



Ukraine's other war

by Jana Kobzova and Nicu Popescu

Ukraine is fighting two wars simultaneously. The most obvious is the hybrid conflict in the east, fuelled and sustained by Russia. But while the 'hot phase' in this arena is over, at least for now, Ukraine is also engaged in a war against itself. It is locked in a struggle against its own dysfunctionality and endemic levels of corruption which will affect millions, from low-level policemen and fire inspectors to oligarchs and leading politicians. And while Ukraine can cope with the existence of an almost frozen conflict in the Donbas, there is no possibility of accepting the *status quo* with regard to the latter war.

There is currently a lull in the violence in the Donbas: it is relatively contained, and fears of a larger-scale conflict have significantly decreased since last year. While most Ukrainians have been affected personally in some way (almost 8,000 people have been killed, siblings or husbands mobilised or drafted, and large amounts of the population displaced), it seems that the populace at large has accepted the fact that eastern Ukraine is already turning into a 'Gaza-like' territory from which a small, but steady, stream of bad news flows.

A swift victory in the east is no longer expected and many now privately question whether Ukraine's limited financial, human, and humanitarian resources

should continue to be directed towards those who have remained in the separatist-controlled areas. This opinion seems to also be widely shared by the country's political elites. In other words, large sections of Ukraine's body politic are increasingly acceptant of a post-Donbas reality.

The war in the east has been contained through the tortuous Minsk process, a flurry of Western diplomacy, and the non-collapse of Kiev's military. Now, it is Ukraine's internal conflict which has the most serious implications for both the country's future and the region's stability.

Reform tide: slowly but surely

Ukraine is slowly but surely ratcheting up its engagement in this domestic war. Though overdue and not always strong enough, a discernible reform dynamic exists. Unlike wars, however, reforms rarely generate headlines. And the reforms themselves are more akin to a slowly encroaching tide than a tsunami. That said, this tide is slowly becoming stronger.

The country still faces an economic crisis, but its impact has been mitigated by a number of factors. Although the devaluation of Ukraine's currency, the hryvnia, has occurred in tandem with the near-



doubling of the dollar, its drop in value is no worse than that of the Russian rouble. This can be considered an achievement given Moscow's comparatively much stronger economic position. The expected gas price hike has thus far also been less dramatic than it could have been. Household costs have increased three-to-five-fold, but subsidies for the poorest are being offered by the state. Importantly, thanks to falling gas prices on international markets, Ukraine has slightly greater breathing room following the drop in the price of oil.

The economy is slowly stabilising: backed by the IMF, Kiev has renegotiated its debt with private creditors and attempted to cut red tape and legalise large chunks of the country's grey economy. The number of direct taxes has been reduced from 22 to 9 and privatisation plans for more than thousand state companies are being drawn up. Pension reforms have begun in the form of benefits reductions for working pensioners and an increase in the retirement age. Problems with public procurement – a huge source of corruption under all previous governments – are also being addressed. The administration recently launched an electronic public procurement system (called ProZorro) with the aim of improving transparency and lowering levels of embezzlement by 10%-20%.

The banking sector, too, is being cleaned up. Insolvent banks and institutions involved in money laundering (so-called 'conversion centres') have been targeted in particular. Since the end of 2013, more than 50 banks have been declared insolvent and the ownership of others has been made more transparent.

Despite a revolution, a war, and a protracted economic crisis, Ukraine's place in the World Bank's ease of doing business index jumped 16 places in 2014 compared to the previous year, up from 112th to 96th. The number of permits necessary to register a company has been reduced from 143 to 85, barriers to closing businesses have been lifted, and the number of economic supervisory bodies has been halved from 56 to 28.

Progress has been made in the energy sphere. In April this year, Ukraine adopted legislation in line with the EU's third energy package, which paves the way for gas market liberalisation and the eventual demonopolisation of the sector. Admittedly, however, there seems to be little rush to complement this legislation with new regulations, guidelines, and monitoring mechanisms. Nevertheless, Naftogaz, Ukraine's energy monopolist, is due to be 'unbundled' and is now run by a leaner, cleaner management. In 2014, 90% of Ukraine's gas needs

were met by Russia. By the end of 2015, the country is expected to acquire more than 60% of its gas from the EU, a more reliable supplier than Moscow.

