

Research Paper

John Lough and Iryna Solonenko  
Ukraine Forum | April 2016

---

# Can Ukraine Achieve a Reform Breakthrough?



**CHATHAM  
HOUSE**  
The Royal Institute of  
International Affairs

## Summary

- Ukrainians showed impressive resilience in 2014 in the face of revolution and Russian aggression that led to war. With strong Western support, the new government was able to stabilize Ukraine's perilous financial situation and start a reform effort designed to shift the country onto a European path of development. Inevitably, it did not take long for the revolutionary zeal of the 'Maidan' to collide with Ukraine's deeply embedded problems of governance. These slowed the momentum of reforms in 2015, leading to the breakdown of the ruling coalition in early 2016.
- It is easy to characterize Ukraine's latest attempt to reform as a repeat of the unrealized potential of the 2004 Orange Revolution. This view is premature and disregards the fact that Ukraine has changed significantly since then. The country today has a much stronger sense of independent identity, symbolized by its rapidly developing civil society. The external environment is also markedly different. Moscow's break with Europe and its efforts to compel Ukraine to be part of a Russian sphere of influence have finally forced Ukrainian elites to make a choice between modernization on a Russian or a European model. Fearful of the danger of Ukraine's destabilization, Western countries are also showing an unprecedented level of support for its reform efforts.
- These external factors will not alone determine whether Ukraine's reforms will reach a critical mass. The key question is whether Ukrainians themselves can find the will and the means to overcome the chief impediment to reform – the capture of the state by a narrow class of wealthy business people and their associates.
- Ukraine's weak institutions and its experience of 25 years of misrule since independence place an extraordinary burden on reformist forces. The pressures driving reform at present marginally outweigh those impeding them. However, the struggle of the 'new' against the 'old' is playing itself out slowly and painfully, making it impossible to judge definitively at this point whether Ukraine's reforms are destined to succeed or fail.

## Introduction

Times of national crisis can be transformational. Ukraine has arguably never had a better chance to consolidate its independence and build a sustainable future. For a country located on a geopolitical and cultural fault line in a space traditionally the preserve of competing great powers, history rarely offers such opportunities. When it does, they tend to be brief.

In 2014, Ukrainians demonstrated remarkable resilience as their commitment to independence was tested to the full. The ‘Revolution of Dignity’ or Euromaidan that ended in February that year, and Russia’s subsequent violation of Ukraine’s territorial integrity, awakened and unified the country to an extent not previously seen. Ukrainians not only successfully resisted Russian efforts at destabilization, they also showed their ability to hold free and fair elections while at war and in the grip of a severe economic crisis, voting in a government committed to taking the country forward on a European path of development.

An influx of new reformers into parliament and government, together with the support of an energetic civil society and Western governments, bred expectations that Ukraine’s leaders would no longer be able to ‘muddle through’ as in the past, but would finally make decisive progress towards not just reforming but transforming the country.

Such a transformation requires putting Ukraine on a course to build sustainable institutions that can provide long-term stability and underpin successful national development. There are no short cuts. To fulfil the promise of the ‘Revolution of Dignity’, Ukraine must finally take the necessary steps to create a political and economic environment supported by rule of law that will retain the country’s best talent and attract long-term investment. To do so will require maintaining a consensus in society on the country’s strategic goals and electing leaders willing and able to deliver the reforms needed.

In an effort to understand better the sustainability of the reform process overall, this paper analyses the forces that are holding back reforms and those that are propelling them forward. As so often in Ukraine, the picture is contradictory and finely balanced. For example, society’s demands for change are not yet translating sufficiently fast into government action because of distortions in the political system. Yet society is more empowered than ever since independence and the ruling class realizes it has to be more responsive to the electorate.

The analysis also considers the importance of external factors in the reform process. Russia’s annexation of Crimea and its broader efforts to destabilize Ukraine in 2014 together with its continued use of other instruments of influence to impede successful reforms are one factor. The unprecedented level of Western support for the reform effort is another. In highly contrasting ways, both factors are currently having a significant impact on Ukraine’s politics. The long-term effect is difficult to measure because their levels of influence are likely to vary over time, particularly as generational and other changes bring about a renewal of Ukraine’s ruling class.

### Reform in Ukraine – plus ça change?

As some of the immediate national security pressures receded in 2015, Ukrainian elites showed increasing signs of reverting to their traditional internal struggles for influence and control of resources, slowing the reform momentum and raising legitimate doubts about the current leadership's ability to do anything more than cement in place partial reforms in line with its own interests.<sup>1</sup>

By the end of 2015, reformist forces in Ukraine and their supporters outside had concluded that the country's leaders were not showing sufficient courage and resolve to undertake the institutional reforms necessary to undercut the power of cronyism and make the government accountable to its citizens. The resignation in February 2016 of the reformist Minister of Economy Aivaras Abromavičius brought to light spectacular evidence of the struggle between the 'old' and 'new' world in Ukraine. Abromavičius revealed in compelling detail how Ihor Kononenko, one of President Petro Poroshenko's closest associates and the leader of the presidential party in parliament, had repeatedly used his influence to control the appointment of heads of state companies, the traditional source of rents for the elites. The minister's departure triggered the unravelling of the coalition government and a frantic search for a new alignment of political forces to give fresh impetus to the reforms and avoid early elections.

While these events provide strong justification for scepticism about the appetite of today's Ukrainian elites for anything more than cosmetic reform, some perspective is necessary. Ukraine has changed significantly over the past two years. The experience of ousting Viktor Yanukovich's regime and preserving independence has created a much stronger sense of nationhood than at any previous point in Ukraine's history of independence, and provides a qualitatively new basis for its efforts to bring about change.

Before 2014, nation-building had proceeded slowly. Ukraine was a politically polarized country, reflecting many of its inherited cultural, religious, economic and other divisions, albeit with a consensus achieved by the late 1990s on basic principles of Ukrainian statehood. This polarization proved to be a major obstacle to reform, but on the plus side it countered tendencies towards authoritarian rule.

Ukraine's experience in this respect was typical. The history of transition in Central and Eastern Europe clearly shows that countries with lower levels of polarization were able to achieve faster reforms because a political consensus on national development was easier to build and maintain.<sup>2</sup> However, even in those cases, reforms came in waves as governments of different persuasions came and went. In all cases, macroeconomic stabilization and market-opening policies were introduced long before structural reforms to de-Sovietize the legal system and overhaul the bureaucracy.

---

<sup>1</sup> The motivation for elites to conduct self-serving partial reforms is discussed in Hellman, J. (1998), 'Winners Take All: The Politics of Partial Reform in Postcommunist Transitions', *World Politics*, Vol. 50, No. 2, January 1998.

<sup>2</sup> Frye, T. (2010), *Building States and Markets after Communism: The Perils of Polarized Democracy*, Cambridge University Press.

## Misleading parallels

Discussion about transition in Ukraine frequently draws on comparisons with Central European countries' successful experiences of overcoming their communist inheritance and building Western-style political institutions and market economies. Parallels can be useful, but they can also be misleading because they disregard the different starting points and other factors that make the process of transformation in Ukraine so much harder:

- Ukraine did not have real historical experience of independence and faced fundamental challenges in establishing a national identity after the collapse of the USSR.
- Most of Ukraine was under Soviet rule for 25 years longer than Central Europe, and much more deeply influenced by the experience culturally and economically. Its intellectual class also suffered disproportionately from the murderous policies of Stalin and Hitler, with fateful consequences for the size of the nation's talent pool that are still discernible today.
- The failure of successive post-independence governments to conduct meaningful reform led to the worst of all possible outcomes: the concentration of wealth among a small number of groups and their capture of the state. The logical outcome of this process was the epic scale of theft and asset-stripping during Yanukovich's presidency.<sup>3</sup> No Central European country experienced anything similar.
- Central European countries moved their economies away from dependence on the old Soviet trading system as quickly as they could. Ukraine's economy was more deeply embedded in the Soviet system and the former Soviet managerial elite that dominated the country's administration in the 1990s either had no interest in reorienting it or saw no possibility of doing so. Those parts of the elite that presented an alternative were marginalized, or in one notable case killed.<sup>4</sup>
- By the time they embarked on difficult structural reforms, most Central European countries had the incentive of knowing that they would one day be able to join the European Union. Ukraine has never enjoyed a genuine membership prospect and still does not have one.<sup>5</sup>
- Unlike most Central European countries, Ukraine has faced difficulties in establishing stable political rules of the game. Elite infighting has been perpetuated by the shifting of power between parliament and the presidency, as well as frequent changes to the electoral system. This has delayed the appearance of a stable political centre ground and distracted attention from long-term considerations about national development.

