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The Government Policy

Ukraine approaches a point of no return in reform-making. Last year Vilnius became a sort of the Rubicon for eurointegration, when only revolution and casualties changed foreign policy vector of the country. Now we are approaching “Vilnius of reforms”, when in case of the government inaction return to reforms will be possible only through social upheavals.

Meanwhile, it seems that neither President nor Prime Minister understands importance of the moment. They spend time on distribution of portfolios behind closed doors, when society and international partners require specific results. Government has not offered a clear vision for reforms in public service, decentralization, judicial system, economic deregulation. Authorities do not understand how

to conduct reforms and how to arrange control over their implementation. Therefore, they count on individuals, hoping that it will shift responsibility for potential failures on foreigners in the cabinet or partners in the coalition.

There is a lack of clearly articulated strategy on Donbas. Government takes decisions aimed to absolutely remove Ukrainian institutions from self-proclaimed republics. No official explanations from Kyiv breed suspicion that there may be some unofficial agreement on freezing the conflict in the East.

An interesting illustration how to build relations with temporarily occupied territories is provided by Georgia when Tbilisi tries to use soft power in order to keep self-proclaimed republics in the orbit of its influence.

Financial assistance in exchange for reforms



Formation of a new cabinet showed that parliamentary majority does not have a single team for reforms and a clear vision of their implementation. Meanwhile, election win-

There is a lack of team unity for reforms

ners are not ready to introduce new principles of appointments, based on transparency.

Distribution of minister positions took place without public discussion and nomination of certain politicians for some of them was of provocative

character. For instance, “People’s Front” and “Bloc of Petro Poroshenko” offered Andriy Sadovyi to become vice-prime-minister on decentralization in order to make him responsible for one of the most problematic, yet most urgent areas of reforms. Sadovyi’s refusal of the offer and involvement of foreigners for government positions show that in a number of important spheres neither President, nor Prime Minister has a clear vision of reforms and try to avoid personal responsibility for potential failures.

Meanwhile, Western partners and civil society become more persistent in demanding specific results from the government.

Johannes Hahn, the EU Commissioner for European Neighborhood Policy and Enlargement Negotiations, stated that Ukraine should consider the EU not as a donor, but a friendly investor. At the same time, Ukrainian government is supposed to present specific suggestions on reforms related to rule of law and fight against corruption. Financial assistance will be provided only under specific suggestions, with a rigid control over use of the funds.

Except for financing advisory groups in minis-

tries, foreign partners may focus more attention on institutional aid, when hundreds of public servants will be taught in government sector abroad and will use this knowledge for development of democratic institutions in Ukraine.

In a critical situation Ukraine faces now delay with reforms is a threat to national security. Government does not have time for preparations. “Honey moon” of a new cabinet will be short if government fails to convince the society that it has started reforms instead of multiplying their concepts.

For the last nine months there has hardly been any progress on issues of decentralization, justice reform, and public service. In fight against corruption tone of declarations is correct, anticorruption package of reforms was approved in October 2014, but its implementation was not yet initiated. Reform of law

Delay with reforms is a threat to national security

enforcement agencies exists in the form of a concept. What is more, deregulation reform has several concepts, but they have not made life of Ukrainian and foreign businesses easier.

Four scenarios on Donbas and none of them is official

Actions of Ukrainian government as regards Donbas do not go further than sporadic decisions, which do not develop into a comprehensive strategy with a clear vector.

There are not so many scenarios, but final choice of government’s behavior model should be clearly articulated to Ukrainians citizens both in Donbas and in the rest of Ukraine.

Sporadic actions of government do not transform into a comprehensive strategy with a clear vector

The first scenario is military offensive, for which Ukraine does not have resources, especially taking into account active relocation of Russian weapons and soldiers to the territory since the Minsk protocol was signed.

Under the second, Ukrainian government creates a defense line along the ATO (antiterrorist operation) zone, starts economic blockade of the territory, continues diplomatic efforts to strengthen international pressure on Russia, suspends social payments

and evacuates civil servants. Ukrainian government follows this path now, but this choice will lead to the conflict being frozen and destroys connections between Kyiv and Ukrainian citizens who remained in Donbas. At the same time, the government was not brave enough to put it straight that it will fight separatism with economic means.

Kyiv wants to fight separatism with economic means

The third option is similar to the previous, with the only exception that all financial efforts of government as regards Donbas will be directed to meet the needs of IDPs as a true voice of Ukrainian Donbas. In future these citizens may be used to spread the Ukrainian influence in the temporarily occupied region.

