

EUROPEAN  
COUNCIL  
ON FOREIGN  
RELATIONS

ecfr.eu

POLICY  
BRIEF

# SURVIVAL OF THE RICHEST: HOW OLIGARCHS BLOCK REFORM IN UKRAINE

Andrew Wilson

## SUMMARY

- Ukraine has done little to implement the extensive anti-corruption reforms that the country desperately needs – and the new government offers little hope of a fresh start.
- The biggest obstacle to reform is the close ties between the oligarchy and the corrupt political class. Kyiv should focus on cutting these links, rather than dismantling the oligarchy itself.
- The oligarchy is kept in power by a series of vicious circles: the need for vast sums of money to win elections, the network of political appointees funnelling cash into campaigns, and the placing of allies in government.
- Europe is in a strong position to help break these circles, especially as Ukraine lacks alternative allies. Europe should make clear that it will back Kyiv if the oligarchs work to destabilise the government, or even turn to Russia.
- The EU should coordinate more closely with local activists, take a tougher line with the leadership, and push for reform to the justice system and party finance. It faces a difficult balancing act after the Netherlands vote, but shutting down the hope of closer ties with the EU would disempower pro-reform forces.

The appointment of Volodymyr Groisman as Ukraine's youngest-ever prime minister does not mark the end of the current political crisis, but only its midpoint. His predecessor, Arseniy Yatsenyuk, steered through some important reforms when the country was facing imminent military defeat or economic default, but had become a symbol of under-achievement – the face of the old order creeping gradually back to its previous dominance. It is unlikely that his successor will do any better, and he could do a lot worse. Europe should make use of its leverage to push the new government not to roll back reforms, and caution it against nationalist or other diversionary rhetoric that seeks to mask inaction.

Yatsenyuk's exit was triggered by the dramatic resignation in February of Lithuanian-born Economy Minister Aivaras Abromavičius – one of a group of foreign reformists parachuted into government in 2014. Abromavičius accused several ministers of corruption, adding with a flourish: "Neither I nor my team have any desire to be a cover for open corruption, or to be a marionette of those who want to establish control over state money." Yatsenyuk's government limped on for some weeks until he finally resigned on 10 April.

Attempts to replace the discredited government with a team of reformist experts led by Finance Minister Natalie Jaresko failed to secure the necessary votes in parliament. Groisman, on the other hand, is a member of Ukraine's old guard and a close ally of President Petro Poroshenko, and the remaining reformist ministers, including Jaresko, have said that they would refuse to serve under him. Conservative forces even began an aggressive pushback against anti-corruption forces, trying to silence critical NGOs and eject radical reformist MPs using an obscure election law.

Doubts had been growing for some time about how far Ukraine's leadership was really committed to reform. The alarm bells have been louder since the partial ceasefire agreed in eastern Ukraine in September 2015, which should have allowed the government to prioritise make-or-break domestic anti-corruption reforms, but seems to have pushed them still further out of reach. Politicians in Kyiv often claim that the whole purpose of Russia's aggression in the country is to prevent reforms from succeeding. This is true enough, but Ukraine's leaders are doing little themselves to bring about a successful transformation of the country.

Ukraine's leaders talk about reform, but increasingly aim only for stability. The government has claimed that it cannot afford a "big bang" approach – tackling corruption head-on through a radical reform programme – but, as leading MP Serhiy Leshchenko remarked in September 2015, "the evolutionary approach isn't working".<sup>1</sup> The assessment of Mikheil Saakashvili – the former president of Georgia, now serving, controversially, as governor of the Ukrainian province of Odesa – is that "limited reforms were bound to fail if the entire system didn't change as well. Isolated reforms would be nullified by a pervasive and overwhelming culture of power abuse".<sup>2</sup>

Tokenistic or isolated reforms don't work. Ukraine needs a real "kamikaze government" (Yatsenyuk's term for doing the right thing at all costs, rather than bending to win short-term popularity) – not one that simply uses the term for PR purposes.

## A patchwork coalition

Part of the reason for this slow progress is that there is no single group or ideology guiding Ukraine's embryonic reform process. Compared to Georgia, which imposed relatively successful anti-corruption reforms in the 2000s under Saakashvili, Ukraine lacks a substantial reformist elite. Ukraine is in any case bigger and more diverse, and reform cannot simply be imposed from the top down – the presidency has been much weaker since the constitution of 2004 was restored after the February 2014 revolution. When Saakashvili came to power in Georgia in 2004, many institutions were on the verge of collapse. In Ukraine, the problem is dealing with strong but corrupt institutions, whose positions are entrenched after a quarter of a century without reform.

A coalition of forces pushing for reform was assembled in 2014–2015, including the European Union, international financial institutions, foreigners sent into several government ministries, NGOs, and some of the new MPs (more than half of those elected in October 2014 – 236 out of 423 – were new).<sup>3</sup> But the various groups did not necessarily interconnect or reinforce one another. This also meant that there was

1 Brian Bonner, "Poroshenko-Yatsenyuk going way of Yushchenko-Tymoshenko in corruption fight", the *Kyiv Post*, 13 September 2015, available at [www.kyivpost.com/opinion/op-ed/brian-bonner-poroshenko-yatsenyuk-going-way-of-yushchenko-tymoshenko-in-corruption-fight-397818.html?flavour=mobile](http://www.kyivpost.com/opinion/op-ed/brian-bonner-poroshenko-yatsenyuk-going-way-of-yushchenko-tymoshenko-in-corruption-fight-397818.html?flavour=mobile).

2 Johannes Wamberg Andersen, "Poroshenko, Saakashvili disagree on state of progress in stamping out corruption", the *Kyiv Post*, 18 November 2015, available at <http://www.kyivpost.com/content/ukraine/poroshenko-saakashvili-disagree-on-state-of-progress-in-stamping-out-corruption-402352.html>.

3 See the figures at [http://chesno.org/media/gallery/2014/10/30/parl\\_results.jpg](http://chesno.org/media/gallery/2014/10/30/parl_results.jpg).

little in terms of reserve strength; there was no backbone to rely on when the going got tough. (However, this type of patchwork process may be better than the Russian model of change by trauma, where events like the arrest and imprisonment of oligarch Mikhail Khodorkovsky in 2003 are used to reshape the political economy, but this remains to be proven.)

The main forces driving Ukraine's reforms unfortunately have little to do with the concerted will of the Ukrainian authorities. They are driven, in the first place, by sheer economic necessity and the consequent dependence on Western financial assistance. But the collapsing economy bottomed out in late 2015, and Ukraine has been able to scrape along even after the International Monetary Fund (IMF) began delaying loan disbursements after August of that year. A second factor is what locals call the "sandwich" – the combination of international pressure with domestic lobbying by a vigorous civil society and an NGO sector, which work together to push the authorities to act.

