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# INSIDE UKRAINE

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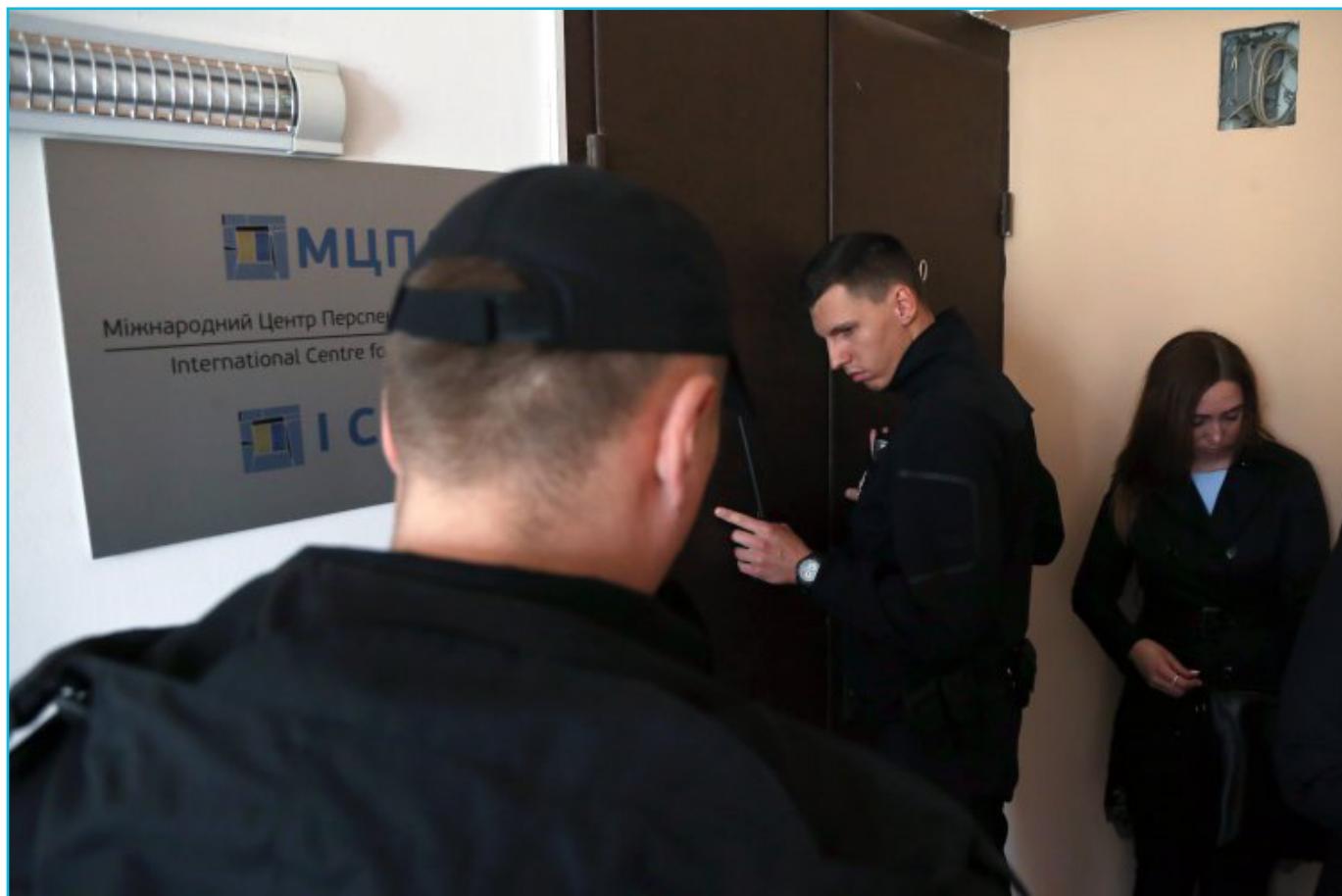
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## Public policies



### Attack on a think-tank: political order or excessive act?

On April 13, 2017 officials of the Prosecutor's Office of the Autonomous Republic of Crimea (ARC) and the Security Service of Ukraine (SSU) searched the premises of the Ukrainian think-tank 'International Centre for Policy Studies' (ICPS) in order to find 'the idea for resolving the conflict in Donbas'.

The search of the think-tank caused an outcry by Ukrainian civil society and human rights activists. This resonant event may be an alarming signal of a changing Ukrainian government policy towards peaceful settlement, respect for democratic norms and fundamental freedoms, as well as its attitude on civil society in general.

The search of ICPS is the first time during Ukraine's independence that law enforcement bodies have interfered with the activities of a think-tank. There were no examples of such

pressure on independent NGOs even under the presidency of Leonid Kuchma or Viktor Yanukovich. Actions by the Prosecutor's Office of the ARC and SSU were condemned by the Ukrainian Helsinki Human Rights Union (UHHRU), the Kharkiv Human Rights Protection Group (KhPG) and a number of Ukrainian experts and civic activists. They challenge both Ukrainian civil society and the entire civilized world, which supports Ukraine as a democratic but not authoritarian country.