The security sector has also not escaped reform. Most visibly, Soviet-style traffic police are being abolished and new Georgia-inspired police patrols launched under the auspices of Deputy Interior Minister Eka Zguladze-Glucksmann, who held the same post in Tbilisi from 2006 to 2012. Kiev launched its new traffic police force in July, and Lviv and Odessa followed suit in August. While steps like these will not resolve larger security-sector problems (such as corruption, widespread leaks and spying in security agencies), they are aimed at increasing people's trust in the police and preventing low-level abuses of power. And, thus far, they have proven to be popular.

A package of anti-corruption laws has also been adopted, and a dedicated bureau – a precondition for EU visa liberalisation – established. Once the "backbone of a corrupt system" – as Kalman Mizsei, head of the EUAM mission in Ukraine, put it – the prosecutor general's office has undergone some positive changes. The office (mostly at the initiative of a Georgian Deputy Prosecutor General David Sakvarelidze) has launched a number of investigations examining high-ranking officials, including several corrupt judges, MPs, and prosecutors. To date, however, there have been no high-level convictions.

Sakvarelidze is also cutting the overall number of prosecutors from 18,000 to 12,000. This will lead to greater overall savings, potentially allowing salaries to increase and thereby reduce the incentive to take bribes.

Fizzy politics

The potentially explosive state of Ukraine's domestic politics, however, threatens these achievements and does not bode well for further reforms. To some extent, there is nothing unusual about political squabbling in unconsolidated democracies. Such animated disagreements can be likened to a fizzy drink – while they are not entirely healthy, they are not lethal, either. But this might not remain the case for long in Ukraine. The governing coalition, 'European Ukraine' (which, until 1 September, consisted of five parties), is more strained than ever. Publicly, the main line of conflict runs between President Petro Poroshenko and Prime Minister Arseniy Yatsenyuk. In practice, however, it is about a host of actors of the 'old system', whose beneficiaries cut across all political

parties, resisting changes and reforms. Oligarchs retain huge political influence which is unlikely to wane anytime soon. That said, the president is taking steps to renegotiate the rules of the game in a way that would make Kiev, not the oligarchs, the ultimate arbiter of political matters.

Ratings of candidates in July 2015 compared to March 2015 (%)

Candidate	March	July
Petro Poroshenko	35.1	26.9
Julia Tymoshenko	11.6	25.6
Oleh Lyashko	7.7	8.5
Anatoly Gritsenko	7.2	8.5
Andrew Sadovoy	11.4	7.8
Dmitry Yarosh	4.9	5.7
Yuri Boiko	2.8	4.5
Olga Bogomolets	-	2.6
Arseniy Yatsenyuk	5.3	2.3
Oleg Tyagnibok	2.5	2.2
Vitaly Klitschko	-	1.3
Tetiana Chornovil	-	0.5
Victoria Syumar	-	0.4
Oksana Syruyid	-	0.2
Other candidates	11.4	2.9

Source: Socio-Political Situation in Ukraine: July 2015, Kiev International Institute of Sociology.

Poroshenko's ratings have fallen due to a combination of general disappointment with the pace of reforms and a loss of credibility, partly caused by his failure to follow up on his promise to sell his privately-owned businesses. At the same time, with its ratings dropping to near-negligible levels, Yatsenyuk's party is bearing the brunt of public frustration. His own position as prime minister is uncertain, and Kiev is abuzz with rumours about a possible government reshuffle this autumn.

There is talk of his own party withdrawing support for him as prime minister in exchange for another party member taking over the position. That being said, similar mutterings circulated in the spring to no avail.

Mikheil Saakashvili, the current governor of Odessa and former president of Georgia who was appointed by Poroshenko, also recently waded into the fray. In his typical fashion, he has publicly accused Yatsenyuk's government of being in cahoots with the oligarchs and sabotaging reforms. A response was delivered by one of Ukraine's most powerful oligarchs, Ihor Kolomoisky, who was dismissed as governor of Dnipropetrovsk in March by the president. In a clear swipe at Poroshenko, Kolomoisky said that "Saakashvili is a dog without a muzzle," and that "in such cases, the masters of the dog should be held responsible."

