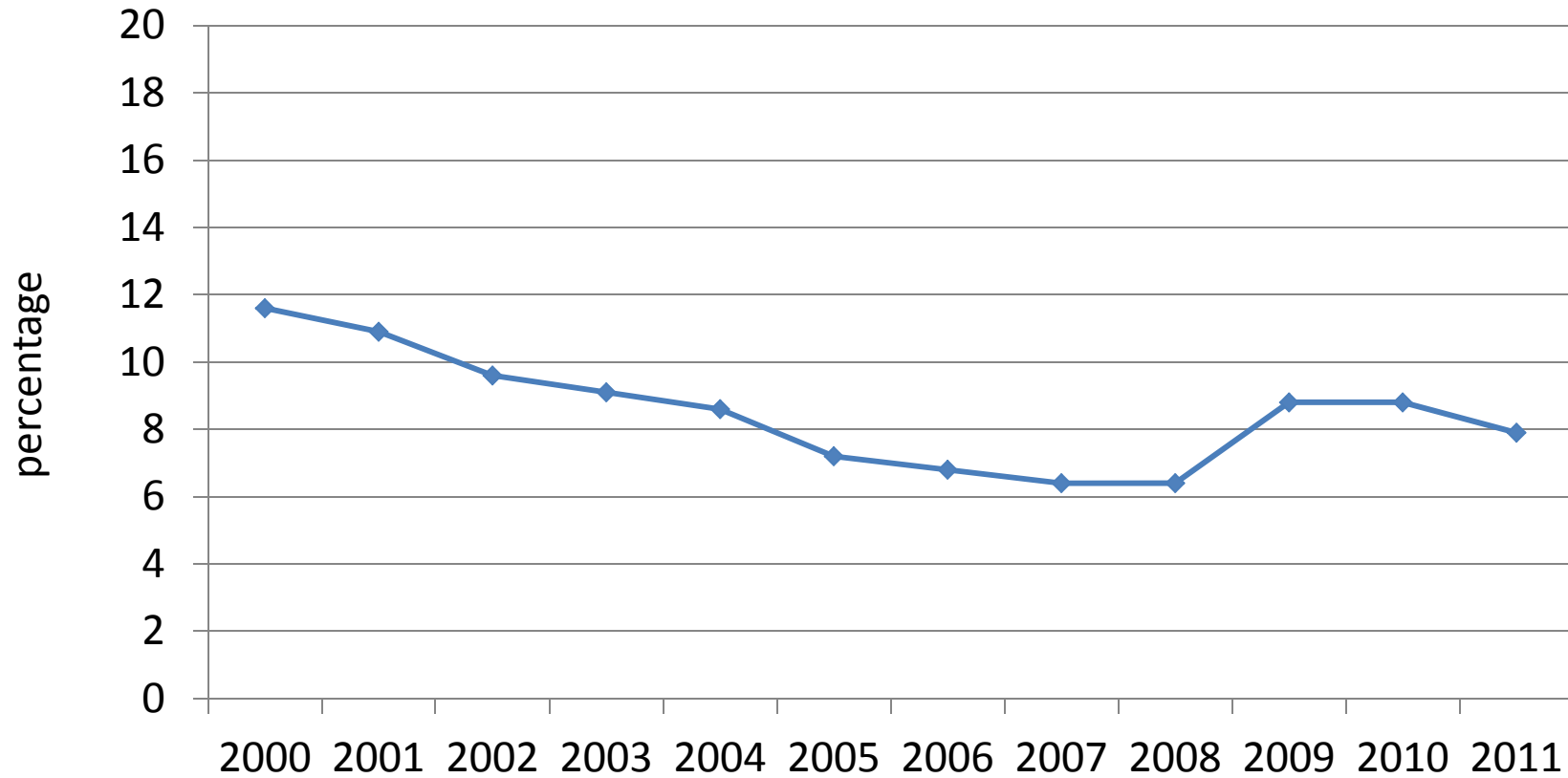
# Absolute Poverty in Ukraine, \$5/day



Source: World Bank, *Ukraine Country Economic Memorandum*, August 2010.