There are, then, domestic forces pushing for reform, but these are not necessarily in the strongest position. According to Daria Kaleniuk, of the Anti-Corruption Action Centre (ANTAC),<sup>4</sup> the biggest advance since 2014 has been that "journalists and civil society have more tools for exposing corruption".<sup>5</sup> These include NGOs like ANTAC itself and the Reanimation Package of Reforms (RPR),<sup>6</sup> and a network of investigative journalists at papers like *Dzerkalo Tyzhnia*<sup>7</sup> and sites like *Ukrainska Pravda*<sup>8</sup> and *Nashi Groshi* ("Our Money"),<sup>9</sup> which are not involved in *kompromat* (the practice of spreading smears against opponents disguised as journalism, often in oligarch-controlled media). Many of the 15 MPs who formed an "anti-corruption" group in parliament in November 2015 are former journalists.<sup>10</sup>

They helped push new transparency laws, passed in October 2014, that serve as a tool for their work, including a Public Registry of Property and a Law on Beneficial Owners (i.e. for transparency in business ownership). A National Agency for the Prevention of Corruption was launched in July 2015, tasked with monitoring the income and asset declarations of politicians and bureaucrats. Its eight-member board was supposed to be split evenly between representatives of NGOs and of state ministries.

"Ukraine is turning into a haven for investigative journalists", according to Kaleniuk.<sup>11</sup> The exposure risks for corrupt politicians are high. Many were forced to resign during 2014 and 2015, although legal processes were much less common, due to the failure of judicial reform. Natalia Gumeniuk, head of Hromadske TV,<sup>12</sup> agreed: "Scandals have gone un-

4 See <http://antac.org.ua>.

5 Author's interview with Daria Kaleniuk, 30 July 2015.

6 See <http://rpr.org.ua>.

7 See <http://dt.ua>.

8 See <http://pravda.com.ua>.

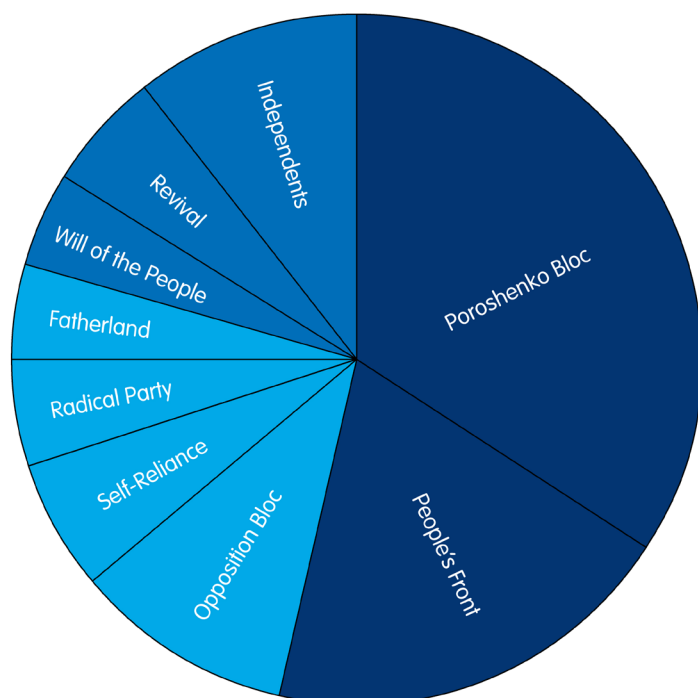
9 See <http://nashigroshi.org>.

10 "In the Poroshenko Bloc a group was formed which will struggle with the crimes of officials", (in Ukrainian), *Ukrainska pravda*, 25 November 2015, available at <http://www.pravda.com.ua/news/2015/11/25/7090106>.

11 Author's interview with Kaleniuk.

12 See <http://int.hromadske.tv>.

## Factions and parties in Ukraine's parliament



Government coalition	
Poroshenko Bloc	145
People's Front	81
Oligarch factions	
Independents	44
Revival	23
Will of the People	19
Opposition	
Fatherland	19
Radical Party	21
Self-Reliance	26
Opposition Bloc	43

Source: [http://w1.c1.rada.gov.ua/pls/site2/p\\_fractions](http://w1.c1.rada.gov.ua/pls/site2/p_fractions)

derground.” There are “resignations, but no legal redress”.<sup>13</sup> This is because, brave as Ukrainian journalists and NGO leaders may be, they cannot do the job on their own.

The same is true of the numerous foreigners parachuted into the Ukrainian government since 2014. This move was always a double-edged sword, as it advertised Ukraine's lack of its own ideas. Finance Minister Jaresko was born in the United States; ministers from Estonia and Lithuania brought experience of both the transition from communism in the early 1990s and dealing with recession after 2008. But these different groups did not necessarily interconnect or reinforce one another. Working in isolation, they resigned one by one, and the departure of Abromavičius left only Jaresko and the remnants of the “Georgian Party”, veterans of the Saakashvili era who are now working in Ukraine. They include Saakashvili himself, who constantly rails against the oligarchs. Until March 2016, he was aided at the national level by Deputy Prosecutor General Davit Sakvarelidze, who held the same post in Georgia from 2009 to 2012.

But the direct power of the Georgians is limited. Saakashvili and, in his time in office, Sakvarelidze, have influence only “in so far as they are approved of by the US and Europe”.<sup>14</sup> This was reinforced by the *New York Times's* call for Sakvarelidze to be reinstated.<sup>15</sup> They are not part of the inner circle of either President Poroshenko or former Prime Minister Yatsenyuk, and their influence is resented. The

<sup>13</sup> Author's interview with Natalia Gumeniuk, 27 July 2015.

<sup>14</sup> Author's interview with Serhiy Leshchenko, member of parliament, 9 September 2015.

<sup>15</sup> ‘Ukraine's Unyielding Corruption’, the *New York Times*, 31 March 2016, available at [http://www.nytimes.com/2016/04/01/opinion/ukraines-unyielding-corruption.html?\\_r=0](http://www.nytimes.com/2016/04/01/opinion/ukraines-unyielding-corruption.html?_r=0).

Georgians are not an independent force, though they are considered by some as a useful “infection in the body of the Ukrainian bureaucracy”.<sup>16</sup>

In late 2015, Saakashvili formed his own “Movement for the Purification of Ukraine”, raising the novel prospect of an outsider crusading against the whole Ukrainian political class, perhaps with the likes of Abromavičius on board. But Saakashvili would need new elections to get his movement off the ground, which would only be a further distraction from reforms. A growing backlash against foreign influence led to the downfall of Deputy Prosecutor General Sakvarelidze in March 2016.

### The oligarchy as an obstacle to reform

Ukraine suffers from many types of corruption, but the inter-penetration of the corrupt political class and super-rich oligarchy is the main obstacle to reform. The oligarchy's power comes first of all from the sheer concentration of wealth in its hands. Just before the Euromaidan protests began, in November 2013, it was calculated that the assets of Ukraine's 50 richest individuals made up over 45 percent of GDP, compared to less than 20 percent in Russia and less than 10 percent in the US.<sup>17</sup>

An imperfect would-be democracy like Ukraine, where many institutions are little more than a façade for the “deep

<sup>16</sup> Author's interview with Leshchenko.

<sup>17</sup> Andrew Wilson, “Ukraine”, in Isobel Coleman and Terra Lawson-Remer (eds), *Pathways to Freedom: Political and Economic Lessons from Democratic Transitions* (New York: Council on Foreign Relations, 2013), pp. 181–200, at pp. 187–189.

state”, is arguably the perfect arena for oligarchic influence; even more so than many autocracies in the region. The oligarchy quashed the Orange Revolution’s hopes of far-reaching economic and social reform after years in which post-Soviet corruption has strangled economic development, and it would be a tragedy if it did so again.