A parallel exchange of fire has taken place between Interior Minister Arsen Avakov (from Yatsenyuk's People's Front) and Oleh Tyahnibok, leader of the nationalist Freedom Party and an ally during the EuroMaidan revolution. During a protest on 31 August against the proposed decentralisation of Ukraine, as required per the Minsk agreement, a Freedom Party member (and former volunteer on the eastern front) threw a grenade into the police ranks. As a result of the explosion and further clashes between protesters and the police, three policemen died and 130 people were wounded, including two French journalists and the Deputy Interior Minister Vasily Paskal. Avakov subsequently accused Tyahnibok of being complicit in the violence by bringing "bandits" to attack the parliament.

In parallel, the Radical Party of Oleh Lyashko, a populist and nationalist, has withdrawn from the governing coalition. This should, in theory at least, force current coalition members to close ranks. Meanwhile, former Prime Minister Yulia Tymoshenko's popularity is growing (she is now polling second after Poroshenko). Her party, Fatherland, remains inside the coalition in name only: in practice, she is an advocate of populist and anti-reform measures. For the time being, she has neither the numbers nor the allies to challenge the current political setup – but she is still in a position to cause trouble by mobilising groups against the government and its policies.

Party discipline is weak, especially in Poroshenko's and Yatsenyuk's parties. Although, in theory, the coalition commanded a constitutional majority (with over 300 seats) in the Rada until early September, less than 45% of government-proposed

bills have been adopted. Moreover, many of the bills which have passed were amended by MPs beyond recognition. Most political battles are about influence and favours, not policies. Under different circumstances, this could be seen as normal coalition politics (Ukraine has never had a functioning coalition before), but the country can no longer afford to squander political capital the way its politicians have done so far.

Local elections scheduled for 25 October are likely to reinforce public disillusionment with the government and the view that the politicians in charge differ little from their predecessors. If the results of the July parliamentary by-election in Chernihiv's 205th district are any indication, the local polls will see a repetition of the usual mix of vote-buying and corruption that Ukraine is all too familiar with.

Ukrainian public poll: if you were to participate in elections, which party would you vote for?

Party	Vote (%)
Petro Poroshenko's Bloc	14.4
People's Front	2.1
Samopomich	9.0
Opposition Bloc	7.5
All-Ukrainian Union 'Fatherland'	6.9
Radical Party of Oleh Lyashko	7.3
All-Ukrainian Union 'Freedom'	2.5
Communist Party	1.6
Right Sector	4.0
Civil Position	2.6
UKROP	0.8
None of the above	1.9
I am voting for a particular candidate, regardless of party affiliation	15.9
Undecided	23.4

Source: Popular opinion poll in Ukraine: protest mood during crisis: July 2015, The Ilko Kucheriv Democratic Initiatives Foundation (DIF).

The risks ahead

Quite understandably, for the past year and a half, the attention of Kiev and the international community has been focused on the conflict in the Donbas. War, not reform, sapped most of the political energy of Ukraine's rulers. Though this is partly justified, it was also used at times as an excuse to postpone difficult reforms – some of which would be painful for the general population, others for the oligarchs.

While fighting a war with an external enemy, few politicians wished to open other domestic political fronts which could potentially further destabilise the country and threaten what is left of its territorial integrity. But that time has now passed, and the need to devote more political resources to fighting the second (internal) war is now greater than ever.

None of the reforms listed above are irreversible – nor are they sufficient. It also appears that there are few proactive reformers in the top leadership. Although reforms are being introduced, they seem to be taking place almost *despite* most of the ruling political elite. The government is largely responding to calls for reform coming from society and international partners rather than leading them. The result is that reforms are being rolled out in a rather haphazard manner.

This is far from ideal as a governance model – yet it is better than many had hoped for a year ago. Moreover, there is hope that some positive reforms could spill over into adjacent sectors, slowly creating a snowball effect and intensifying the reform dynamic. This is all the more likely to occur if and when domestic pressure and external conditionality go hand in hand, thereby helping to consolidate a pro-reform consensus.

Ultimately, without the political determination to carry out reforms, the country could quickly face a situation in which its own domestic situation becomes an even greater threat than the war in the Donbas. If allowed to ferment, the unhealthy cocktail of Ukraine's messy politics may eventually become a Molotov cocktail.

Jana Kobzova is a Senior Programme Officer at the European Endowment for Democracy and an Associate Policy Fellow at the European Council on Foreign Relations.

Nicu Popescu is a Senior Analyst at the EUISS.