Figure 37

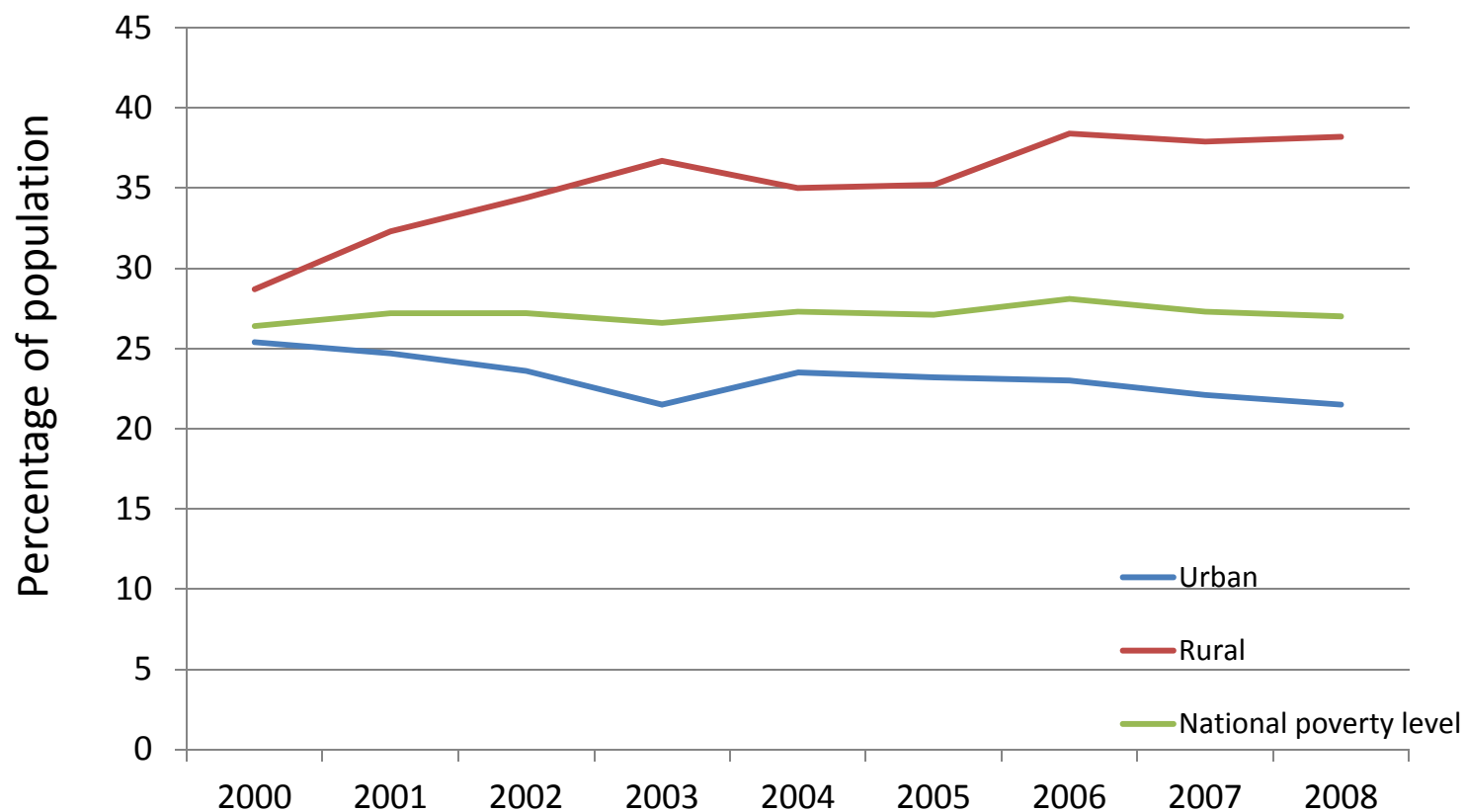
## Unemployment in Ukraine, 2000-2009



Source: UNECE Statistical Database; EBRD *Transition Report 2010*; IMF, *Ukraine Report* (August 2010).