The oligarchy is widely viewed by Ukrainians as an impediment to reform. In a July 2015 poll, respondents were asked to rate whether key forces supported or opposed economic and anti-corruption reforms, where 0 was neutral, 50 was total support, and -50 was total opposition. The government rated a dismal -19.5, Russia -10.7, and the president -2.3; “oligarchs” were near the bottom of the list at -44. The “countries of the West”, meanwhile, were rated at +9.1.<sup>18</sup>

It is increasingly recognised in Ukraine that even reforms to the security sector – such as the push to create a proper army instead of relying on militias – require dealing with the oligarchy, and the war in the east is no longer accepted as an excuse for inaction. When asked to identify “the main factors that have led to the current socio-economic crisis in Ukraine”, 72.1 percent cited “the corruption of power and the embezzlement of public funds by power-holders” and 54.4 percent “the oligarchisation of the economy, the appropriation of profits by oligarchs and the export of funds abroad”; while only 30.3 percent blamed “military events in the Donbas”.

Ukraine has invented a word – “de-oligarchisation” – though as yet it is more rhetoric than reality. On the ground, little has been done to challenge the power of the oligarchy at its source. As a result, Ukraine’s new leaders have been accused not just of tolerating the oligarchic system, but of participating in it. Ukraine deserves credit for carrying out many reforms since 2014 that have been little noticed in the West, but it has yet to tackle the inner workings of the deep state. The oligarchy remains intact, and there has been no real change in those named on the “rich lists” popular in the Ukrainian media. According to a key figure in the presidential administration: “Economic and fiscal emergency is the main factor driving our reforms”, not a long-term structural plan.<sup>19</sup>

To be fair, Ukraine has done some of the not-so-easy work. Macroeconomic stabilisation is within sight, and the economy may recover in 2016, if Russia allows it to. But there has been little real systemic change. According to a leading reformist member of parliament: “The oligarchic system is the great iceberg in Ukrainian politics. Warmer waters have maybe melted it by 30 percent, but it is still dangerous.”<sup>20</sup> And if the economy does recover, the pressure to change will ease off.

The dangers of this slow progress are political as well as economic. Russia is banking on more than just the occupied areas of the Donbas to expand its channels of influence with-

in Ukraine; the public mood is febrile, and many oligarchs could easily be co-opted by Russia if the mood changed.

It is possible for the EU to help Ukraine. Its leverage is strong, and Ukraine has no alternative allies. But the West needs to be more aware of priorities, sequencing, and trade-offs – not everything can be achieved at once. It should also recognise that costs will increase if difficult reforms are faced head-on and serious measures are taken against the oligarchy. If “de-oligarchisation” were taken seriously, its initial phases might appear to undermine stability and the chances of broader reform. If the oligarchs were seriously threatened, they could create chaos, destabilise the government, and even turn to Russia, potentially tipping the balance in domestic politics away from internal reform, and undermining resistance to Russian aggression. They could also exploit militias and nationalist parties to make trouble. Many individual politicians would be lost to *kompromat* smears, or deterred by this threat from pushing for real reform. A group of oligarchs reportedly met in Kyiv in August 2015 to discuss their defensive options.<sup>21</sup>

The EU should therefore send a clear message that it will support Kyiv to bear the strain. However, some policies backed by the West actually strengthen the forces opposed to reform. The Minsk agreements, for example, are designed to achieve peace in eastern Ukraine, but have the effect of making the authorities more dependent on the oligarchy. The agreements involve constitutional reform by Ukraine, and the West is pushing Kyiv to hold a second vote on the issue, but this requires a two-thirds majority in parliament, which would need more oligarch votes and make it harder to create a reformist government. Another example is the decentralisation reforms, which are also part of the Minsk agreements. These reforms are yet to be fully implemented, but power is already flowing to the regions, where, more often than not, conservative oligarchy-aligned forces are digging in to secure their power.

Reform will not be easy. Ukraine should concentrate on decoupling the oligarchs from the political system, rather than attacking the oligarchy *per se*. An alternative approach – dismantling the political economy which feeds oligarchic power and then seeing their political influence wither away – would take too long. In any case, severe recession has already diminished some oligarchs’ wealth and resources.

Ukraine can allow the oligarchs to keep the economic assets they have, but it should not allow them to use the political system to get more. Individual politicians come and go, but the pattern of temptation must be changed, so that the political class is isolated from the oligarchy and the political system reinforced against their pressure.

18 “Reforms in Ukraine: Public Opinion” (in Ukrainian), Democratic Initiatives, September 2015, available at <http://dif.org.ua/ua/publications/press-relizy/reformi-v-ukseleennja.htm> (hereafter, “Reforms in Ukraine: Public Opinion”).

19 Author’s interview with Rostyslav Pavlenko, deputy head of the presidential administration, 9 September 2015.

20 Author’s interview with Leshchenko.

21 Serhiy Leshchenko, “The oligarchs are tired of the new government. Secret meeting at the ‘Hayat’” (in Russian), *Ukrains’ka pravda*, 4 August 2015, available at <http://blogs.pravda.com.ua/authors/leschenko/55c1023769875/>.



## Elections and the anti-reformists

The 2015 local elections gave out mixed messages; but, contrary to some reports, they did not show a massive anti-reform backlash.<sup>22</sup> The victory for the new Self-Reliance protest party in the southern city of Mykolaiv and the strong showing by Oleksandr Borovik, the Saakashvili-backed candidate in Odesa, who won 26 percent from a standing start, showed that reform can be popular if it is meaningful and well-presented. The government survived the elections, contrary to some predictions. US Vice President Joe Biden arrived in Kyiv in December with a contradictory message: don't miss the last chance to reform, but don't change the government that is dragging its feet on reform.

Even after Yatsenyuk's departure, there are many false turns that could steer Ukraine further from the path of real reform. Primary among these is the threat of a government that loudly declaims reformist slogans but lacks the will to push through real change. Groisman's new government could also dangerously over-extend presidential power.

Fresh elections are not necessarily a way out. They may bring new forces into parliament, including Saakashvili's new party, but many of them will be anti-reformists or fake "clone" parties, set up with the sole purpose of taking votes from opponents, until the vicious circles that keep the oligarchs in power are broken.

The pursuit of super-majorities to implement the Minsk agreements should be recognised as a one-off. The idea, mooted in some circles, to reform the governing coalition to better unite eastern and western Ukraine is problematic because anti-reform and oligarch parties, and many of the clone parties, are concentrated in the east and south. In particular, the idea of a new coalition with "moderates" from the pro-Russian Opposition Bloc, given its likely future split, or even the appointment of a new prime minister from these more "moderate" factions, would only further slow reform.

## Vicious circles feeding the oligarchy

The roots of the Ukrainian oligarchy go back to the late Soviet period. Ukraine is not energy-rich, but it had just enough raw materials (iron ore, coal, minerals, uranium), heavy industry (steel, chemicals), and foreign resources (thanks to its role as an energy transit corridor) to enrich a handful of individuals, who then sought to make themselves as rich as their Russian equivalents by corrupting the polity, offloading their costs onto the state, and fleecing the budget. Ukraine has had competitive elections and at least two attempts at revolution since 2004 – unlike Russia – but the oligarchy has survived them all. The main reason for its resilience is the difficulty of breaking the vicious circles that feed and maintain the oligarchy and its political connections.