The fourth one is so called Georgian scenario, when the territories, which are not controlled by Kyiv are recognized as temporarily occupied and the government is ready to spend money on programs for local people in order to be able to return the region at least in the long run.

Georgian experience in reintegration of self-proclaimed republics

Tbilisi builds up its policy as regards self-proclaimed republics from the position that Georgia may offer more than Russia to Abkhazia and South Ossetia. In particular, there is the Ministry for Reconciliation and Civic Equality in Georgia. Its major area of activities is reintegration of population in self-proclaimed republics into national political processes.

A considerable attention is paid to healthcare and education. For instance, access to healthcare is cheaper and easier for owners of Georgian passports in Abkhazia or South Ossetia than to average citizen in Georgia. Georgian government also ensures free immunization of population.

Georgia reintegrates republics through education and healthcare

As well, Georgians from Abkhazia may study for free in Georgian universities. Due to the fact that they are concentrated on the same territory, they have Georgian schools. Just to compare, pro-Russian authorities in Donbas and Crimea do utmost to squeeze everything Ukrainian out of this territory.

Also, Georgian authorities have no problems issuing passports to local residents and do not raise the issue of withdrawal of already issued passports. As a matter of comparison, on November 3, 2014 National Bank of Ukraine adopted the resolution which treats citizens in Crimea as non-residents of Ukraine.

Georgian authorities are convinced that it is necessary to keep infrastructure ties between self-proclaimed republics and the rest of Georgia. One may cut water and electricity supply in one move, yet it will be extremely difficult to restore it.

It is necessary to keep infrastructure ties between republics and the rest of the country

A prominent place in official policy on Abkhazia and South Ossetia is taken by the issue of IDPs, the number of which exceeds Ukrainian indicators.

There are 350 thousand IDPs in Georgia, while population of the country is 4.5 million people. As a matter of comparison, as of December 1, 2014 500 thousand IDPs were officially registered in Ukraine, while the UN claims that the real figures surpassed 1 million people.

At the beginning of Georgian-Abkhazian conflict IDPs were placed in state residences and health resorts, since the government expected to solve the problem in the short term. However, freeze of the conflict resulted in the fact that now the government allows IDPs to privatize state real estate where they have lived for years. After Russian-Georgian war of 2008 foreign investors were also actively involved in construction of new real estate for IDPs.

Georgia is ready to make financial expenditure in order to have a possibility to return the territory in the long run. Ukraine follows another scenario - it is enough to mention the government's decision to distribute UAH 198 mln. of budget subsidies allocated to southern districts of Luhansk region among five regions. Out of the five only Dnipropetrovsk region borders with the ATO zone.

These funds may have been used to finance employees of state enterprises in the front-line zone or initiate target programs for IDPs who have left the region. It is financial support of front-line zone under control of Ukrainian authorities and social work with local people which is a true defense line that may stop spread of separatism.

Subsidies saved on financing of some districts in Donbas may have been used for the needs of the front-line area

Georgians try to use soft power to reintegrate self-proclaimed republics. Since there is no military solution to the situation in Crimea and Donbas, Ukrainian authorities should also learn how to work with population in separatist regions, at least defending pro-Ukrainian people on temporarily occupied territory.

Economic Situation

The delay in the implementation of reforms in the aviation and telecommunications industries is a clear demonstration of a lack of political will and capacity of the government to implement reforms as well as the resistance of some stakeholders.

Ukraine is the only European country to fall behind in the introduction of 3G, the third generation of mobile telecommunications technology. The main reasons for such lagging behind are lobbying of the main players in the relevant markets, the absence of political will, corruption and red tape.

The aviation reform may result in the monopolization of domestic aviation market to suit the interests of one specific company. Thus Ukrainians may be deprived of cheap flights from low cost airlines, while international companies will have no other choice but to leave Ukrainian market.

Ukraine is one of European outsiders in energy efficiency. The government measures to increase energy efficiency are of an institutional and declarative nature.

Ukraine should introduce 3G technology with no further delay



After taking office, Ukrainian President Petro Poroshenko repeatedly stated that it was necessary to introduce the last generation of 3G mobile telecommunications technology in Ukraine with no further delay.