Figure 38

## Relative Poverty Levels in Urban and Rural Areas in Ukraine

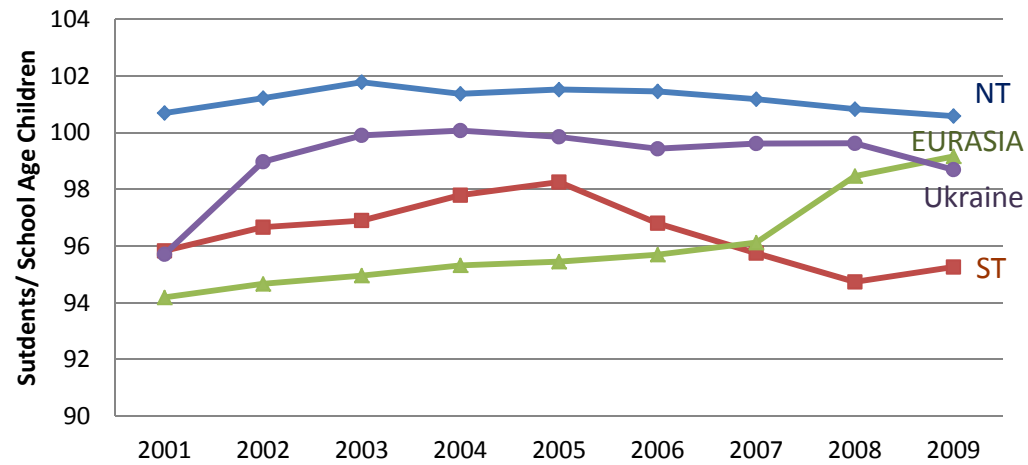


Calculations based on the Household Budget Survey of the State Statistics Committee of Ukraine. Source: UNDP, *Millennium Development Goals Ukraine 2010*, National Report.