<sup>22</sup> Andrew Wilson, "Five lessons from the local elections in Ukraine", European Council on Foreign Relations, 29 October 2015, available at [http://www.ecfr.eu/article/commentary\\_five\\_lessons\\_from\\_the\\_local\\_elections\\_in\\_ukraine4087](http://www.ecfr.eu/article/commentary_five_lessons_from_the_local_elections_in_ukraine4087).

## Politics and money

The first dynamic keeping the oligarchy alive is the interaction between politics, media, and money in Ukraine. Politics is extraordinarily expensive, with campaign expenditures running at hundreds of millions of dollars in a country with a real GDP of \$132 billion.<sup>23</sup> As in the West, there is huge spending on media, but this is not restricted to adverts. The entire process of TV and newspaper coverage – airtime, editorial, who appears on which shows, sympathetic journalists – is penetrated and regulated by money. Political campaigns involve huge amounts of patronage, "gift" distribution, and simple bribery. This is a particular problem for the half of parliamentary seats elected in a first-past-the-post system to constituencies, where votes can be more easily bought, as opposed to the half elected from party lists through proportional representation.

Elections also involve constructing and maintaining a whole edifice of influence in election commissions and local administrations, to deploy what are euphemistically called their "administrative resources" (i.e. abusing the power of the state in order to coerce or bribe voters). Dirty electoral tricks, like running "clone" parties, are also expensive. And the self-proclaimed "reform" parties in government are just as guilty of this as their opponents: the presidential administration supported clone parties to handicap each of its four opponents in the 2015 local elections.<sup>24</sup>

This feeds the power of the oligarchs because the mass media is under their control. They determine the visibility of politicians and even select them, particularly the candidates who rely on "political technology" – the sophisticated, oligarch-funded industry of electoral manipulation. New and more reform-minded parties struggle to make their voices heard if they are not on oligarch-controlled TV.

Recent elections can be seen as a war between the three main TV channels as much as between political parties: 1+1, Inter, and Ukraine. In the 2014 parliamentary elections, 1+1 backed Yatsenyuk's People's Front and, to a more limited degree, the Self-Reliance protest party, plus the regional party Revival and the small nationalist group UKROP. Inter supported the Poroshenko Bloc, Oleh Lyashko's populist nationalist Radical Party, and the pro-Russian Opposition Bloc. Ukraine also backed the Opposition Bloc. In Ukraine, supporting diverse movements is not a contradiction, just a way of maximising your influence. One source counted 112 MPs who owed their position to 1+1, compared to 50–60 for Inter.<sup>25</sup>

The persistent dominance of oligarch-controlled TV channels allows for the constant recycling and reinvention of the political technology parties. Some are backed by the presidential administration,<sup>26</sup> some by oligarchs like Ihor Kolo-

<sup>23</sup> The World Bank's estimate for 2014.

<sup>24</sup> Bohdan Butkevych, "Send in the Clones", the *Ukrainian Week*, no. 9, September 2015, pp. 8–9, available at [http://i.tyzhden.ua/content/photoalbum/2015/09\\_2015/18/Book9.pdf](http://i.tyzhden.ua/content/photoalbum/2015/09_2015/18/Book9.pdf) (hereafter, Butkevych, "Send in the Clones").

<sup>25</sup> "Firtash–Lovichkin and Kolomoisky create their groups of influence in the new parliament" (in Ukrainian), *Ukr Media*, 3 November 2014, available at <https://ukr.media/politics/215062/>.

<sup>26</sup> Butkevych, "Send in the Clones".

moisky, who reportedly backs both Revival and UKROP.<sup>27</sup> The most dangerous type of political technology party, however, is the supposedly populist opposition parties, such the Party of Ordinary People.<sup>28</sup> These fakes handicap real opposition forces such as the Democratic Alliance and Force of the People, and lead to disillusionment when “reformists”, both real and fake, fail to deliver – leaving the corrupt old guard in power.

Although there was much talk of “rebooting” the political system in 2014, the main “reform” parties were not brave enough to opt out of this oligarch-funded system in the presidential and parliamentary elections. A charitable interpretation is that they thought that taking a stand would weaken them against less scrupulous opponents; a less generous view is that they are simply accustomed to taking the money. Both main government parties sold positions on party lists.<sup>29</sup> This perpetuates a vicious circle: the oligarch-funded MPs block key reforms, such as cleaning up the judicial system, and the system reproduces itself.

### *A network of placemen*

The second vicious circle is the system of informal, unregulated political appointments that create a network of placemen bureaucrats and state enterprise bosses, appointed by politicians in exchange for then funnelling public money into their election campaigns. Ukrainian vocabulary captures this best: they are known as *smotriashchy* (literally “watchers”). The state bureaucracy has long been carved up into the spheres of influence of different oligarchs through these placemen: the State Aviation Service, for example, has resisted EU-supported attempts at de-monopolisation for years; while allies of ousted President Viktor Yanukovich have been accused of restoring the same old schemes to the customs service.

Placemen are also used to run the business empires of members of the Yanukovich elite who fled to Russia. Many of these schemes ended once the ex-president and his elite inner circle, known as the “Family”, departed. But, far from all of them, much of the Family’s business empire was surprisingly resilient. The notorious Ukrainian Development Bank, which laundered the profits from other businesses of Yanukovich’s elder son Oleksandr, continued operating until December 2014. Donbasenergo, a corruptly privatised cash-cow for the Yanukovich family, continued to receive payments during the whole of 2014. Banks and media linked to the Family continue to operate.

<sup>27</sup> Roman Kravets and Mariia Zhartovs’ka, “Kolomoiskyi’s eggs: the oligarch’s political basket before the local elections” (in Ukrainian), *Ukrains’ka pravda*, 14 September 2015, available at <http://www.pravda.com.ua/articles/2015/09/14/7081229/>.

<sup>28</sup> Serhii Shapoval, Roman Vilens’kyi, and Volodymyr Skrypets, “(Not) Simple Kaplin”, (in Ukrainian), *Ukrains’ka pravda*, 22 October 2015, available at <http://www.pravda.com.ua/articles/2015/10/22/7085757>.

<sup>29</sup> See the allegations by Tomas Fiala, head of Dragon Capital and the European Business Association in Kyiv, in the *Kyiv Post*, 10 July 2015. See also Marko Bojcun, “Return of the Oligarchs: The October Parliamentary Elections”, *Observer Ukraine*, 18 November 2014, available at <http://observerukraine.net/2014/11/18/return-of-the-oligarchs-the-october-parliamentary-elections>; and Kristina Berdinskikh, “The alignment of MPs. How elected representatives in parliament are controlled by oligarchs and politicians” (in Russian), *Novoe vremia*, 19 May 2015, available at <http://nv.ua/publications/kakie-politiki-i-biznesmeny-vliyayut-na-resheniya-narodnyh-izbrannikov-v-rade--49044.html>.

### *“Wallets”*

Another key factor in perpetuating the power of the oligarchs and granting politicians plausible deniability of corruption is *Hroshovi mishky* (“wallets”, or more precisely “money bags”); allies placed in strategic state positions, who look after financial flows in and out of government from a safe distance. This applies to Ukraine’s current leaders as much as its former leaders.