---

<sup>3</sup> Acting Prosecutor General Oleh Makhnitsky claimed in April 2014 that the Yanukovich regime had run a crime syndicate that had cost Ukraine \$100 billion. Reuters, 30 April 2014.

<sup>4</sup> The most prominent case was that of Viacheslav Chornovil, the leader of the People's Movement (Narodnyi Rukh) of Ukraine, who was killed in a car accident in 1999. See Felix Corley's obituary of Chornovil, 30 March 1999, <http://www.independent.co.uk/arts-entertainment/obituary-vyacheslav-chornovil-1084158.html>.

<sup>5</sup> Comparisons are frequently made between reforms in Poland and Ukraine. Countries such as Bulgaria and Romania are better reference points because of the slower pace of their reforms after 1989, which embedded the influence of old elites. On joining the EU in January 2007, both countries still displayed significant shortcomings in their judicial systems, and since then they have faced challenges in reducing levels of corruption.

- 
- No Central European country has had to contend with a remotely similar level of Russian influence. From the moment the USSR collapsed, Russian leaders found it impossible to reconcile themselves fully to the idea of an independent Ukraine. When President Yanukovich indicated that he could sign an Association Agreement with the European Union in 2014, Moscow finally abandoned its game of observing Ukraine's independence in name but not in practice, and disregarded its previous commitments to respect the country's territorial integrity. Moscow's pressure on Ukraine continues by economic, military, political and other means and is unlikely to abate for the foreseeable future.

Despite such a disadvantageous starting point relative to some of its Western neighbours, President Poroshenko could boast with justification that during 2015 Ukraine had undertaken more reforms than in the previous 24 years of independence.<sup>6</sup> Energy subsidies had been cut, the budget was roughly in balance on a cash basis after reductions in public expenditure, and restructuring of the banking system had led to the closure of more than 60 banks. Important changes had also taken place in the state procurement system to raise transparency.<sup>7</sup>

Yet there has been growing concern in recent months among Ukraine's Western partners that the government has been tackling only 'low hanging fruit' and avoiding the far more challenging reforms, such as those needed to overhaul Ukraine's bureaucracy and develop the rule of law, including measures to establish an independent judiciary and rein in the country's legendary hyper-corruption. In February 2016, the managing director of the International Monetary Fund, Christine Lagarde, warned the Ukrainian government that the country needed to make a 'substantial new effort' to invigorate reforms without which it was hard to see how the \$40 billion IMF-led rescue of the economy could 'continue and be successful'.<sup>8</sup>

Whether the reform glass is seen today as a quarter full or three-quarters empty, the key issue is whether the current reforms in Ukraine can reach a critical mass supported by a stable constituency of genuine modernizers without being watered down or diverted by other interests.

### Brakes on Reform

The slow progress on designing and implementing several key reforms is the result of a number of interrelated factors that together create strong resistance to overall modernization of Ukraine's system of governance.

### Fragile political unity

While many important reforms began in 2014–15, they often faced delay because of political divisions. Once the immediate threat from Russia's 'Novorossiya project' aimed at dividing and 'federalizing' Ukraine had receded by early 2015, it became harder to find consensus between competing political groups.

---

<sup>6</sup> Poroshenko's interview to *Le Figaro* on 4 December 2015.

<sup>7</sup> See Aslund, A. (2015), *Ukraine Two Years After Euromaidan: What Has Been Accomplished?*, Atlantic Council, 30 November 2015.

<sup>8</sup> 'IMF warning sparks Ukraine pledge on corruption and reform', *Financial Times*, 11 February 2016.

---

This lack of political unity has been evident in several areas. First, cooperation between the government and the parliamentary coalition has been poor. Since it started work in December 2014, the parliament has passed only 36 per cent of bills prepared by the government.<sup>9</sup> This low figure reflects several issues, including the influence of vested interests in the drafting of laws and during voting; the fact that a very high number of bills are put to the vote every day;<sup>10</sup> and a lack of trust between parliament and government. There have been instances after the government has prepared a bill when the parliament or even the president has presented an alternative text. Taxation and healthcare reforms are notable examples of competition between various interests that slows down the momentum of reforms.

Steadily diminishing cohesion within the parliamentary majority coalition has also adversely affected the adoption of legislation. At the end of 2015, two coalition partners, Self-Reliance (Samopomich) and Fatherland (Batkivshchyna), refused to vote for the 2016 budget. Fatherland and the Radical Party did not support amendments to the Taxation Code. Two larger coalition partners, the Petro Poroshenko Bloc and the People's Front, had to secure the votes from parliamentary groups that mostly represented the business lobby to pass these important bills. The breakdown of the ruling coalition in February 2016 almost exactly two years after the 'Revolution of Dignity' was also in part influenced by the government's loss of popularity in society and the very low personal approval ratings of President Poroshenko, and, particularly, Prime Minister Arseniy Yatseniuk.<sup>11</sup>

The desperate socio-economic situation inherited by the government and the need for a severe reduction in subsidies and social spending quickly took their toll. This was inevitable given the double-digit fall in GDP in both 2014 and 2015 and the 70 per cent devaluation of the hryvnya between 2013 and 2015. However, the absence of tangible measures to accompany the spirit of the Maidan and break with the top-to-bottom corruption of the 'old' system accelerated the onset of disillusionment with the reforms and created space for opportunistic populist forces that started to show their potential strength in the October 2015 local elections.

The government also suffers from lack of unity. Often it does not follow a single strategy and fails to exercise leadership by prioritizing reforms and reconciling contradictory objectives. Within the vast bureaucracy, there are pockets of competent and strongly motivated reformers but they are unevenly spread and frequently in conflict not only with other ministries but also with interests in their own. The Cabinet of Ministers is a particularly bureaucratic and inefficient organization that exemplifies the severe lack of capacity at the heart of government.<sup>12</sup> Not surprisingly, some EU countries have expressed concern about the government's overall ability to implement the provisions of the Association Agreement and called for the appointment of a deputy prime minister for European integration.<sup>13</sup>

---

<sup>9</sup> Mikloš, I. (2015), 'Quo vadis, Ukraine? Is there a chance for success?', CASE Seminar Proceedings No. 139/2015, p. 13.

<sup>10</sup> On average, 40 bills every day when parliament is in session.

<sup>11</sup> Support for the Petro Poroshenko Bloc fell from 21.8 per cent in parliamentary elections in 2014 to 16.6 per cent in February 2016, and support for Yatseniuk's Popular Front fell from 22.1 per cent to 2.5 per cent during the same period. Poll conducted by Kyiv International Institute of Sociology in February 2016, <http://www.kiis.com.ua/?lang=eng&cat=reports&id=598&page=1&t=1>.

<sup>12</sup> The Office of the Cabinet of Ministers alone employs over 600 people and duplicates several government functions.

<sup>13</sup> RFE/RL, Live Blog: Ukraine in Crisis, <http://www.rferl.org/content/live/ukraine-live-blog-events/27261855.html?liveshare=81136>.

---

The National Reform Council (NRC) theoretically provides a solution to this problem.<sup>14</sup> It brings together key national decision-makers, including the president, the prime minister, the chairman of the parliament, ministers and chairs of parliamentary committees, as well as representatives of civil society. By the end of 2015, the NRC had held 17 meetings. Yet many analysts are sceptical about its capacity to move reforms forward since it has no decision-making powers. Experience has also shown that it has limited capacity to achieve cross-party agreement.