Figure 39

# Education Overview

## Gross Primary Enrollment Ratio



## Gross Upper Secondary Enrollment Ratio

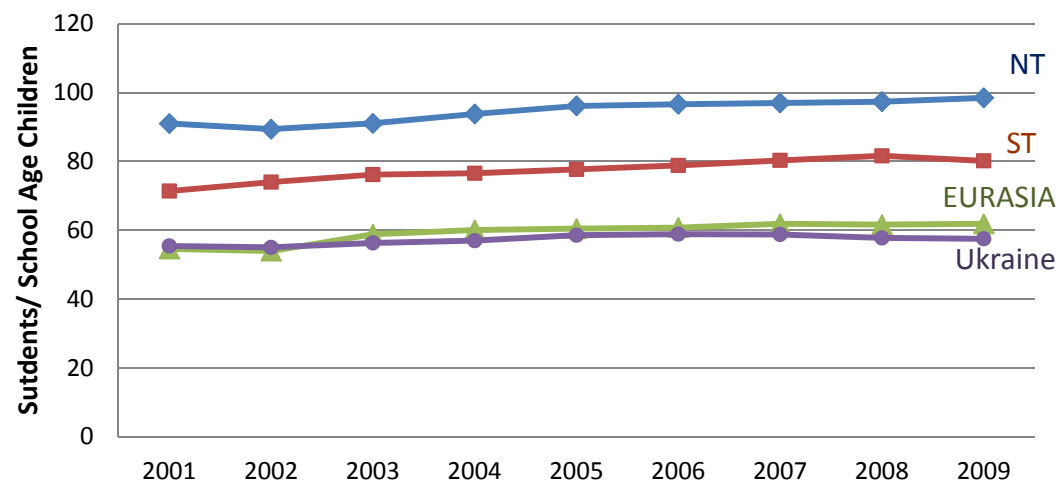
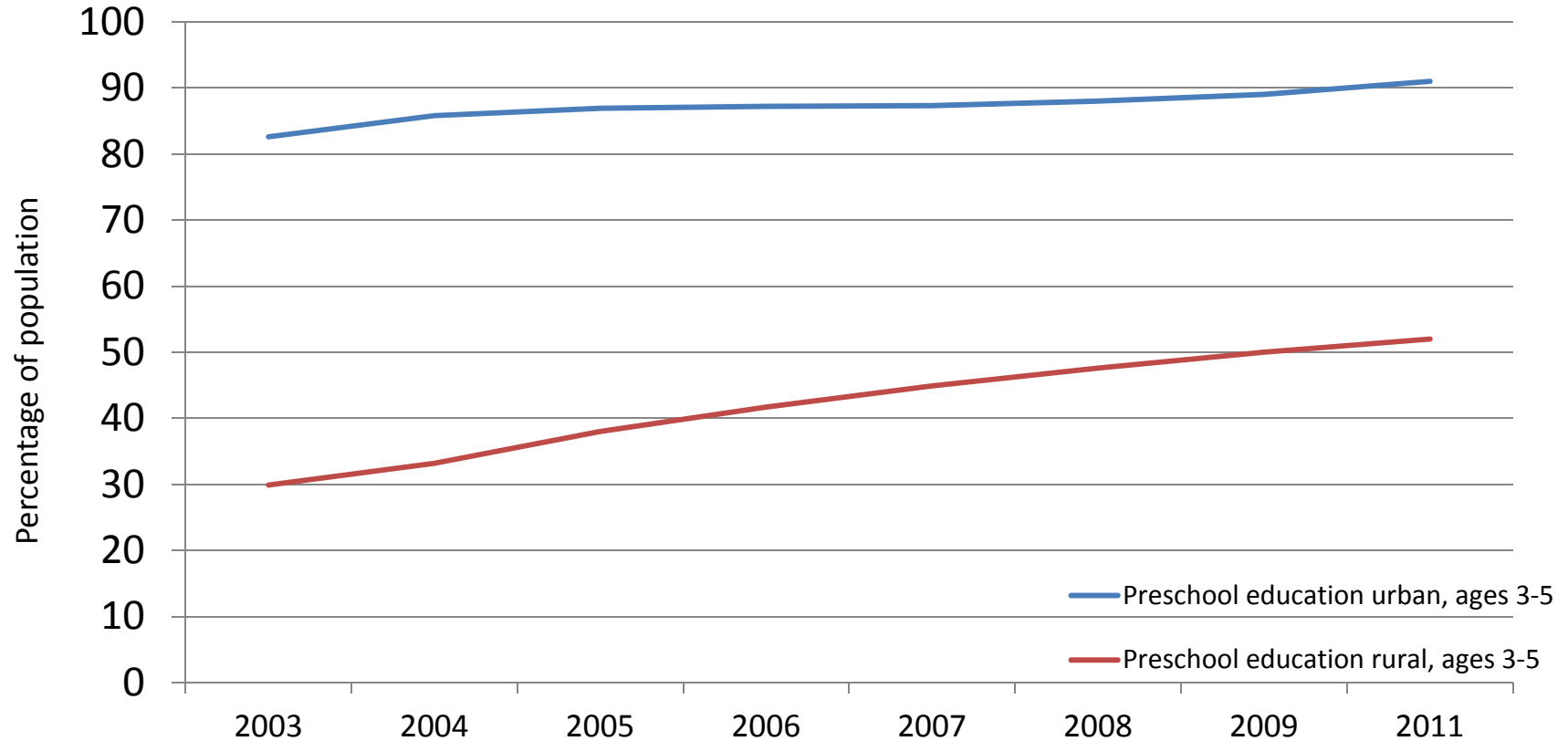