### *Short-term political manoeuvring*

In addition to these longstanding factors keeping oligarchs powerful, there are a series of political traps in Ukraine’s current circumstances that stand in the way of reform, often determined by the need for politicians to repay campaign favours.

The pro-reform political parties are frequently forced to rely on oligarch-controlled parties to pass bills in parliament. “Reform” parties should have a clear majority but are often forced to rely on alternative coalitions to pass key votes, in part because the MPs in their ranks who are oligarchs themselves or oligarchs’ representatives are not reliable. For example, the government was forced to rely on the oligarch-controlled business factions Revival and the Will of the People, and even the pro-Russian Opposition Bloc, in the August 2015 vote for constitutional amendments on decentralisation. Oligarch-backed MPs in the Opposition Bloc again delivered the necessary majority of 257 votes for Groisman’s appointment in April 2016, while Self-Reliance and many pro-European MPs abstained.

The central government’s need for support in the regions, especially those bordering Crimea and the Donbas, also boosts the power of local oligarchs. The authorities in Kyiv have chosen to make a series of deals with local power-brokers and their placemen in these regions to shore up support. For the moment at least, the existing elites in Kharkiv, eastern Ukraine, are left in power so long as they refrain from agitating for independence – as many of them did in spring 2014. In places such as Odesa, Kyiv has struggled to find a viable candidate of its own and has to work through local coalitions of oligarchs and even the more moderate pro-Russian forces.

The government’s desire to weaken overtly pro-Russian groups also contributes to the power of the oligarchs. The *raison d’être* of one of the new “clone” parties backed by the presidential administration, Nash Krai (“Our Land”), is to buy the loyalty of local bosses in southern and eastern Ukraine to take votes away from the Opposition Bloc. To Kyiv, leaving old-guard elites in place is a price worth paying. At the same time, the presidential administration is not averse to working with moderate elements of Opposition Bloc linked to Viktor Medvedchuk, the former chief of staff to former President Leonid Kuchma (who served from 1994 to 2005, and oversaw the birth of the Ukrainian oligarchy) – both of whom have an inside track as negotiators in the Minsk process.

The country's biggest oligarchs have a certain freedom of manoeuvre, as the government wants to keep them on side. The priority of Rinat Akhmetov, the Donbas's main local oligarch, is protecting his business interests inside and on the edge of the rebel "Donetsk People's Republic". But influence can flow either way – he can influence the rebels, but they can also influence him. In occupied parts of the region, there is even talk of "re-oligarchisation" – promoting Akhmetov's representatives to take the place of the current separatist leaders – an option that Russia might conceivably support in an effort to freeze the conflict and contain the nationalist genie it has unleashed. For example, the partial "coup" in the city in September 2015 saw the hard-line Russian nationalist Andrei Purgin replaced as head of the self-proclaimed parliament of the "Donetsk People's Republic" by the "pragmatic" and business-friendly Denis Pushilin.<sup>30</sup>

Oligarch Ihor Kolomoisky was able to leverage his crucial role on the front line of the war in the east to become seemingly untouchable in his home bailiwick of Dnipropetrovsk, to the point where at times in 2014 it almost seemed that Ukraine had two presidents. Kolomoisky financed militias to fight in the Donbas, simultaneously using aggressive tactics to expand his business empire, as well as placing his supporters in key positions in neighbouring regions like Odesa and Kharkiv.

Dnipropetrovsk as a solid front-line may be a good thing for stability. But having Kolomoisky control all three key border regions was risky for Kyiv, given the risk that he could switch sides if he wasn't getting what he wanted. Kolomoisky was therefore removed as governor of Dnipropetrovsk in March 2015, and his stranglehold on Ukrnafta was loosened. The autumn 2015 local elections, however, saw his protégés advance once again.

## The deep state

Ukraine's deep state is not far below the surface. Oligarchs have a series of open and obvious mechanisms within the state (or "nodes of resistance") that they deploy to serve their interests.

### Justice system

The most obvious is the still-unreformed justice system. There has been hardly any lustration of judges – i.e. the removal of those associated with the Yanukovich government – and every oligarch has their own representatives in the system, or "sitters" – not just judges, but often entire courts. Significantly, almost every international expert argued that this was where Ukraine should start its reforms, but instead it has come last.

A Judiciary Reform Council was set up in autumn 2014. The December 2014 Law on the Status of Judges and the February 2015 Law on the Right to a Just Court brought about marginal improvements, but did not deliver the fundamental reform

<sup>30</sup> "The commander of the 'Vostok' battalion: Surkov is a patriot, Purgin is a Putin apologist" (in Russian), *Fotanka.ru*, 8 September 2015, available at <http://www.fontanka.ru/2015/09/07/163/>.

that was needed. Civil society activists are divided between advocating wholesale lustration of corrupt judges and simply changing procedures; but wholesale reform is stalled in the Constitutional Commission, accountable to the president, who does not seem to want to relinquish his control.

The all-powerful Prosecutor General's Office has also undergone only minor reforms. It is split between reformist and old-guard factions, who spend most of their time fighting each other.

Poroshenko has missed several chances to purge the protégés of Yanukovich's prosecutor general, Viktor Pshonka. His idle successor, Vitaly Yarema, was left in office for far too long. Yarema was followed by Viktor Shokin, a conservative, who was also accused of protecting holdovers from the Yanukovich era. Two genuine reformers were appointed as Shokin's deputies in spring 2015: Vitaliy Kasko and Davit Sakvarelidze, a native Georgian, attempted to lead an "internal Maidan" within the institution;<sup>31</sup> but when they forced out their boss, Volodymyr Huzyr, in summer 2015 over his blocking of their investigations, he was simply replaced by another anti-reformist, Yuriy Sevruck. Democratic parties and NGOs like ANTAC campaigned for Shokin's removal, and finally achieved it on their second attempt, in March 2016. But the prosecutor general's final act was to fire his reformist deputy, Sakvarelidze. Kasko resigned in February 2016, but has been threatened with prosecution for fraud.

Due to this lack of thorough reform, there have been no high-profile court cases against leading figures from the Yanukovich era. Recovery of stolen assets is minimal. The old guard in the Prosecutor General's Office has been running a dirty PR campaign to discredit rival reformists as well as the new EU-funded vetting system for prosecutors. The notorious system of "telephone justice" persists – under which prosecutors settle cases over the phone, giving direct orders to the judge.<sup>32</sup>

This old guard in the Prosecutor General's Office has also worked to slow the launch of the National Anti-Corruption Bureau of Ukraine (NABU). It has tried to check reformist forces at every step: the selection process for the new director (eventually made open and broadcast live on the internet); the recruitment of new investigators; and the vote on the Council of Civil Control, the body set up to monitor NABU. The vote was eventually repeated, and the second attempt was a triumph for activists from ANTAC, *Nashi Groshi*, Transparency International, Svidomo (the bureau of investigative journalism), and other reformist forces.<sup>33</sup>

Appointing a head of the bureau also took months; the old guard tried to regroup around those appointed by the president. As a result, the launch was repeatedly delayed, and

<sup>31</sup> "Internal Maidan' occurring in Ukraine's Prosecutor's Office – Davit Sakvarelidze", *YES*, 12 September 2015, available at <http://ves-ukraine.org/en/news/v-genprokuratury-ukrayini-zaraz-vidbuvayetsya-vnutrishniy-maydan-david-sakvarelidze>.