It has been a long while since business and consumers got ready to welcome the introduction of 3G mobile telecommunications technology. Today, Ukraine is the only European country to have failed to introduce 3G mobile telecommunications technology. Moreover, the majority

Petro Poroshenko defined the introduction of 3G technology as one of the most important innovations

of countries have already gone as far as to introduce 4G, the fourth generation of mobile telephony. However, over the last years the central executive body in the communications industry and telecommunications regulatory bodies demonstrated a total inability to introduce 3G and 4G in Ukraine. The main reasons for the delay are a strong lobby of telecommunication monopolists, lack of political will and corruption in state bodies.

The main reasons for the delay are lobby of monopolists, lack of political will and corruption.

Introduction of modern telecommunications technologies helps increase competitive capacity

and create additional stimuli for GDP growth. As the world practice shows, 1000 users of broadband Internet provide for 88 jobs, a 10% increase in the broadband Internet coverage increases a country's GDP by 1%, the increase of broadband Internet speed increases a country's GDP by 0.3%.

Despite the President's statements on the necessity to implement telecommunications reform as soon as possible, the situation with 3G has not improved yet.

At first, budget revenues from introduction of 3G technology were estimated at UAH 5 billion. In particular, it was expected that after announcing an open call for bids, the state would receive about UAH 3 billion within 4-5 months for 3G licenses. Ukrainian Ministry of Defense was expected to receive about UAH 2 billion under a conversion agreement for the purpose of the development of communications system. Also, Ukrainian officials hoped that introduction of 3G technology would provide for additional investment by operators into communications industry, with the investment worth at least UAH 5 billion during 2014-2015.

In summer, potential profits from the introduction of 3G technology were estimated at about UAH 5 billion

monopolization of 3G technology. Nevertheless, such a delay in the sale of 3G licenses was not in the interests of telecommunications market players.

At the end of September, the NCCIR approved the draft resolution of the Cabinet of Ministers which stipulated conditions for the sale of 3G licenses. According to the document, all three 3G licenses will be offered up for bid simultaneously, the initial cost of which will be UAH 2.44 billion. Winners of the bid will cover a conversion of military frequencies (in total, UAH 1.6 billion). Operators belonging to Russian companies and individuals (more than 50% of shares) may be banned from placing the bid. The date for the auction has not been announced yet, since the Cabinet of Ministers failed to agree on the draft resolution with the NCCIR, referring to different reasons to justify such a decision.

In general, the Cabinet of Ministers rejected NCCIR bid regulations four times. The government was not pleased with the procedure set to estimate the cost of the license. It also objected to the Russian origin of operators. On November 26, 2014 the Cabinet of Ministers put forward a proposal to increase price for a 3G license pro rata to hryvnya devaluation.

The Cabinet of Ministers rejected NCCIR bid regulations 4 times

If all the three licenses are sold through an open bidding procedure provided there are three potential buyers (MTS Ukraine, Kyivstar, Astelit), there is a risk of selling them at a minimal price. The Netherlands and Hong Kong have experienced a similar situation when licenses in those countries were sold at a lower price than it had been expected. It is better to attract foreign investment and increase the number of licenses to four, which will ensure better competitiveness and raise licensing profits.

A course on aviation reform

The way aviation reform is being implemented reflects the principles and methods of reform implementation in Ukraine. Official statements on aviation reform have been first made at the beginning of this year. In May 2014, expert groups which were created within the Ministry of Infrastructure began to elaborate a concept of transport reform, including aviation reform. However, this reform remained on paper and was never implemented.

Reforming of aviation industry is possible through signing of the agreement on "open skies" between Ukraine and the EU, which has been postponed.

The last reason for the delay was a disagreement between Spain and Great Britain as to the wording

Reforming of aviation industry is possible through signing of the agreement on "open skies"

on territorial use of some part of Gibraltar. “Open skies” grant the authority to Ukrainian and European companies to operate flights between Ukraine and all the EU member states without an intergovernmental agreement on air routes, which will provide for an increased presence of low cost airlines. While signing of the agreement is postponed, it is necessary to implement domestic reforms aimed at reducing air conveyance fares, increasing air security and expanding the geography of air conveyance.

The relevant agency is not particularly interested in implementation of reforms aimed at ensuring transparent competitiveness. This is confirmed by a new procedure for the issuance and revocation of rights to use air routes, which was elaborated by the State Aviation Service and approved by the ministerial decree as of October 24, 2014. This ministerial decree creates additional obstacles for obtaining the permission to operate international flights. Most complaints concerned the following: 50% of corporate capital of an airline should belong to or be actually controlled, directly or indirectly, by Ukrainian citizens; airlines should operate regular flights within Ukraine during the period of at least 12 months in a row. Such requirements will be difficult to comply

The relevant agency is not interested in transparent competitiveness

with by foreign and new operators, which will only add to the monopolization of the market by its biggest operator – “Ukrainian International Airlines” (UIA). However, as of today the Ministry of Justice suspended implementation of this decree until all proposals have been made.