Figure 40

## Net Preschool Education Enrollment Ratios, Urban vs. Rural



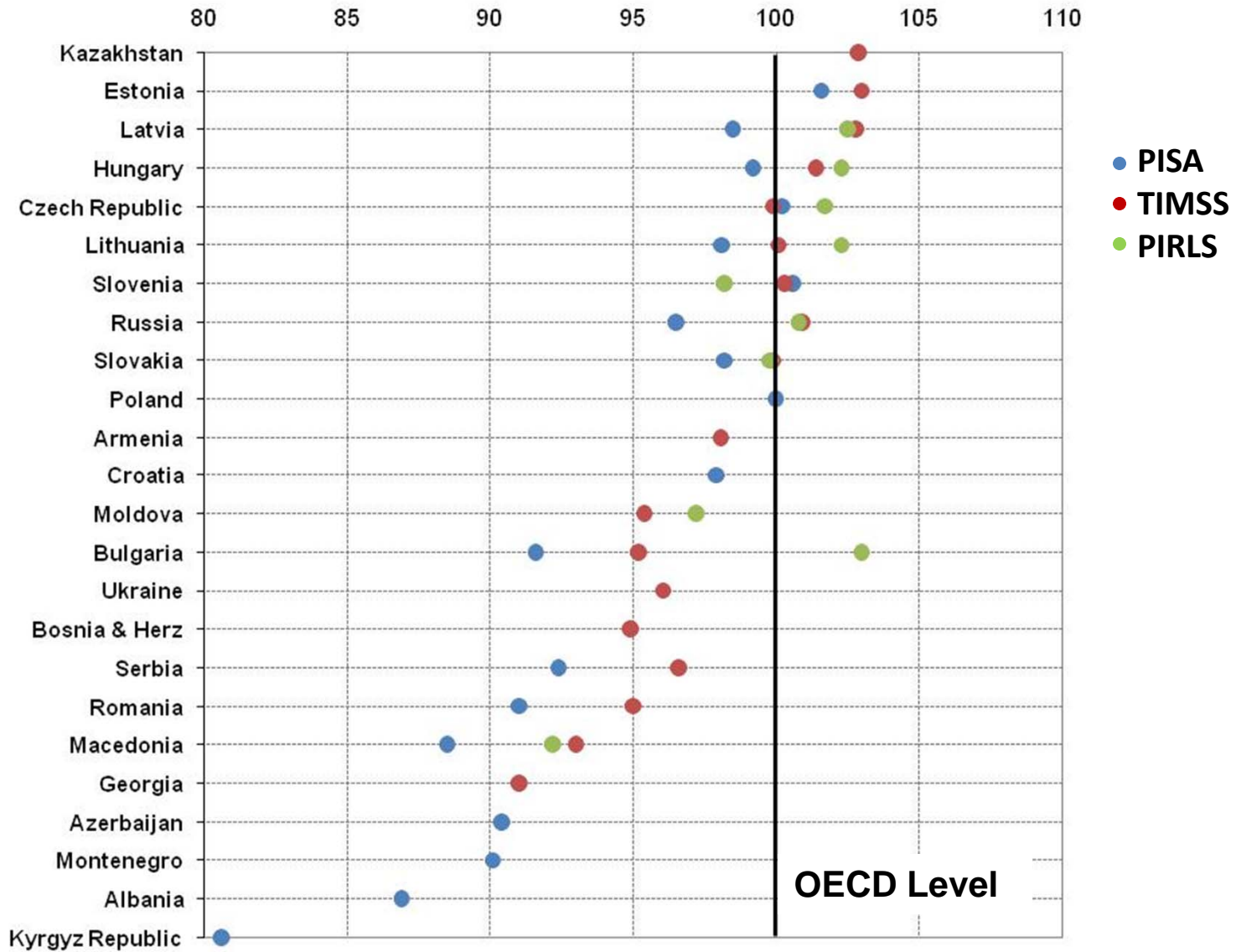
Data for 2011 are expected. Source: UNDP, *Millennium Development Goals Ukraine 2010*, National Report.