<sup>32</sup> Yurii Sheliashenko, "Procurators in Kiev revive 'telephone justice'", *Korrespondent*, 28 May 2015, available at <http://blogs.korrespondent.net/blog/business/3520627/>.

<sup>33</sup> See the voting at <http://nabu.gov.ua/index.php?id=16>. See also "Similar to offenders themselves: TI found a 'skeleton in the closet' of candidates for the anti-corruption agency" (in Ukrainian), Transparency International Ukraine, 17 September 2015, available at <http://ti-ukraine.org/news/media-about-us/5490.html>.

NABU may begin life as factionalised as the Prosecutor General's Office. Shokin was accused of blocking prosecutions of the old Yanukovich elite and forbidding prosecutors from passing cases to NABU and to the Special Anti-Corruption Prosecutor.

### State-owned enterprises

Ukraine has some 1,800 state-owned enterprises (SOEs), which are key parts of the oligarchs' business empires. Of these, 1,500 are chronic loss-makers, often due to corruption – newly elected politicians parachute in their representatives to run the companies, who then use the SOEs' funds to finance their politician bosses. Many of the SOEs are not even used for purpose, such as the silk farm used as a parking lot. Even the state grain-for-alcohol monopoly, Ukrspir-it, sees its revenues siphoned off.

Reform of some SOEs has begun, but it is far from complete. The EU has pushed for reform of the main energy SOEs, because of the Third Energy Package, which liberalises gas and electricity markets in the EU, and because Ukraine still plays a vital role as a transit state for Russian gas. But other SOEs, like the state-run railways, do not receive enough attention from the West.

The national oil and gas company Naftohaz Ukraïny is now more transparent, though progress towards unbundling is slow. Its gas-extraction subsidiary, Ukrhazvydobuvannia, still has a thicket of business-sharing "Joint Activity Agreements" with oligarchs. The oil company Ukrnafta has still not been wrested away from Kolomoisky. A new CEO was appointed in July 2015 but initially prevented from starting work – and the company doesn't have to pay dividends to the state until he does.

US development agency USAID has helped to fund audits of some of the most notorious SOEs. The government has announced that the 300 profitable SOEs will eventually be privatised, but the rest remain a massive drain on the state budget.

### Anti-corruption initiatives

#### "Computers don't take bribes"

In Georgia, the anti-corruption reforms of 2004–2012 relied heavily on e-government. Corruption would be reduced, it was argued, if citizens had less personal contact with the state, as "computers don't take bribes". Ukraine has taken some tentative steps in this direction. An online procurement system, ProZorro<sup>34</sup> (from the Ukrainian for "transparent"), is in the process of being rolled out, alongside an information site.<sup>35</sup> In March 2015, the new system was supplemented by a Law on the Transparency of Public Finances. The system was devised by a leading civic activist, Kseniia Liapina. Transparency International oversaw its introduction, and the creation of three online trading venues for end-users to choose between.<sup>36</sup>

<sup>34</sup> See <http://prozorro.org/en>.

<sup>35</sup> See <http://tender.me.gov.ua>.

<sup>36</sup> See <http://prom.ua>, <http://smarttender.biz>, and <http://e-tender.biz>.

Oleksii Shalaisyki, head of *Nashi Groshi*, claims that corruption in state tenders has already noticeably decreased. The premium over market prices has fallen from 30–40 percent to 10–15 percent. Plus, "dozens of [old] corruption schemes have disappeared".<sup>37</sup> Dmytro Shymkiv, the former CEO of Microsoft Ukraine, who was appointed as deputy head of the presidential administration in July 2014, estimated the system would save 10–20 percent in public spending.<sup>38</sup> Overall procurement spending fell from 464 billion hryvnia in 2012 (some €16 billion) to 203 billion in 2013 (€7 billion) and 125 billion in 2014 (€4 billion). But the government still admits annual losses in the procurement process of \$2.3 billion (€2 billion).<sup>39</sup>

Much less has been done in terms of e-government outside procurement processes. Until 2015, Ukraine was actually falling in the UN's rankings of e-government provision, to a position of 87th globally.<sup>40</sup> There has not been much change at the sharp end of citizens' access to public services; the one exception is a high-profile reform of the Kyiv police force, launched in July 2015, introducing new recruits dressed in new uniforms and with new manners.

The process of deregulation has also been limited. The number of supervisory bodies was supposed to be cut from 56 to 28, but this is still too high. The number of permits needed to start a business stands at 85, though it has been cut from 143. The World Bank shows Ukraine rising slowly in the Ease of Doing Business index, from 112th in 2014 to 96th in 2015.<sup>41</sup>

### Sectoral reform

Ukraine also needs to clean up the most corrupt parts of its economy, particularly the energy sector. Here, domestic institutions remain weak. The Anti-Monopoly Committee, for example, has long been captured by oligarchs, despite the arrival of a new chair, Yuriy Terentyev, in May 2015. However, the EU Third Energy Package has had an effect from outside, particularly on the gas market. A major reform in May 2015 sought to unbundle the gas sector and reform the notoriously corrupt and inefficient domestic oil and gas monopoly Naftohaz Ukraïny.

In February, parliament finally caved in to IMF pressure to raise household gas prices, previously held at only 12 percent of production cost. The purpose was to reduce the massive corruption involved in diverting the heavily subsidised household gas to industry. The company's deficit was cut from \$8 billion in 2014 to a forecast \$3–4 billion in 2015 – which is a good proxy for reduced rent-seeking in the gas sector.

<sup>37</sup> Andrii Ianitskyi, "What has gone wrong with reform in Ukraine?", *Open Democracy*, 5 March 2015, available at <http://www.opendemocracy.net/od-russia/andrii-ianitskyi/what-has-gone-wrong-with-reform-in-ukraine>.

<sup>38</sup> Lyubomyr Shavalyuk, "Pressure, Procrastination and Neighbors' Best Practices", *Ukrainian Week*, no. 4 (April) 2015, available at <http://ukrainianweek.com/Economics/135170>.

<sup>39</sup> Mariana Antonovych and Olena Gordiienko, "Putting an end to Ukraine's corrupt public procurement system", the *Kyiv Post*, 12 October 2015, available at <http://www.kyivpost.com/content/ukraine/putting-an-end-to-ukraines-corrupt-public-procurement-system-399818.html>.

<sup>40</sup> Bozhena Sheremeta, "E-government frees Ukraine of paper dependency", the *Kyiv Post*, 16 January 2015, available at <http://www.kyivpost.com/content/business/e-government-frees-ukraine-of-paper-dependency-377620.html>.

<sup>41</sup> See <http://www.doingbusiness.org/data/exploreeconomies/Ukraine>.



Ukraine's notoriously corrupt green-energy tariffs were reformed in June 2015. The electricity market has not yet undergone similar reform, and there is still a big gap between industrial and household prices. Reform of the coal sector has been partial, delayed by the war in the east, plus the loss of control over many of Ukraine's mines (only 35 out of 95 mines are free from rebel hands in the Donbas), and the fear of more unemployment in an already volatile region.