Nevertheless, this is not the last accusation against the State Aviation Service. “Trans Aero Handling” company accused the head of the State Aviation Service of protraction with certification to suit the interests of “Ukrainian International Airlines”. A similar position is expressed by UM Air. A combination of these events can be taken as a proof that state bodies attempt to monopolize aviation market in the interests of UIA. It should be mentioned that the State Aviation Service is headed by Denys Antoniuk, who used to work as director of airline route networks and alliances development department at UIA.

Thus, instead of reforming the market and creating a competitive environment, there is a clear attempt to create additional obstacles for market players in the interests of one of the oligarch groups. As a result, in foreseeable future one should not expect lowering of air tickets price and extension of conveyance geography, whereas airlines will be forced to either work under financial losses, or leave Ukrainian market.

Energy efficiency in the concept of national package of reforms

As of today, the strategic goal of Ukrainian government is not only to reduce energy dependence and diversify energy supplies, but also to increase energy efficiency through certain regulatory measures. For example, some years ago Poland implemented energy efficiency programs which allowed for reducing energy spending by 35%. In qualitative terms, this reform now allows the Polish government to save around USD 3.5 billion annually.

On November 26, 2014 the Cabinet of Ministers adopted the action plan on the implementation of EU directives in energy sector. First, it was decided to launch energy efficiency program and reduce dependence on energy imports, which

The implementation of EU directives in energy sector

would allow for establishing economic mechanism for energy efficiency. Second, it was planned to conduct a large-scale energy audit in the country and introduce energy management system, which would ensure effective management and control over implementation of energy efficiency policy aimed at enterprises and central executive bodies in Kyiv and Ukrainian regions. Third, it is necessary to elaborate special methodology to measure energy efficiency of construction and introduce technical requirements as to energy-saving for newly built buildings as well as for buildings to be reconstructed and overhauled.

The issue of energy efficiency is singled out in the coalition agreement as of November 2, 2014. In the first place, it touches upon instalment of electricity,

water and gas meters in high-rise buildings and complete withdrawal of subsidies in electricity and gas markets. However, introduction of commercial register for consumed natural gas, thermal energy, and centralized water supply is planned to start from 2017.

Today an important step to be taken to ensure a stable development of national economy is industrial energy audits, mainly as regards major companies. Changes will come only if Ukrainian government stop granting subsidies for domestic giants of chemical and metallurgy industry. Only then economic mechanisms for energy efficiency will start working. Ukrainian companies' top management will be interested in enhancing energy efficiency and investing in more energy-saving technologies. The refusal of the government to grant subsidies for companies will spur technical modernization of those companies. Such innovations will not need additional spending and will not lead to decrease in budget revenues.

Introduction of energy management system at institutional level will require professional staff. The main task of energy managers in the EU countries is to ensure high energy efficiency, rational use of human capital and resources. Today we can see a sharp deficit in skilled personnel, who would have special education and practical experience in ener-

gy efficiency, energy audits etc. As a result, Ukraine faces the risk to spend budget funds on creation of a structure with unprofessional staff. European experience confirms that introduction of energy management in self-governance bodies yield positive results. However, the blind import of Western experience does not always work in Ukrainian realities. Institutionalization of energy management is possible only after solving the issues such as training, job retraining and vocational courses for specialists, i.e. creation of a strong educational and qualification base.

Measures which have been announced by the government to introduce energy passports for buildings raise doubt as to rationality of financial costs and use of human resources. Even without this stage it is clear that Soviet-era housing needs thermal and energy reconstruction. For example, Poland implemented reforms in energy sector in the 1990s without additional examination and inspection of buildings by solely investing in reconstruction of heating system and heat insulation for all buildings built before 1984.

The implementation of EU directives in energy sector

Energy passports for buildings may be waste of money

Political competition

Verkhovna Rada approved a new government, voting for the whole cabinet, but not individual ministers. Coalition promised to hold a public discussion about potential ministers, yet consultations over candidates took place behind closed doors – the practice which was widely used in the times of Viktor Yanukovych.

Some MPs, who are not satisfied with the coal-

tion actions, form a new opposition group called “Ukrop”. It will include Dmytro Yarosh, Borys Filatov, Boryslav Bereza etc.