Figure 41

# Functional Literacy

## PISA vs. TIMSS vs. PIRLS

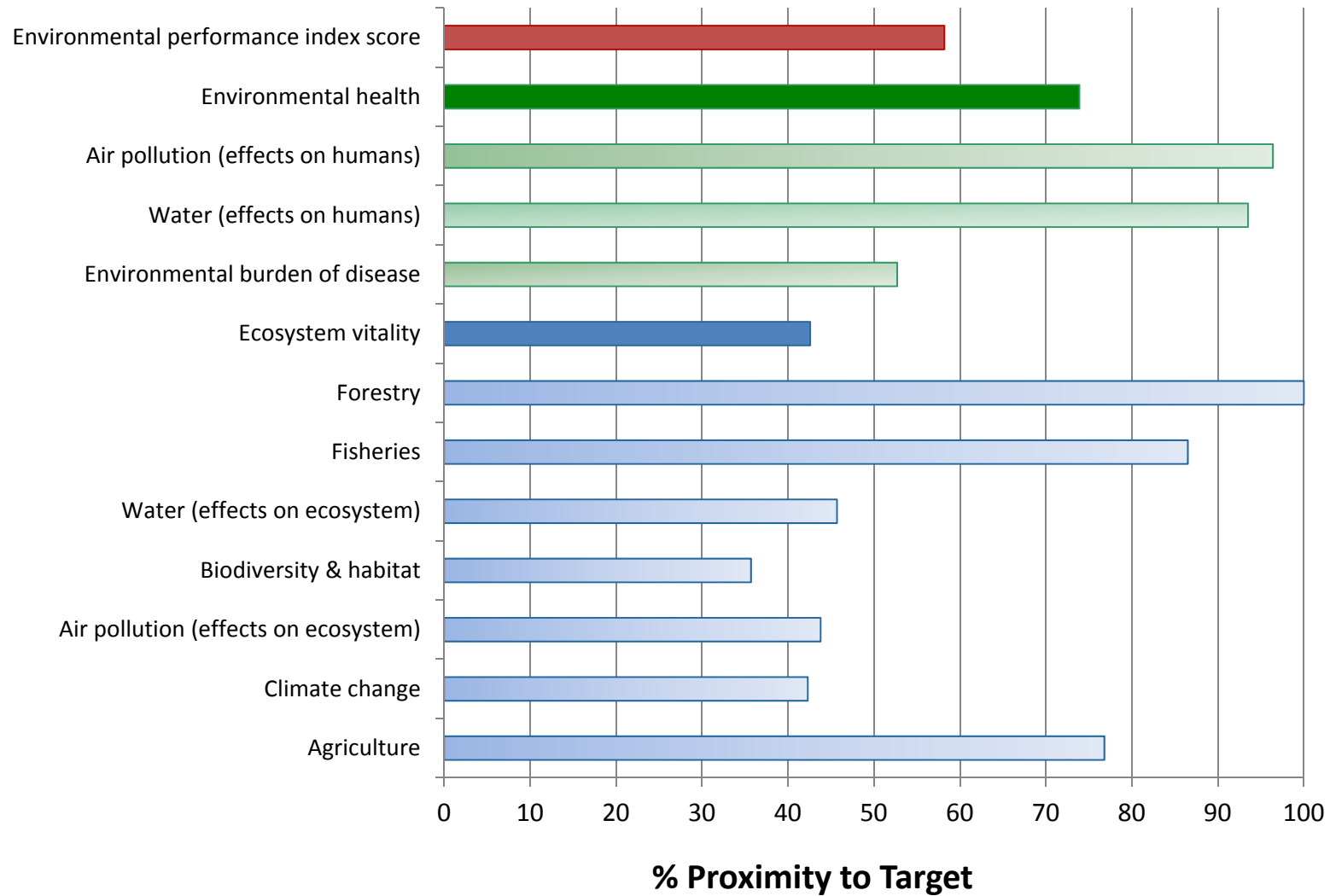
Draft



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 42

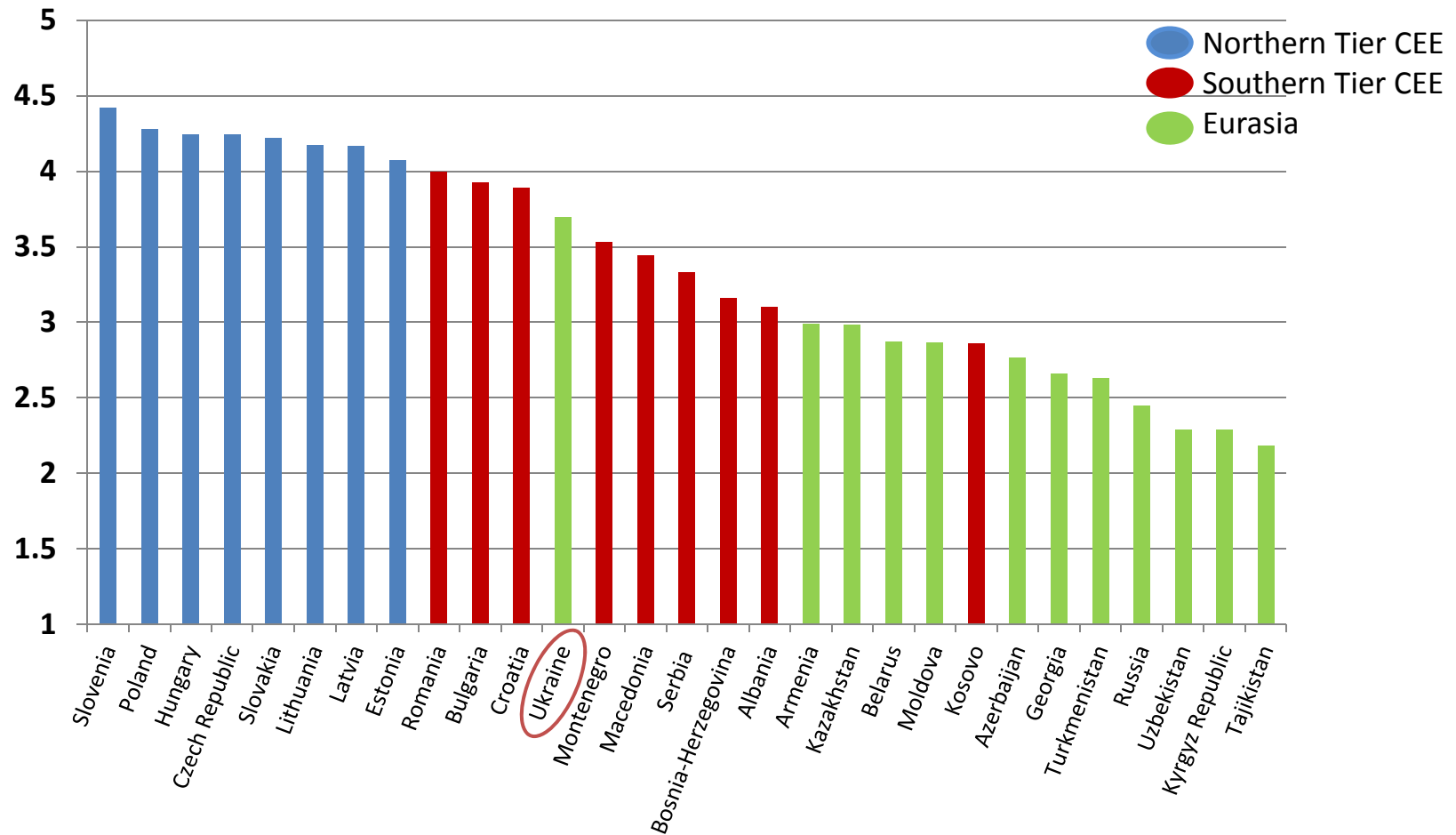
# Ukraine Environmental Performance Index, 2010



Source: Yale Center for Environmental Law & Policy and Center for International Earth Science Information Network, Columbia University, 2010 *Environmental Performance Index*.