### *Cutting rents*

There has been no real campaign of de-oligarchisation since the 2014 revolution, but the economy has been in severe recession and the government has had to save money. As a result, oligarchs can no longer get soft loans from state banks to buy assets or media holdings. Gas imports from Russia, which used to fuel massive joint corruption schemes with rake-offs shared between Russian and Ukrainian oligarchs, have been sharply reduced.

Some reforms were unavoidable due to the poor state of the economy, according to the presidency. As one representative put it: "We simply can't afford this [the holes in the state budget due to corruption] any longer. The economic pressures are overwhelming. Even if the new establishment wanted to leave things as they were, it's simply impossible."<sup>42</sup> With GDP down 17.6 percent in the first quarter of 2015 and 15 percent in the second quarter, Ukraine has been forced to act. According to one journalist, "the biggest holes in the budget have been plugged".<sup>43</sup> This has had some success – budget revenues were up 25 percent in the first quarter of 2015 and 41 percent in the second, even as GDP collapsed.<sup>44</sup>

The oligarchs are still around, but they are not as rich as they were. The steep fall in GDP in 2014 and 2015 has cut the total wealth of the top five Ukrainian oligarchs from \$28 billion to \$15 billion.<sup>45</sup> The biggest oligarchs have had some of their activities curtailed and some of their schemes blocked, though in every case this was due to politics and fiscal necessity rather than targeted de-oligarchisation programmes.

One big change is that oligarchs now have less access to state funds – they "can't simply use public money as before", according to MP Serhiy Leshchenko.<sup>46</sup> Reforms mean that energy tariffs no longer redistribute revenue according to political connections. The worst of the grand larceny in state procurement has been ended – there are still rake-offs, but not in the region of 50 percent, which was common under Yanukovich.

<sup>42</sup> Author's interview with Rostyslav Pavlenko, deputy head of the presidential administration, 8 September 2015.

<sup>43</sup> Author's interview with Mark Rachkevych, journalist, 8 September 2015.

<sup>44</sup> "Budget Chronicles: 2nd quarter 2015", *The Price of the State*, available at <http://costua.com/en/news/budget-analysis>.

<sup>45</sup> "Fokus' presents the '100 richest people in Ukraine'" (in Russian), *Fokus*, no. 15, April 2015, available at <http://focus.ua/advertising/328431/>; and <http://focus.ua/magazine/428/>.

<sup>46</sup> Author's interview with Leshchenko.

Of Ukraine's top three oligarchs, Akhmetov has taken the biggest hit, according to *Forbes*; his wealth diminished in 2014 from \$12.5 billion to \$7.2 billion.<sup>47</sup> He now has to pay more for coke freight; the subsidy he received for his wind energy business from a green tariff was halved; and he lost his monopoly on electricity exports.

Another top oligarch, Dmytro Firtash, has lost Nadra Bank and control over the titanium deposits he acquired under Yanukovich. In April 2015, the state seized 500 million cubic metres of gas from his company OSTCHEM. Firtash's controlling stake in Zaporozhye Titanium & Magnesium Combine was transferred to a state enterprise, removing him further from control of the Vilnohirsk and Irshansk mining and metallurgical plants. There is also talk of an investigation into his 2013 purchase of Inter TV – Ukraine's leading channel. But so long as gas liberalisation has not yet been applied in the regions, where Firtash used to control 70 percent of distribution, his main business is intact, though he can no longer use state gas transport facilities for free.

The third main oligarch, Ihor Kolomoisky, has seen the most ups and downs since February 2014. He was initially viewed as untouchable in his home region of Dnipropetrovsk, dubbed "Dniprokolomoisk", until he overstepped the mark by using paramilitaries to defend his business interests against state investigations in March 2015. He was removed as governor, though a protégé replaced him.

Another associate, Ihor Palytsia, was removed from the governorship of Odesa, where he had long looked after Kolomoisky's business interests; but Kolomoisky's ally Oleksandr Trukhan won the mayoral election in October 2015. In addition, parliament voted to end Kolomoisky's minority control of Ukrnafta. However, these moves were sweetened by retrospective dividend payments for Ukrnafta of \$1.5 billion for 2011–2013 (Kolomoisky's share being \$700 million) and an agreement that there would be no audits carried out on another of his companies, UkrTransNafta; plus an 800 million hryvnia (€32 million) stabilisation credit to the Kolomoisky-controlled PrivatBank, Ukraine's largest bank, in March.

All the oligarchs have therefore had their subsidies trimmed, but they are not threatened with dispossession. None have ended up in court, apart from Firtash in Austria, at the request of the US. There is no fire-sale of assets, and there is no sign of the oligarchs panicking. There is no obvious force in Ukraine that will push to reduce oligarchical influence, in the absence of thorough reform undertaken with Western pressure. No oligarchic group seems capable of disrupting the balance by taking out any other.

<sup>47</sup> Sevghil' Musaieva-Borovik and Dmitrii Denkov, "The main oligarch of the Yanukovich era. One year later" (in Russian), *Ukrains'ka pravda*, 29 April 2015, available at <http://www.pravda.com.ua/cdn/cd1/2015year/akhmetov/index.html>.

## Recommendations: How Europe can help

The key to a more effective approach is to recognise that most of Ukraine's problems lie at the top, and not just with the remnants of the Yanukovich regime, which are already withering away. That is to say, the problem lies with the current political elites – who are the EU's main interlocutors. A stark warning of the dangers of over-assessing reformist intent and avoiding frank talk about corruption is provided by neighbouring Moldova, which has been lurching from one political crisis to another throughout 2015 and early 2016. Ukraine needs tough love and aggressive conditionality, or it will end up like Moldova, but much sooner and with less to show for it. The Groisman government carries a greater risk of further backsliding on reform than promise of renewed progress.

The EU is in a strong position to push reform. Ukraine desperately needs help from international financial institutions, and hopes that the August 2015 “haircut” deal with bondholders – which reduced the face value of bonds in order to restructure Ukraine's debt – will allow both the state and corporations to return to international markets in 2016. The hiatus in IMF disbursements since August 2015 means that pressure on Kyiv will mount again in summer 2016.

But the West should not put all its faith in isolated actors as opposed to the prospect of systemic change. The disappointment that followed the 2004 Orange Revolution showed that electing the right politicians, or what seem at the time to be the right politicians, is not enough. Trusting “good” civil society and ignoring “bad” politicians is not enough. Single institutions, even the new anti-corruption body NABU, cannot be relied on to reform the entire system. Ukraine needs synergies, and instruments that work well together: financial disclosure works better with a free media; e-government has more impact if there is wider internet use, and so on. And above all, Ukraine needs carefully planned and targeted reforms to break the vicious circles that preserve the old system.

### *Coordinate with local activists*

The West's first priority should be strengthening the “sandwich” – the combination of pressure applied on the Ukrainian authorities from outside, by the international community; and from below, by local civil society. Ukrainian NGO activists call for the EU to triangulate more: “When they speak to government, we should be in the room.” EU and member state officials should coordinate efforts: “Be better aware of when we do our lobbying, and try to synchronise their pressure too.”<sup>48</sup>

Activists argue that the more aid and cooperation that is made conditional the better – a key bill to regulate political party finances, for example, only passed because it was a condition of Europe's visa liberalisation process. A further hiccup in visa negotiations in December 2015 allowed the EU to press hard for more resources and independence for NABU and for an asset-recovery agency.