Another important source of disunity is Ukraine's underdeveloped political culture, visible in both the absence of common ideals and values that can bring politicians together and an inability to compromise. Even strongly pro-reform forces have found it difficult to work together. There are almost no genuine Western-style political parties with ideologies and programmes anchored in social groups. Most parties lack developed regional and local networks. In reality, they are short-term projects usually organized on a highly centralized model. Moreover, the most successful parties that enter parliament are supported by the country's wealthiest business people, both financially and through media resources. For instance, of the six political parties that entered parliament in October 2014 elections, only Fatherland had existed as a party before. Most of the others were created in 2014 after the 'Revolution of Dignity'.<sup>15</sup> As a result, political alliances are fluid and tend not to be sustainable. Private sources report that even within party groups in parliament, voting can be hard to enforce if MPs come under the influence of powerful interests.<sup>16</sup>

The tortuous passage of the Law on Civil Service Reform through parliament in 2015 provides a clear illustration of the challenges facing reform of government in Ukraine. The bill received its first reading in April, and was finally adopted into law in late December. Despite broad consensus on the need to reform the civil service, MPs voted on the bill 20 times before it passed, and it then received 1,300 amendments before the second reading. The adopted version creates a basis for reform, although it does not address the problem of raising civil servants' salaries. Nevertheless, observers believe that the new law is generally well written and can lead to improvement in the performance of Ukraine's public sector.

### The legacy of partial reforms

Ivan Mikloš, former finance minister of Slovakia and an adviser to the Ukrainian government, has rightly pointed out that many of Ukraine's problems today stem from the lack of reforms in the past.<sup>17</sup> This has created a dual problem: the absence of reforms has constrained the development of democratic and market economy institutions that now have to be built almost from scratch. At the same time, 'partial reforms' undertaken by previous governments have nourished and cemented 'state capture' by a narrow circle of private individuals that has monopolized access to public

---

<sup>14</sup> National Reform Council (2015). *Reforms Monitoring Report for 2015*, Kyiv, [http://reforms.in.ua/sites/default/files/upload/brochura\\_eng.pdf](http://reforms.in.ua/sites/default/files/upload/brochura_eng.pdf).

<sup>15</sup> Oleh Lyashko's Radical Party dates back to 2010, but in the 2012 parliamentary elections it received only 1.08 per cent support. Self-Reliance was created in 2012. The Petro Poroshenko Bloc, the People's Front (Arseniy Yatseniuk) and the Opposition Bloc (drawn from the ruins of Yanukovich's Party of Regions) were all created in the months preceding the 2014 elections.

<sup>16</sup> Authors' interviews in Kyiv in December 2015. Evidence of these cases is hard to locate and tends to be circumstantial. For example, VoxUkraine's analysis of voting patterns in parliament points to inconsistencies related to the core vote that 'is consistent with trading of favours with vested interests'. Dmitriy Ostapchuk and Tymofiy Mylovanov, 'VoxUkraine Report on Voting Patterns in Rada: The Real Coalition and Is Samopomich a Dissenter?', 16 April 2015, <http://voxukraine.org/2015/04/16/voxukraine-report-on-voting-patterns-in-rada-the-real-coalition-and-is-samopomich-a-dissenter/>.

<sup>17</sup> Mikloš (2015), 'Quo vadis, Ukraine?', p. 7.



---

resources and political power. Two years after the ‘Revolution of Dignity’, the assets of the 100 richest Ukrainians equal approximately 25 per cent of Ukraine’s GDP, and 60 per cent of these assets belong to only 10 individuals.<sup>18</sup> These people buy seats in parliament to protect their interests, preventing the free expression of democratic will in society, and contributing to the gulf between the ruling class and the Ukrainian people. While such practices are scarcely new in the development of democracy around the world, they are a serious impediment to the state’s capacity to implement reforms quickly.

Weak formal institutions leave space for informal networks and create fertile ground for easy translation of wealth into political power. Several factors are in play, including the absence of transparent and competitive rules for privatization and public procurement, non-transparent funding of political parties and media ownership, inadequate anti-monopoly regulations, and *de facto* privatized courts and law enforcement structures. Together these have together provided a foundation for vested interests to prosper. These networks also have a firm grip on major media resources, including TV channels and state companies, and they retain monopolies in entire sectors of Ukraine’s economy as well as strong representation in all branches of power. According to some sources, 70 per cent of MPs receive additional under-the-table payments.<sup>19</sup>

Limited progress on anti-corruption measures<sup>20</sup> provides a clear example of how the power of vested interests has the upper hand in the struggle with society to combat the venality of politicians and officials. None of the cases of corruption exposed by the media have so far led to criminal convictions. Attempts to replace managers of state enterprises, notably by the Minister of Infrastructure and the Minister of Economy, have met significant resistance, sometimes involving the employment of armed groups, accompanied by negative media campaigns using resources deployed by their oligarch owners to support their positions. The relative success of several political projects with ‘oligarch’ backing, such as Revival and the Ukrainian Association of Patriots, UKROP (supported by Ihor Kolomoisky) or Opposition Bloc (Rinat Akhmetov and Serhiy Liovochkin) in some local elections in October 2015 is an example of how financial resources translate into political power.<sup>21</sup> Parliament’s failure to pass a no-confidence vote in the government on 16 February 2016 provided further evidence of the influence of vested interests behind the scenes. Even though a majority of MPs, including those from parties with strong ‘oligarch’ backing, expressed dissatisfaction with the government’s performance, a number of MPs deliberately abstained from the second vote to ensure that it did not pass.

---

<sup>18</sup> *Forbes Ukraine* (<http://forbes.net.ua/ratings/1>), *Novoje Vremia* (<http://nv.ua/publications/nv-40-sostavlen-top-100-bogatejshih-ukraintsev-76798.html>) and *Focus* (<https://focus.ua/ratings/328351>) publish annual lists of rich Ukrainians with estimated value of their assets.

<sup>19</sup> Author’s interview with a member of parliament in November 2015. An MP’s official monthly salary is 6,106 UAH (approximately €200 at the time of writing). This was announced by the Chairman of the Parliament Volodymyr Groysman on 15 April 2015 (<https://www.facebook.com/volodymyrgroysman>).

<sup>20</sup> In Transparency International’s 2014 Perceptions of Corruption Index, Ukraine was ranked 142nd out of 175 countries: <http://www.transparency.org/country/#UKR>; while the World Bank’s 2016 Ease of Doing Business, Ukraine was in 83rd place out of 189 countries, four places higher than in 2015: <http://www.doingbusiness.org/data/exploreeconomies/ukraine/#close>.

<sup>21</sup> Opposition Bloc, for instance, emerged as the most popular political force in regional councils in Dnipropetrovsk, Zaporizhia, Mykolaiv and Odesa Regions and in a number of city councils in the south and east of Ukraine. Revival and UKROP were the winners in regional council elections in Kharkiv and Volyn. See election results infographics published by *Ukrainska Pravda* at <http://www.pravda.com.ua/cdn/graphics/2015/11/najdetalnishi-rezultaty-vyboriv-2015/>. However, the role of oligarchs in these elections is not restricted to support for specific ‘parties’. An overwhelming majority of candidates for seats in local councils and mayor positions ran as ‘independents’, while in practice being affiliated with oligarchs. Regional and local media coverage of election campaigns with obvious bias in favour of certain candidates provides evidence of oligarch influence. The oligarch factor in these elections is analysed in detail in Radio Free Europe (2015), *Yak Oligarchy Diliat’ Shid Ukrainy* [How Oligarchs Share Out the East of Ukraine], <http://www.radiosvoboda.org/content/article/27321260.html>.

Over the past 25 years, the vested interests grouped around big business have grown deep roots. They are resistant to the de-monopolization and deregulation that Ukraine urgently needs to stimulate successful free enterprise and attract investment. Their influence reaches deep into public life and creates a vicious circle of cronyism that will probably only diminish over time through the progressive strengthening of institutions. This is likely to require the consent and support of these groups, based on a perception that their interests are better served by creating stability and rule of law rather than acquiring exclusive rights at the cost of weakening the country as a whole.

In practical terms, to dissipate the influence of vested interests, Ukraine needs to overhaul its system of party financing and enforce the provisions of the Laws on Transparency of Media Ownership and State Funding to Political Parties that were adopted in late 2015. It also needs to reform the running of state companies, in part through privatization. The challenge is to do both free of the influence of dominant business groups. This will inevitably be a gradual process but there are clear signs that some – albeit not all – leading business people are now relatively weak as a result of substantial financial losses and may not be able to sustain their previous levels of influence.

### Limited implementation capacity

Finding agreement on reforms is only part of the problem. Implementation is also a serious challenge because of a range of capacity constraints.