Figure 43

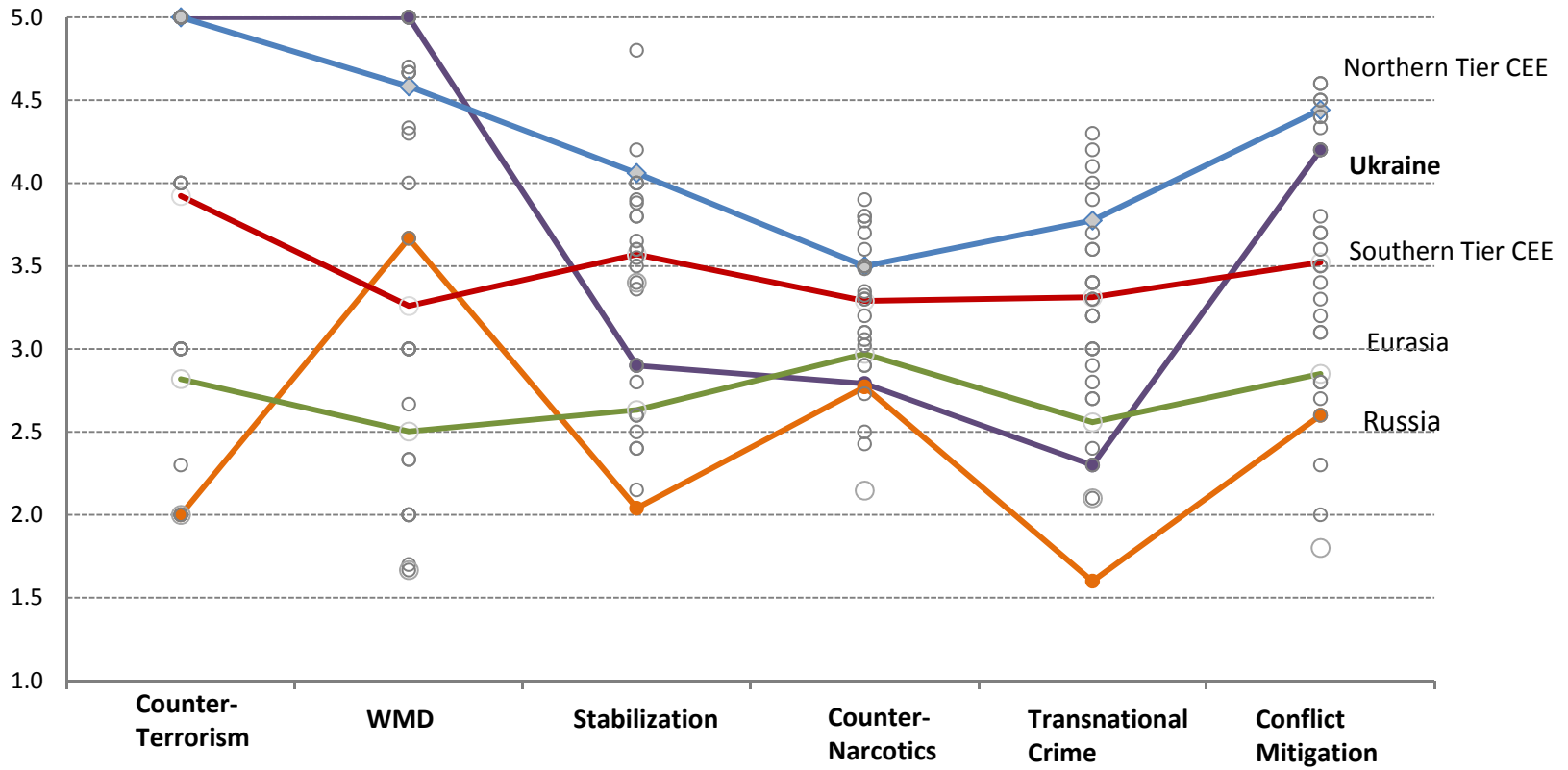
# Peace and Security Score



US Department of State; Foreign Policy Magazine and the Fund for Peace; World Bank; US Commerce Department; Binghamton University; UNICEF; A.T. Kearney/Foreign Policy Magazine; UNODC; USTR; George Mason University.

Figure 44

# Peace and Security Comparison



US Department of State; Foreign Policy Magazine and the Fund for Peace; World Bank; US Commerce Department; Binghamton University; UNICEF; A.T. Kearney/Foreign Policy Magazine; UNODC; USTR; George Mason University.