<sup>48</sup> Author's interviews with NGO activists, 8 September 2015.

## *Challenge Ukraine's leadership*

The EU should be frank with Ukraine's leaders, who are perpetuating and directly benefiting from some of the worst practices of the Yanukovich regime. The West must not allow Ukrainian politicians' money to circulate in their countries in plain sight, as happened all too often under Yanukovich. Obvious abuses by oligarchs' placemen in the state bureaucracy and others must be investigated. Following Yatsenyuk's departure, the EU should press to see real reform from the new faces in government.

### *Reform the justice system*

It is crucial for reforms to break the dynamics that preserve the power of the oligarchs, and attack their “nodes of resistance” within state institutions. Most of the necessary measures are therefore political. Thorough reform of both the judiciary and the Prosecutor General's Office should be a main condition of all financial assistance. The Shokin scandal showed the dangers of leaving this body unreformed and liable to corrupt the rest of the system. The EU could consider supporting the bill introduced to choose the prosecutor general through open, competitive elections, which has yet to be given proper parliamentary consideration.

### *Assist the anti-corruption drive*

If the new anti-corruption bureau does not attract controversy, it will not be doing its job properly. The EU could offer it greater international protection; one idea is to set up a joint EU–Ukraine investigative body to monitor how EU funds are spent, which could easily be attached to NABU.

### *Regulate privatisation*

The to-do list in Ukraine's economy is huge. Proper tax reform has yet to even be planned. Ukraine should not be allowed to stall on reform of Naftohaz Ukrainy, Ukrnafta, and the railway system. Privatisation should be accelerated but open, as another round of insider privatisations could do more harm than good. Greece has an internationally supervised privatisation fund, and the case for a similar approach in Ukraine is surely even stronger. The fund should be located offshore; it could have some Ukrainian managers, but they must operate in lockstep with outside experts and businesspeople. The primary purpose of such a fund need not be raising revenue, as in Greece, although fair prices should be secured; but rather to sell as many assets to as wide an ownership base as possible, to help disperse economic and political power in Ukraine.

### *State financing for political parties*

State financing for political parties should be fast-forwarded to tackle one of the key entry points of money into politics. The vital bill on this topic was passed in October 2015, albeit with only four votes to spare; a similar law was passed after the 2004 Orange Revolution, but was never assigned a

full budget. The EU should press for urgent implementation and for effective sanctions against political parties that do not comply. Parties without transparent budgets should be barred from standing in elections. If there are parliamentary elections in the spring, they must be held under the new rules. Otherwise, they will make things worse, forcing the parties into another round of scrabbling for finance.

### *Support non-oligarchic media*

Non-oligarchic media outlets should be strengthened. The old First Channel has been turned into a state-run channel – UA: Public Broadcasting, a would-be “Ukrainian BBC” – but it is woefully short of personnel, resources, and know-how, all of which are in abundant supply in the EU. Civil society monitoring of bias and paid-for content on other channels should be supported.

### *Encourage import competition*

The EU–Ukraine Deep and Comprehensive Free Trade Area (DCFTA) finally came into force in January 2016. Because of the weakness of the Ukrainian economy, it currently does more to help Ukrainian exporters to the EU than EU importers to Ukraine. This makes macroeconomic sense, but more import competition is needed to help break the power of domestic oligarchic monopolies.

The EU faces a difficult balancing act after the Netherlands voted against the DCFTA and the broader Association Agreement in an April 2016 referendum. The Union must respect the result and stress that the Agreement does not automatically imply a path to Ukrainian membership of the EU. In fact, it does the opposite – it sets out a whole series of reforms that Ukraine must first implement to clean up its act. But equally the EU must not disempower the reform lobby in Kyiv by shutting down the long-term hopes for closer engagement with the EU.

Ukraine has a window of opportunity. The situation in the east is more stable in the short term, since Russia turned its attention to Syria. The economy is showing signs of recovery from its steep recession, and there is hope for more IMF support in 2016. The country held three elections in 2014–2015, and no further elections are planned until 2019. But the opposite trends could easily take hold. Populism and superficial indicators of public disillusion could easily be used as an excuse for inaction and for seeking a “period of recovery” after so much upheaval. Progress is far from guaranteed.

## About the author

*Andrew Wilson* is a senior policy fellow at the European Council on Foreign Relations. He is also a professor in Ukrainian studies at the School of Slavonic and East European Studies (SSEES) at University College London. His most recent books are *Ukraine Crisis: What it Means for the West* (Yale Books, 2014) and *The Ukrainians: Unexpected Nation* (Yale Books, expanded fourth edition, 2015). His publications for ECFR include “What Does Ukraine Think?” (2015) and “Supporting the Ukrainian Revolution” (2014).

## Acknowledgements

Thanks are due to Hannah Stone, Gareth Davies, Richard Speight, Sophia Pugsley, Fredrik Wesslau, Kadri Liik, Vesela Tcherneva, Borja Lasheras and Gustav Gressel at ECFR. And, in Kyiv, to Oleksii Haran, Serhii Leshchenko, Oleksandra Matviychuk, Mark Rachkevych, and Brian Mefford.

## ABOUT ECFR

The **European Council on Foreign Relations** (ECFR) is the first pan-European think-tank. Launched in October 2007, its objective is to conduct research and promote informed debate across Europe on the development of coherent, effective and values-based European foreign policy.

ECFR has developed a strategy with three distinctive elements that define its activities:

- **A pan-European Council.** ECFR has brought together a distinguished Council of over two hundred Members – politicians, decision makers, thinkers and business people from the EU's member states and candidate countries – which meets once a year as a full body. Through geographical and thematic task forces, members provide ECFR staff with advice and feedback on policy ideas and help with ECFR's activities within their own countries. The Council is chaired by Carl Bildt, Emma Bonino and Mabel van Oranje.
- **A physical presence in the main EU member states.** ECFR, uniquely among European think-tanks, has offices in Berlin, London, Madrid, Paris, Rome, Sofia and Warsaw. Our offices are platforms for research, debate, advocacy and communications.
- **A distinctive research and policy development process.** ECFR has brought together a team of distinguished researchers and practitioners from all over Europe to advance its objectives through innovative projects with a pan-European focus. ECFR's activities include primary research, publication of policy reports, private meetings and public debates, 'friends of ECFR' gatherings in EU capitals and outreach to strategic media outlets.

ECFR is a registered charity funded by the Open Society Foundations and other generous foundations, individuals and corporate entities. These donors allow us to publish our ideas and advocate for a values-based EU foreign policy. ECFR works in partnership with other think tanks and organisations but does not make grants to individuals or institutions.

[www.ecfr.eu](http://www.ecfr.eu)

The European Council on Foreign Relations does not take collective positions. This paper, like all publications of the European Council on Foreign Relations, represents only the views of its authors.

Copyright of this publication is held by the European Council on Foreign Relations. You may not copy, reproduce, republish or circulate in any way the content from this publication except for your own personal and non-commercial use. Any other use requires the prior written permission of the European Council on Foreign Relations

© ECFR April 2016

ISBN: 978-1-910118-60-3

Published by the European Council on Foreign Relations (ECFR),  
7th Floor, Kings Buildings,  
16 Smith Square, London,  
SW1P 3HQ, United Kingdom

[london@ecfr.eu](mailto:london@ecfr.eu)