The poor quality of Ukraine's civil service is a particular problem. Largely unreformed since Soviet days, it is oversized, underskilled and grossly inefficient. It does not encourage initiative or adequately incentivize performance. Not surprisingly, many civil servants cling to their jobs because their low skill levels offer them few other professional opportunities. There is a severe shortage of competence in the areas of strategic planning and project management, and the low salaries on offer make it difficult for reformist ministers to find better-quality replacements. There is still no clear overall plan for reducing the size of the bureaucracy, a step that is essential for attracting better talent by offering higher salaries. Raising officials' salaries has the potential to reduce corruption levels, as reforms in Georgia have shown.

There is also insufficient monitoring of actions taken. Regular surveys of those affected by reform measures are necessary as part of a communications strategy to show that the government is listening and able to fine-tune specific actions to achieve better results.<sup>22</sup> For example, to track the success of deregulation requires a regular feedback mechanism with businesses that deal with tax or customs officials. Cases of well-advertised, positive results would clearly help the government demonstrate that it is making progress and counter the myth that no reforms in Ukraine are taking place.

Resistance is also strongest at the level of implementation. Ukraine's poor legal culture is a key problem since it is commonplace to regard laws and regulations as bureaucratic obstacles that can

---

<sup>22</sup> The National Reform Council cooperates with TNS research agency to measure overall public perceptions of the progress of reforms and publishes results in its reports. See, for instance, National Reform Council (2015). *Reforms Monitoring Report for 2015*. Kyiv. However, additional research is required to assess the views of key target groups.

be bypassed by ignoring them or paying for them not be enforced. Major Ukrainian companies are particular culprits in this area and their efforts to subvert the rules are not always easily detectable. Weak law enforcement and anti-corruption capabilities further encourage disruption of reform efforts, given the absence of any threat of punishment for violating new regulations.

### Resistance to judicial reform and anti-corruption measures

Creating a functional justice system and reducing Ukraine's rampant corruption are pre-requisites for the success of the overall reform effort. They are also the litmus test of the will of Ukraine's current leaders to transform the country. The 'Revolution of Dignity' was born mainly out of society's increasing anger and frustration at uncontrolled stealing by its leaders and its complete loss of trust in the judiciary and law enforcement agencies. For all its talk about commitment to reform in these areas and despite considerable pressure from civil society, foreign governments and the donor community, the government dragged its feet on these critical reforms in 2014 and 2015.<sup>23</sup> The newly established Anti-Corruption Bureau only began work in earnest in January 2016 because of a delay in appointing an anti-corruption prosecutor. Civil society is also deeply frustrated by the slow and limited efforts to vet and reappoint judges.<sup>24</sup>

This reluctance to achieve genuine change in this area is hardly surprising given the current political class is drawn heavily from the old one and has much to fear from competently managed anti-corruption investigations overseen by an independent judiciary.

The legacy of the Yanukovich days and before is also particularly burdensome. For most of the time since independence in 1991, the authorities regularly instrumentalized the courts, and when they did not, other interest groups used them for their own predatory purposes. The situation remains largely unchanged. Low salaries paid to judges have exacerbated the possibilities for corruption. Similar problems bedevil reform of the powerful General Prosecutor's Office, a militarized structure inherited from Soviet days that has continued to function in line with its original mission as a tool of control rather than of upholding the rule of law.

Currently Ukraine lacks not only serviceable structures for politically independent criminal investigations and prosecution, but also the necessary experience. Even with stronger commitment to judicial reform by Ukraine's elite, vetting judges for appointment and establishing a culture of non-interference in the justice system cannot happen just by administrative fiat. Staffing the Anti-Corruption Bureau with reliable investigators and ensuring that it has a properly established relationship with the prosecution authorities is necessarily going to take time. In this respect, both Ukrainian society and the international community need to have patience. Sources involved in the establishment of the Anti-Corruption Bureau argue that the process was slow because it needed to be carried out properly, including with the participation of civil society.<sup>25</sup>

---

<sup>23</sup> For a summary of actions taken by the parliament and government in this area, see Konończuk, W. et al. (2015), 'The bumpy road. Difficult reform process in Ukraine', Centre for Eastern Studies, Warsaw, No. 192, 30 November 2015.

<sup>24</sup> In early 2016, Minister of Internal Affairs Arsen Avakov added his voice to those calling for all judges' appointments to pass through a system of external attestation to enable public trust in the courts to be built quickly. In a Facebook post he noted that in the public's view, Ukrainian judges embody everything 'except legality and justice': <https://www.facebook.com/arsen.avakov.1/posts/956945631062210>.

<sup>25</sup> Authors' interviews in Kyiv, December 2015.

---

Nevertheless, the glacial pace of progress in this area threatens to undermine further popular trust in the government's ability to satisfy the key demands of the Maidan to establish rule of law and prevent the country's wealth being stolen by its elite. The practice of passing laws but not implementing them is unlikely to remain satisfactory either for society or for Ukraine's Western partners.

By late 2015, Western governments were publicly voicing frustration with President Poroshenko's refusal to appoint a new general prosecutor in place of Viktor Shokin, who was widely seen to have resisted the introduction of reforms to combat corruption.<sup>26</sup> In February 2016, Poroshenko finally removed Shokin but without signalling any new measures to reform the prosecutorial service.

It is a sad fact that since Ukraine's new leaders came to power in March 2014, there has not been a single prosecution of any high-profile individual associated with the Yanukovich regime. Despite the claim by the new authorities that the regime had transported \$32 billion out of the country in cash in early 2014,<sup>27</sup> only a tiny amount of stolen money has been recovered.

Nevertheless, some important progress has been achieved. Transparency around public procurement and property ownership has increased significantly and the appearance of a foreign-trained police force – initially on the streets of Dnipropetrovsk, Kyiv, Kharkiv, Lviv and Odesa – marks a visible break with the past that has been well received by society.

The government's appointment of Georgian reformers, who achieved some remarkable anti-corruption successes after the 2003 Rose Revolution, is an indication of the lack of capacity in this area within the Ukrainian system itself. The training and equipping of the new police force and the payment of salaries would also not have been possible without the support of foreign governments, notably that of the United States.

Commentators frequently cite the experience of Georgia when discussing anti-corruption efforts in Ukraine. However, they often disregard the fact that the Georgians faced a different situation in their country at the time since there was strong political will at the top to tackle the problem of corruption. Unlike in Ukraine, the new policies were enacted quickly and boldly across a broad front.<sup>28</sup> As a result, they gained society's trust and created momentum to carry out reforms in other areas.

There is a long and painful road ahead of Ukraine's leaders if they are to satisfy the public's desire to ensure equality before the law. Their failure to tackle even petty corruption in earnest points to a leadership that is fearful of changing the status quo as well as creating a new set of dispossessed people. The recipients of low-level bribes in many cases depend on these to supplement their meagre salaries. Anti-corruption measures must therefore be accompanied by administrative

---

<sup>26</sup> See Halya Coynash (2016), 'How Ukraine's Prosecutor General Sabotaged the Reform Process', Atlantic Council, 6 January 2016, <http://www.atlanticcouncil.org/blogs/new-atlanticist/how-ukraine-s-prosecutor-general-sabotaged-the-reform-process>; and 'Remarks by Ambassador Pyatt at the US-Ukraine Business Council and Kyiv School of Economics Conference on Legal and Governance Reform', 30 October 2015, <http://ukraine.usembassy.gov/statements/pyatt-kse-10302015.html>.

<sup>27</sup> Claim made by Acting General Prosecutor Oleh Makhnitsky at the Ukraine Forum on Asset Recovery held in London in April 2014, cited by *Segodnya* daily, <http://www.segodnya.ua/politics/pnews/gpu-yanukovich-ukral-u-gosudarstva-bolee-100-mlrd-517092.html>.

<sup>28</sup> World Bank (2012), *Fighting Corruption in Public Services: Chronicling Georgia's Reforms*, [http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2012/01/20/000356161\\_20120120010932/Rendered/PDF/664490PUB0EPI0065774B09780821394755.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2012/01/20/000356161_20120120010932/Rendered/PDF/664490PUB0EPI0065774B09780821394755.pdf).

reform that will check bureaucratic influence through deregulation and begin to pay state employees higher salaries, reducing incentives to take bribes. Addressing high-level corruption is especially difficult given Ukraine's fragile political environment, but the public needs to see evidence that the crimes of the former government are being exposed and former officials brought to justice.