Local elections will become the last step in a reset of local political elites. Political parties which will receive control over local councils will be able to formulate regional policy and influence decision-making at the local level.

Parliament has chosen a new government



Parliamentary coalition voted for a new cabinet of ministers. Wave of criticism on the part of civil society and experts was caused by process of consultations over ministerial candidates. Leaders of coalition factions assured that cabinet formation would be transparent. Final project of the cabinet proposal had only one candidate per each ministry, which automatically excluded any possibility for competitiveness. Thus, formal list of candidates was ready before the pack-

Consultations over ministerial candidates lacked transparency

age voting. A positive thing is that some candidates made presentations on reforms of their ministries.

It is the first time in Ukrainian politics that there will be a separate Ministry for Informational Policy, headed by Yuriy Stets. It is unknown what functions the ministry will perform, what tasks are set for the agency, how it will interact with other state agencies at the local level. Taking into account

Ministry for European Integration is more needed than Ministry for Informational Policy

difficulties with implementation of the Association Agreement with the EU, it makes more sense to establish a separate Ministry for European integration, but not Informational Policy.

Political battles are ongoing as regards distribution of parliamentary committees which are to be given to opposition. Coalition assured that “Opposition bloc” would not be the only opposition. The niche may also be taken by parliamentary groups of Ihor Yermeyev and Vitali Khomutynnik as well as by independent MPs.

A group of MPs who do not support coalition actions initiated formation of opposition group called “Ukrop”, which also competes for leadership in one of the parliamentary committees. This group includes ten MPs, among which there are Dmytro Yarosh, Borys Filatov, Volodymyr Parasyuk. Organizers are sure that they will get 19 MPs to form a full-fledged parliamentary group.

Right-wing MPs will form a separate group in the parliament

Political parties are getting ready for local elections

Decentralization will shift decision-making process and a portion of budget funds to a local level. According to the coalition agreement signed, FPTP system will remain for elections of village councils. Elections to district, regional and city councils will be held according to proportional representation system with open lists. Such an electoral system fits current situation in Ukraine the best. Yet fulfillment of coalition agreement will depend on political situation and party interests of key players.

Vitali Klitschko announced that “UDAR” will take part in local elections independently. After parliamentary elections Vitali Klitschko had two options for his political future.

The first scenario was to merge with “Bloc of Petro Poroshenko”, to remain Kyiv mayor and gradually lose chances for return in big politics. Moreover, a worrisome signal for Vitali Klitschko was the fact that his closest aide Vitali Kovalchuk and a number of influential MPs are getting closer to Petro Poroshenko.

The second option is to keep party structure and influence on the President, while continuing an independent game. Separate participation in local elections creates a number of challenges for parties of Vitali Klitschko and Petro Poroshenko. For a short period of time a lot of “UDAR” party activists were taken by propresidential party. Lack of trustworthy party members may negatively affect the party capacity to hold an efficient election campaign in the regions. Gradual withdrawal of Vitali Klitschko from the President’s party will inevita-

bly make “Bloc of Petro Poroshenko” develop local branches, especially in the capital. By-elections in Kyiv city council will show what behavior model “UDAR” and “Bloc of Petro Poroshenko” will choose in relations with each other.

“Opposition bloc” understands that decentralization of state power can give a chance to retain the impact of this political force on local councils in eastern and southern Ukraine. Recently, one of the leaders of this force Serhiy Lyovochkin noted that regional structures are strenuously preparing for local elections.

“Opposition bloc” wants to use decentralization in its own interest

The speakers of “Opposition bloc” traditionally use populist social rhetoric, which contributed to Party of the Regions’ victory in previous elections. The party continues criticizing and imposing responsibility for committed crimes upon Viktor Yanukovich and his family. The lack of reforms in the government and further impoverishment of the population may serve as a ground for political comeback of ex-members of the Party of Regions.

A top priority task for leaders of party structures is to develop network of electoral campaign offices and to update the list of party members at the local level. On the eve of local elections, leadership of “Opposition bloc” may hold the next congress where Party of the Regions may be dissolved.

Party of the Regions may be dissolved

The aim of the publication is to provide objective information on current political events in Ukraine and thorough analysis of major tendencies in domestic politics. Such analysis will assist in setting priorities in the process of implementing reforms in Ukraine and in evaluating quality of state decisions from the viewpoint of their impact and sustainability. Special attention is paid to evaluation of political competition in Ukraine and ability of key political players to address challenges.

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