Ukrainian society as a whole has far greater ambitions than its leaders for reform of the justice system and the introduction of effective anti-corruption policies. Up to now, its expectations have been disappointed and reformers worry that the longer the problems remain unaddressed, the greater the likelihood that society will lose its belief in the possibility of reform, and new politicians with the potential to behave differently will be tempted into the old ways.

It should be noted that Latin America is replete with examples of how corrupt practices can embed themselves over generations to the point where they become impossible to root out. Ukraine's ability to transform its future would be severely constrained if it were to follow such a path.

### Drivers of Reform

While the impediments to reform in Ukraine are abundant, pernicious and deep-rooted, the country also has important internal assets that are creating countervailing pressures and have strong potential to grow over time. At the same time, Western countries and Russia are significant, albeit highly contrasting, sources of external pressure driving change. Less tangible than the obstacles to reform, these factors were not present after the Orange Revolution and create a very different context for Ukraine's latest efforts to achieve modernization.

#### Pressure from below

The 'Revolution of Dignity' inevitably brought high expectations of reforms among the population. Civil society, through its diverse NGOs and other horizontal links, is strongly motivated and feels empowered. Armed with a clear set of values, it is in many respects far ahead of Ukraine's political leaders in its understanding of how the country needs to change, and it is filling important gaps in social provision and other areas. Without the involvement of civil society, the country would not have been able to defeat the Kremlin's 'Novorossiya project'. The 'volunteer battalions' were a powerful example of grassroots solidarity among Ukrainian citizens and their ability to organize themselves effectively in the absence of reliable state military forces.

The 'new' authorities are therefore under strong pressure from below to deliver results. Ukraine's current ruling class is well aware that it owes its current position to an active and courageous part of Ukrainian society that succeeded in ousting the Yanukovich regime. As a result, it knows that it is accountable to these people and the memory of those who died in the process. The loss of up to 9,000 lives in defence of Ukraine's territorial integrity also weighs heavily. It has created a moral imperative for responsible leadership in the national interest that has not existed at any point since Ukraine became independent in 1991. This considerably increases the pressure on Ukraine's leaders.

---

The awakening of Ukrainian society is also a reminder of a profound difference between Ukraine and Russia: in contrast to their counterparts, Ukrainians do not have a historical experience of successful identification with the state despite depending on it. As a result, they tend to distrust the state and seek ways to work around it. The entry for the first time of reformist forces into government and parliament marks a major departure and may be a sign that the country is entering a new and long overdue phase of state consolidation. The new reformers are also demonstrating an ethos of public service previously unseen in Ukraine. This is another important precedent.

This sustained pressure from a larger, more confident and more capable civil society makes today's Ukraine different from what it was after the Orange Revolution. Two years after Yanukovich was forced to leave office, the pressure is not subsiding. Society is monitoring its leaders on multiple fronts and in different ways. One of the most prominent initiatives is the Reanimation Package of Reforms (RPR), a civil society platform that emerged immediately after the 'Revolution of Dignity' and brought together over 30 organizations from across Ukraine. Over the years, this group gained substantial expertise in various sectors and was able to propose specific reforms. This type of input from civil society has been highly effective. RPR claims that, over a nearly two-year period, 75 bills developed with its involvement or support have been passed into law.<sup>29</sup>

The boom in investigative journalism and media coverage of corruption cases is another important asset that can help accelerate anti-corruption activities and judicial reform. As journalists have started to lose their fear of reporting on these issues, new internet resources as well as television programmes have taken root. These outlets have exposed corruption at the highest level, gaining a broad audience and exerting pressure on the political class to put an end to some of its established practices. These exposés have not yet resulted in criminal convictions, but in the first two months of its operations the new Anti-Corruption Bureau had launched 56 investigations, including several in response to media reporting.<sup>30</sup>

Ukrainian society is also showing a willingness to step into areas where the state lacks capacity. Public involvement in volunteering, for example, has risen sharply. According to one opinion poll conducted in September 2014, 78 per cent of Ukrainians provided support to the army and to internally displaced persons (IDPs) between May and September 2014.<sup>31</sup> In this light, it is not surprising that in opinion polls on the level of trust in public and civic institutions in Ukraine, voluntary initiatives were at the top: trust in volunteers scored 7.3 points out of 10, far higher than trust in the public authorities.<sup>32</sup>

A diversity of social start-ups and other new initiatives<sup>33</sup> also shows that part of society is prepared to take action itself without waiting for reforms to happen from above. Another related development is the appearance of small entrepreneurs producing a diversity of goods that in

---

<sup>29</sup> Information provided by Artem Myrgorodsky, Director of Secretariat of RPR, in February 2016.

<sup>30</sup> See National Anti-Corruption Bureau (2016), *Report for August 2015–February 2016*, pp. 14–15, [http://www.nabu.gov.ua/sites/default/files/reports/NAB\\_report\\_02\\_2016\\_site.pdf](http://www.nabu.gov.ua/sites/default/files/reports/NAB_report_02_2016_site.pdf).

<sup>31</sup> Support took many forms, including financial contributions, donations of clothing, food and medicines, and participation in voluntary activities. See Democratic Initiatives Foundation (2016), *32.5% Ukrainians Personally Transferred Money to Support the Ukrainian Army. The Rural Population Was More Generous than City Dwellers*, [http://dif.org.ua/ua/commentaries/sociologist\\_view/32anizh-miski-zhiteli.htm](http://dif.org.ua/ua/commentaries/sociologist_view/32anizh-miski-zhiteli.htm).

<sup>32</sup> See the results of the public opinion poll carried out by the Kyiv International Institute of Sociology and *Zerkalo Nedeli* [Mirror Weekly] in December 2014. *Zerkalo Nedeli* (2014), *Narod i Vlast* [People and Power], <http://opros2014.zn.ua/authority>.

<sup>33</sup> Updates on these initiatives are regularly published by *Ukrainska Pravda* in its section called 'Journal of Big City' at <http://bzh.life>.

---

previous years were imported. ‘Made in Ukraine’ has rapidly become a sought-after brand, mainly among the urban middle class.

A further encouraging development is the rise of new political parties free of ‘oligarch’ funding and with a highly democratic internal culture. In October 2015, one such party, People Power (Sila Liudei), gained 240 seats on local councils, as well as elected mayors in 20 regions of Ukraine. The membership of the party has increased from 200 to 2,900 members within the past year. This trend is still fragile, but potentially reformist forces within the system may use the opportunity to run as a united political force in the next parliamentary elections. Demand is strong for a single party that could offer a clear and convincing programme based on values of democratic modernization. Analysts estimate that 15–20 per cent of the electorate would vote for such a party.<sup>34</sup>

Some caveats are necessary when describing Ukraine’s civil society. Despite its rapid progress, and its impressive activism, it has clear limitations at this stage. It is fragmented and has stronger capabilities in some parts of the country than others. For the moment, it is generally less active in the reform process at regional and local levels. It has a generally weak membership base. It also tends to rely heavily on Western funding and does not always have a positive reputation among pro-reform officials.

However, civil society has already made a considerable contribution to the elaboration of a reform agenda and is often an effective watchdog, maintaining pressure on members of parliament and municipal authorities. In some areas, such as economic reform issues and foreign policy, it interacts very effectively with state institutions. Its strength is growing and it is likely to continue to develop its capabilities, particularly given Kyiv’s priority of decentralizing authority and making public budgets transparent. This will create considerable additional opportunities for ensuring accountability of officials at local level and influencing regional initiatives. A more significant role across the country will also help civil society establish the ability to mobilize on a national scale.

There are already signs in some of the larger regional cities such as Kharkiv, Odesa and Dnipropetrovsk that civil society already has well-developed capabilities in some areas. Both cities were very efficient in accommodating and supporting large numbers of IDPs from Donbas. The events of 2014 also served to mobilize the Ukrainian diaspora in a significant way. It provided financial support for Ukraine’s defence, including for medical assistance for military personnel and post-trauma care.

Ukraine’s diversity is another asset in terms of reform. With its different historical memories and overlapping ethnic and regional identities, it is a country of contradictions. Although politicians have tended to present these differences as dividing lines, especially in election campaigns, they can become important drivers of reforms if decentralization is implemented effectively and newly empowered regions and cities begin to compete for investment. Odesa Region under the governorship of former Georgian president Mikheil Saakashvili is an important test case for how an

---

<sup>34</sup> Interview with Valeriy Pekar, co-founder of the New Country (Nova Kraina) Initiative (<http://novakraina.org/>) and member of the National Reform Council, Kyiv, 1 December 2015.

---

economically and strategically important region of Ukraine can develop using the experience of a proven reformer.<sup>35</sup>

### Resources within the system

The ‘Revolution of Dignity’ attracted to the ranks of government a small but capable set of senior reform-minded professionals with high levels of personal integrity. Finance Minister Natalie Jaresko and Deputy Head of the Presidential Administration Dmytro Shymkiv are two of the best-known examples of international business people turned officials,<sup>36</sup> but there are around 200 new recruits of this kind. Out of a total of 300,000 government officials, their number is tiny but they have significant influence because they have generally taken the posts of ministers, deputy ministers and heads of departments. Some were foreign nationals who accepted Ukrainian citizenship, while others were brought in with the help of recruitment agencies or through the Professional Government Initiative, a network created by Ukrainians with degrees from Western universities.

The impact of these new officials has been variable. They have achieved impressive results in areas where they have been able to conduct reforms with support from civil society and external actors, and also on occasion from within the system itself.

The independent analytical group VoxUkraine has rated the Ministry of Economy and Trade, National Bank of Ukraine, Ministry of Finance, Ministry of Justice, Ministry of Social Policy and the Ministry of Agriculture as the best performers.<sup>37</sup> The establishment of the Anti-Corruption Bureau, the new police force and the pilot online public procurement system ProZorro are also considered success stories. These are examples of new structures that are set to limit the space for poor governance and corruption under the old system.

In parliament there are around 50 ‘new faces’, according to different estimates. They come from civil society, the media and the private sector. These people were elected via different party lists and through parties or political projects tied to the old system that formed part of the post-Maidan coalition. As a way of distancing themselves from former politics, 30 of them have launched a parliamentary inter-faction group EuroOptimists.<sup>38</sup>

In reality, the established parties recruited these people as a way of legitimizing themselves in civil society. Inevitably, these new MPs as a group lacked coherence and visibility since they belonged to party groupings and were subject to party discipline. Yet they tried to coordinate their actions and communicate with the media. For example, in November 2015, 15 of these MPs from the Petro Poroshenko Bloc organized a press conference and announced that many MPs represent vested interests and were involved in corrupt networks.<sup>39</sup> They vowed to continue monitoring corruption

---

<sup>35</sup> The hiring of administration officials in Odesa Region down to district level using a transparent and competitive process has set an example for other regions in Ukraine.

<sup>36</sup> Natalie Jaresko previously worked for the US government and had a successful career as a fund manager. Dmytro Shymkiv is also Secretary of the National Reform Council. He was previously the CEO of Microsoft Ukraine.

<sup>37</sup> VoxUkraine (2016), Rik Roboty Uriadu: Otsinka vid VoxUkraine [The Year of the Work of the Government: Assessment by VoxUkraine], <http://voxukraine.org/2016/01/08/rikroboty-uryadu-otsinka-vid-voxukraine-ua/>.

<sup>38</sup> The group’s webpage is at <https://www.facebook.com/EuroOptimists/>.

<sup>39</sup> Ukrainska Pravda (2015), *U BPP Sformuvaly Grupu, Yaka Borotymetsia zi Zlochynamy Chynovnykiv* [In the Petro Poroshenko Bloc They Formed a Group that Will Fight Crimes of Public Employees], <http://www.pravda.com.ua/news/2015/11/25/7090106/>.



cases. Since becoming MPs, some have continued to work as investigative journalists and have exposed a range of corruption cases.<sup>40</sup>

The direct impact of these people on the overall pace of reforms is difficult to measure but it is clear that they exert influence by virtue of being able to articulate credibly the aspirations of civil society. They make the work of the parliament more transparent and bring to public attention issues that would otherwise go unnoticed, such as provisions in bills that point to vested interests or information they can access as MPs. Importantly, they set an example of a new political culture and provide a constant reminder of how new forces in Ukraine are in conflict with the old.

The Project Management Office in the National Reform Council is another innovation that is seeking to transplant managerial experience into the government system. It hires professionals with experience of conducting reforms and seconds them to ministries. The European Bank for Reconstruction and Development pays for their salaries. At the time of writing, 15 project managers are working for this office and there are plans to expand their number.<sup>41</sup>

In the view of many Ukrainians and foreign observers, President Poroshenko and Prime Minister Yatseniuk are partial reformers and transitional figures between the old and new systems, responding to pressures from both old and new forces. Despite these contradictions, they have created important opportunities for new political blood to enter the system and to begin the process of change.

The ‘new’ reformers are acutely conscious of the need to deliver more ‘quick wins’ to maintain public trust and stay in power. Provided they remain in parliament and government, and their numbers increase, reforms are likely to accelerate. It is striking that they have so far been able to achieve disproportionate results given their limited representation, the scale of the reform agenda and the resistance they face.

### External pressures

Western countries have invested significant political resources in supporting Ukraine’s transition efforts since 2014. The United States and European Union have worked effectively together to do so since they share a common pragmatic interest. In the short to medium term, they want to prevent the country from breaking apart and causing wider destabilization of Europe. Countering Russian efforts to weaken Ukraine’s independence is also seen as important to the wider task of resisting Russian pressure to establish *de facto* spheres of influence in Europe.

In the longer term, Western countries hope that Ukraine will seize the chance to strengthen its institutions and its economy and live peacefully alongside Russia. This presupposes, of course, that

---

<sup>40</sup> The most prominent example is that of Serhiy Leshchenko, who published a number of investigative articles since becoming an MP. One of the cases concerned an MP from the People’s Front faction, Mykola Martynenko. Leshchenko discovered that criminal cases were opened against Martynenko in Switzerland and the Czech Republic. In response Martynenko accused Leshchenko of being paid ‘by the Russian side’ to malign him. Up to now, no criminal investigation against Martynenko has been instigated in Ukraine. Zerkalo Nedeli (2016), *Leshchenko Podav Pozov do Sudu Protiv Martynenka* [Leshchenko Sued Martynenko in the Court], [http://dt.ua/POLITICS/leschenko-podav-pozov-do-sudu-proti-martinenka-197287\\_.html](http://dt.ua/POLITICS/leschenko-podav-pozov-do-sudu-proti-martinenka-197287_.html). However, Martynenko resigned from parliament after the allegations became public.

<sup>41</sup> Interview with Andrei Lobatch, director of the project management office of the National Reform Council, in Kyiv, December 2015.

Russia's current posture towards Europe and the European aspirations of its neighbours is unsustainable and will moderate over time as Russia rebalances its domestic and foreign policies.

Western countries are therefore likely to provide further moral, practical and financial support if Ukraine's leaders can continue to demonstrate sufficient levels of commitment to reform. The US and the EU take the view that the progress achieved so far is less than hoped but enough to merit further support. Yet by the end of 2015, there were clear signs that patience with the government's efforts to implement reforms was wearing thin. Addressing the Ukrainian Parliament in December, US Vice President Joe Biden issued a clear warning that this was 'Ukraine's last moment' and its leaders must seize it.<sup>42</sup>

Western support has come with conditions. The IMF's \$17 billion macroeconomic stabilization package includes requirements for raising household gas prices and the establishment of specific anti-corruption structures. Disbursements are also subject to regular review. The EU has also provided conditional support in the area of anti-corruption reform, as part of its offer of visa liberalization.

However, conditionality has its limits when Ukraine's leadership knows that the price of Western countries withdrawing their support would be intolerably high for those countries as well. By late 2015, there was growing frustration among Ukraine's Western partners at the tendency of some parts of the Ukrainian elite to believe that Ukraine must be helped at all costs and that Western countries should support it politically and economically – as they did West Germany after the end of the Second World War.

Despite the strong rejection of this view in Western capitals, Ukraine's leaders are probably right in believing that the US and the EU will show a degree of patience with them and their less-than-bold reform efforts because there is no other viable option at present for stabilizing the country. Yet they tend to underestimate the other pressures on their Western partners. Faced with serious problems at home and a multitude of crises elsewhere, they do not have endless reserves of political will, let alone financial and administrative resources, to support Ukraine through a long transition process without Ukrainians starting to take much more responsibility.

Ukraine's leaders should also be aware that Western publics and governments have short attention spans, as evidenced by their rapid loss of interest in Russia after the turbulence of the 1990s and their failure to identify the direction in which it was turning. 'Ukraine fatigue' is clearly visible in a number of Western capitals and is likely to intensify. Just as Ukraine's society cannot run indefinitely on the adrenalin of the 'Revolution of Dignity', nor can Ukraine's international supporters.

For the US and EU, there is a difficult balance between carrots and sticks in their handling of Ukraine's leaders. Too few or too many of either can have negative effects. However, the more difficult task relates to dealing with issues of overlap between Ukraine and Russia. This has been

---

<sup>42</sup> 'Remarks by Vice President Joe Biden to the Ukrainian Rada', 9 December 2015, <https://www.whitehouse.gov/the-press-office/2015/12/09/remarks-vice-president-joe-biden-ukrainian-rada>.

---

evident in the pressure applied to Kyiv to ensure that it is 'whiter than white'<sup>43</sup> in its implementation of the Minsk Agreements. This creates the impression among observers both within and outside Ukraine that Western countries push Ukraine harder than Russia to observe its obligations because it is easier to do so.

Russia's treatment of Ukraine in the run-up to the 'Revolution of Dignity' and since then has proved to be a key factor in creating an environment conducive to reform. Moscow's actions over the past two years have radically changed Ukrainian attitudes towards it and galvanized much of society into supporting radical reforms and accepting the pain involved. The evidence from recent opinion polls of the changed views of Russia is striking. After Russia's aggression against Ukraine in 2014, support for NATO membership jumped from 13 per cent in 2012 to over 45 per cent at the end of 2015.<sup>44</sup> Similarly, in August 2015 when fighting in the Donbas had subsided, nearly 72 per cent of Ukrainians identified Russia as an aggressor in Eastern Ukraine.<sup>45</sup>

As long as Russia remains locked on a course of confrontation with Europe and the US, and not just over Ukraine, it is unlikely that it will be able to deploy positive influence that could change the current majority view of Ukrainians about their northern neighbour. The more Moscow tries to unite Russians using crude anti-Western propaganda, the more it is alienating Ukrainians. President Vladimir Putin's frequently stated position that Russians and Ukrainians are one indistinguishable, brotherly people<sup>46</sup> only serves to drive a deeper wedge between the two as Ukrainians see further confirmation that Russians do not accept that the two countries' political culture and traditions are not identical. They also have abundant evidence that Russia in its present form will not tolerate Ukraine's attempts to reform itself on a Western model. Russian economic sanctions against Ukraine underline this message.

Perversely for Moscow, therefore, Russia's negative influence has united Ukraine and put an end to its strategic ambivalence since 1991 when it tried to avoid making a choice between Russia and the West. This policy was only sustainable as long as there was no prolonged breakdown in with the relationship between Russia and the West. The irony is that the ultimate factor that brought about the crisis in this relationship was Ukraine itself.

Russia can clearly continue to undermine Ukraine's efforts at transition and is likely to do so as long as it is fighting a broader battle with the West. Moscow has a range of powerful instruments at its disposal: military, economic, political, diplomatic and informational. It is deploying all of them simultaneously to varying degrees and can ramp the pressure up and down as necessary. A serious

---

<sup>43</sup> See transcript of Prime Minister Yatseniuk's response to questions at Chatham House, 15 July 2015, after his talk on 'Transforming Ukraine: Successes and Obstacles on the Way to Reform',

[https://www.chathamhouse.org/sites/files/chathamhouse/field/field\\_document/20150715QYatsenyukQA.pdf](https://www.chathamhouse.org/sites/files/chathamhouse/field/field_document/20150715QYatsenyukQA.pdf).

<sup>44</sup> Poll conducted by the Razumkov Centre, 'What is the best way to guarantee the national security of Ukraine?', [http://www.razumkov.org.ua/eng/poll.php?poll\\_id=1082](http://www.razumkov.org.ua/eng/poll.php?poll_id=1082).

<sup>45</sup> Poll conducted by the Razumkov Centre, 'How do you assess Russia's position in the conflict in Eastern Ukraine?', [http://www.razumkov.org.ua/eng/poll.php?poll\\_id=1024](http://www.razumkov.org.ua/eng/poll.php?poll_id=1024).

<sup>46</sup> Putin has made several statements to this effect in recent years. During a visit to Crimea on 17 August 2015, he said: 'I believe that Russians and Ukrainians are all in all one people, we don't make a distinction.' See [http://www.kremlin.ru/events/president/transcripts/comminty\\_meetings/50140](http://www.kremlin.ru/events/president/transcripts/comminty_meetings/50140).

---

threat that is less talked about but was deployed effectively after the Orange Revolution is Russia's ability to buy influence in Kyiv in both the government and the parliament.<sup>47</sup>

In this respect, Russia's success in deeply penetrating Ukraine's defence and security structures during the Yanukovich years, rendering the country almost defenceless, should not be forgotten. Ukraine has made notable progress in re-establishing its defence and security capabilities, including its intelligence services, but the process is far from complete and could be disrupted by non-traditional means. Just as importantly, Kyiv has eliminated gas trading intermediaries with Russia; these were a constant source of non-transparent deals and corruption, and acted as a strong lobby for Russian–Ukrainian integration.

The possibility remains that Moscow will try to reduce tensions in its relations with the West and that these attempts could have a knock-on effect on Western countries' relations with Ukraine. The default instincts of some forces in Germany to develop a new *Ostpolitik*, for example, suggest that Moscow's efforts in this area may be rewarded in some quarters. If instead, Russia carries on pursuing confrontational relations, it will force NATO countries to continue giving a greater security focus to developments in Eastern Europe, and will deepen security cooperation between NATO and Ukraine.

## Conclusions

The internal and external context for Ukrainian reforms is significantly different from the situation at the time of the Orange Revolution, and the pressures driving change are far greater. The most important of these is the impulse from Ukrainian society itself, even if a complete vision of the country's development path is still lacking. The combination of Russian pressure and Western support of the reform effort gives an impetus to Ukrainian society to maintain its drive for change. This, in turn, is placing unprecedented pressure on the current holders of power to reduce their resistance to reform and to begin accepting a new status quo in which the rules of the game increasingly shift towards society and away from a narrow elite that has been able to hijack so many of the country's resources.

Even under the best scenario, Ukraine's efforts to conduct far-reaching reforms are likely to last decades. The results so far suggest they are neither doomed to fail nor guaranteed to succeed. Much depends on the ability of Ukrainian society to sustain its belief that reforms can take root and to produce a new generation of leaders capable of replacing the transitional figures of today. Tomorrow's leaders will need to translate society's values and aspirations into policies that can create new institutions and new standards of governance. There are signs that such a new political class is in the making, but it is currently amorphous and lacks clear leaders. The acid test is whether Ukrainians can summon the will and the means to break the grip of 'oligarch' forces and their networks over the economy, the media and, by extension, political life.

---

<sup>47</sup> The sales of Russian gas through to Ukraine between 2004 and 2009 through the non-transparent joint venture RosUkrEnergO led to suspicions within parts of the Ukrainian government that it was undermining national security. President Viktor Yushchenko reportedly resisted efforts to investigate it by the Head of the Ukrainian Security Service; see John Lough, *Russia's Energy Diplomacy*, Briefing Paper, Chatham House, May 2011, p. 14.

The forces impeding and driving reforms are finely balanced but overall, and despite renewed political turbulence in early 2016, remain tilted slightly in favour of the latter. This is reflected in the scorecard of reforms to date: some easier reforms such as cleaning up of the banking sector, deregulation and raising of energy prices were implemented, mostly owing to external and domestic pressure, while on others such as administrative and judicial reform and anti-corruption measures progress has been slow. However, slow progress is not zero progress. Even in the case of some of these challenging reforms, important legal and institutional foundations have been laid often after months of struggle. The establishment of the e-procurement platform ProZorro and the National Anti-Corruption Bureau are striking examples. Nevertheless, resistance to operationalizing new structures remains strong since success in these areas will signal the end of the old system of governance and opportunities for vested interests connected to it.

Given time, space and a period of modest economic growth, there is no reason why Ukrainians should not be able to make significant further headway on reforms as the country opens itself further to Europe through trade, inward investment, study and travel. The example of successful transition in several Central European countries provides a strong source of encouragement to Ukraine's reformers despite the obvious differences in starting points. Moreover, Ukraine's Association Agreement with the EU, including its free trade provisions that came into force in 2016, has the potential to accelerate economic modernization across the board, including the establishment of new industries. Economists broadly agree that the country's geography, its physical and human resources and its highly competitive labour costs should serve to encourage investment.

Until Russia itself embarks again on a track of modernization and moves away from confrontation with the West, Ukraine is likely to continue to experience pressure from its neighbour to abandon its pro-Western policies. For the time being, it is probably safe to assume that this pressure will continue to keep Ukrainians motivated to see through painful changes. Under its current system of government, Russia offers them only a failing model of development that they have already abandoned.

Although deficient in critical areas, the changes achieved over the past two years are remarkable. Successful defence against Russia's 'Novorossiya project' has reinforced Ukrainians' identity and self-confidence as a nation. It has shown that Ukraine is very far from being the 'failed' or 'failing state' that Russian propagandists like to depict. Although society is increasingly frustrated by the lack of positive results from reforms, it continues to exert strong pressure on its leaders to behave differently. Increasing numbers of Ukrainians describe the changes that resulted from the 'Revolution of Dignity' as irreversible.

Over the coming years, sustained Western pressure on Ukraine's leaders is likely to be an important factor in keeping the country on a reformist course. Generous amounts of 'tough love' will be necessary, as well as a sense of realism and perspective about what is genuinely achievable in a country that is engaged simultaneously in the processes of reform and state-building.

Western enthusiasm about the Maidan movement has already given way to disillusionment in some quarters. In many ways, this outcome was inevitable given the high expectations that tend to accompany revolution, the heavy legacy of failed and partial reforms that Ukraine has experienced since 1991 and the current constraints on its reforming capacity.

The country's limitations and challenges are now visible in stark relief: an immature political culture enmeshed with the hydra of 'oligarchic' influence that strangles democratic institutions; an economy mired in deep crisis; and a political leadership from the 'old' world but charged with leading Ukraine into the 'new' world governing through a bureaucracy that remains deeply resistant to change.

As a result, it is easy to ignore the positive attributes that can drive a breakthrough on reform. Key among these is the very deep desire for change in Ukrainian society and its consciousness that it has acquired real influence over a political class that does not fully represent it. However, to retain this energy and conviction requires more evidence of successful reforms. In this respect, Ukraine's reformist forces are in a race against time. Understandably, they are concerned that Western countries might lose interest in supporting them and succumb to the temptation to normalize relations with Russia.

While it is likely that the EU and Western governments cannot indefinitely keep up the same policy focus on Ukraine, this will be less because of a desire to 'reset' relations with Moscow than because of the other problems they face at home and abroad. Just as Ukrainian society is becoming accustomed to looking after its own interests rather than expecting the state to do so, so the country's elites will have to learn to resolve their internal conflicts without relying on their main Western partners. This level of attention is simply not sustainable in the long term.

In their effort to manage the situation in Ukraine, Western countries must also guard against imposing a settlement in Donbas that could weaken the reform effort over the longer term by giving Russian proxies influence over the rest of Ukraine. They must also recognize that Ukraine is a country of nuances. Reports of continuing high-level corruption can easily obscure the evidence from social media networks that society is holding its leaders accountable at local level and becoming more involved in decision-making by electing its representatives as mayors and town councillors. New actors are fighting old structures and habits, sometimes with mixed success, but a broad struggle is taking place and Western governments need to look beyond Kyiv to see what is playing out more widely across Ukraine.

Ukraine is a laboratory of change for several post-Soviet countries, in particular Russia, and will deserve close attention over the coming years. The role of Ukraine's international partners will be crucial and the experience gained should equip them to respond appropriately to other countries from the region that may eventually choose a European model of development.

### *Recommended principles of engagement for Western governments*

- Have realistic expectations of what Ukraine can achieve and do not lose sight of its starting point. There are no parallels for European-style reforms on this scale.
- Be prepared to continue providing significant support and attention to help stabilize the political process. However, guard against Ukrainian counterparts becoming dependent on external mediation to resolve differences.
- Maintain strong conditionality to stimulate real rather than partial or cosmetic reforms.

- Encourage the Ukrainian government to pursue a strategy that includes a series of ‘quick wins’ (but not at the expense of real improvements) as well as effective communication about the implementation of reforms that will take longer to provide benefits.
- Do not focus on personalities. Emphasize instead values, principles and outcomes. Nevertheless, differentiate genuine reform-minded actors from partial reformers or those who block positive change, and be prepared to intervene if necessary to tip the balance towards real reforms.
- Ensure capacity-building in government remains a priority area for support. It will be essential for creating systems of governance and public service that will deliver improved results to Ukrainian citizens.
- Continue to invest in civil society through grants, partnerships and other measures to strengthen systems for monitoring the performance of government at all levels.
- Provide increased technical expertise and other means to accelerate the building of political parties.
- Help reduce corrupt behaviour among Ukrainian elites by investigating related suspicious financial transactions in Western countries.
- Do not allow reforms to become hostage to the goal of finding a quick solution to the Donbas problem and the restoration of Ukraine’s territorial integrity. Do not allow Ukraine’s sovereignty over its domestic and external policies to be compromised.
- Keep Crimea in focus. Monitor closely the issue of basic freedoms there and compare these with the rest of Ukraine. Human rights violations such as in the case of Crimean Tatars deserve attention.
- Think long. The task of stabilizing Ukraine will take decades. Europe needs to give Ukrainians a greater sense of belonging to Europe in response to their ‘European choice’. Visa-free travel should be only the start of this process. Academic and school exchanges, town twinning, sports tournaments and other people-to-people contacts will accelerate efforts to embed Ukraine in a European environment. These same tools provided highly effective in integrating Germany into the West after the Second World War. This was also a long process, but one that brought dramatic success.

## About the Authors

**John Lough** is a vice president with Gabara Strategies Ltd, a public affairs and strategic consulting firm. He is also an associate fellow of the Russia and Eurasia Programme at Chatham House

**Iryna Solonenko** is a researcher at the European University Viadrina, Frankfurt/Oder and an associate fellow at the Robert Bosch Center for Central and Eastern Europe, Russia and Central Asia of the German Council on Foreign Relations (DGAP).

## About the Ukraine Forum

The Ukraine Forum at Chatham House is a unique platform for debate and research. Launched in 2015 in response to the challenges of transformation in Ukraine and subsequent Western engagement, the Forum provides insight for European audiences on internal Ukrainian dynamics and offers diverse perspectives from government, the private sector and civil society.



## **Acknowledgments**

The authors wish to thank the Ukrainian government officials, members of parliament, civil society activists, journalists and foreign ambassadors whom they interviewed in Kyiv in November–December 2015. They are also grateful to the members of the European Commission’s Support Group for Ukraine who explained the EU’s contribution to the reform effort in Ukraine. Without the generous assistance of the interviewees, it would not have been possible to write this paper.

Thanks are also due to Robert Brinkley, Vadym Doroshenko, Janet Gunn, Orysia Lutsevych, Frank Paul and two anonymous peer reviewers for their invaluable advice on the text.

---

# Independent thinking since 1920

Chatham House, the Royal Institute of International Affairs, is an independent policy institute based in London. Our mission is to help build a sustainably secure, prosperous and just world.

Chatham House is an independent body that promotes the rigorous study of international questions and does not express opinions of its own. The opinions expressed in this publication are the responsibility of the author(s).

© The Royal Institute of International Affairs, 2016

Young Ukrainians throw snowballs at each other near the Motherland Monument at the Great Patriotic War Memorial Complex in Kyiv, Ukraine on 17 January 2016. The monument is often seen as a symbol of the problems of Ukraine's Soviet legacy. The young generation is generally more in favour of democratic values.

Cover image © Vladimir Shtanko/Anadolu Agency/Getty Images

ISBN 978 1 78413 130 2

This publication is printed on recycled paper.