Search of ICPS is an unprecedented interference by law enforcement bodies with think-tanks activities.

Repressive measures by law enforcement bodies against the think-tank raise several important questions.

1. How may attacks on think-tanks and official accusations of 'elaboration of ideas' be possible in a democratic country where the free-

dom of thought is guaranteed by the Constitution? The elaboration of ideas is, namely, a basic function of a think-tank. This attack, as stated by the UHHRU, is 'offensive to the key freedom – of expression, 'attempt to monopolize the market of ideas and to impose the doctrine as the only possible in the society, under pain of prosecution of those who offer other approaches, especially charges of a serious crime – treason. The disproportionate state interference in the activities of analytical centers is a purely obscurantist attempt to establish a monopoly on the truth'.

2. How may a law-based state, following the third anniversary of the Revolution of Dignity, allow for the search of a think-tank with norms of the Criminal Procedural Code violated, lawyers and ambulance doctors denied access, physical force used and property damaged? The search demonstrated that the violation of legislation and the rule of law have become a common practice in Ukraine after SSU and PGO reforms were brought to and removed from the agenda. Ukrainian authorities use law enforcement bodies for personal lucrative purposes (political or other) rather than for the protection of the country and its citizens. Ukraine currently faces a victory of the 'iron law of oligarchy' whereby revolutions, coups or elections lead to changes in senior government officials rather than in state institutions, norms or rules of the game. Following the third anniversary of the Revolution of Dignity, it may be noted that an oligarchic and authoritarian regime is being gradually restored in Ukraine – just in its worse form.

3. What is the real position of the Ukrainian authorities on the peaceful resolution of the conflict in Eastern Ukraine and the restoration of Ukraine's territorial integrity and sovereignty if the think-tank is attacked due to the elaboration of ideas for peaceful resolution of the conflict? Prior to this attack, state policy and rhetoric on the peaceful resolution of the conflict in Donbas was constantly dual: on the one hand, the government declared commitments to the Minsk agreements and the restoration of sovereignty by diplomatic means, while on the other hand, some of its representatives exhibited warlike rhetoric and actions. The attack shows that there is a strengthening of 'hawkish forces' in Ukrainian ruling groups and a willingness

to discredit by force the persons who stand for negotiations and diplomatic means of conflict settlement.

In any case, repressive measures by law enforcement bodies against the think-tank, in line with other actions aimed at persecuting anti-corruption NGOs, seriously affected an image of Ukrainian leadership and raised issues regarding authoritarian and antidemocratic trends in the country. The negative implications of such actions exceed all possible benefits for Ukrainian authorities. There is a question on how to explain these attacks: political order or excessive act?

In the Ukrainian expert community, there are **three narratives of reasons why the ICPS office was searched**.

**The first narrative** is that the Ukrainian authorities seek to establish control over independent NGOs. Prior to the search of the ICPS office, amendments to the Law of Ukraine 'On Prevention of Corruption' were adopted which provide for mandatory electronic declaration of incomes for representatives of NGOs engaged in anti-corruption activities. According to an Executive Director of the International Renaissance Foundation Yevhen Bystrytskyi, both events may indicate the diminishment of civil freedoms in Ukraine three years after the Revolution of Dignity. This is the likeliest narrative, as it highlights general trends in Ukraine. It allows one to make conclusions about further possible developments in Ukraine and resistance to such trends by civil society and foreign partners. It is important that Ukraine's foreign partners should deliver a message that similar pressure on NGOs is unacceptable.

*Civil freedoms in Ukraine are under threat three years after the Revolution of Dignity.*

**The second narrative** may indicate persecutions for 'dissent' in issues related to conflict settlement in Donbas. According to a Director of the Ilko Kucheriv Democratic Initiatives Foundation Iryna Bekeshkina, there may be an 'ideological department' at the SSU which observes how peace plans comply with an official position of Ukraine's government. Thus, ICPS' proactive position on peaceful settlement may

contradict to the interests of certain political circles who promote warlike rhetoric.

### Ukrainian civic activists fear of prosecutions for 'dissent'.

**The third narrative** does not deny previous ones and stresses the importance of problems in Ukraine–U.S. relations. ICPS was attacked immediately after its representative Vasyl Filipchuk returned from the U.S. where he delivered a speech at the Carnegie Endowment for International Peace and met with representatives of the American establishment to discuss ideas for peaceful settlement in Eastern Ukraine. His speech and meetings with American officials may have triggered such reaction by Ukrainian authorities.

It is important that ICPS has been working out possible ways for conflict settlement since the very beginning of Russia's aggression against Ukraine. 'Inside Ukraine' edition dated March 3, 2014 was one of the first publications regarding a peaceful resolution. During 2014–2015, ICPS with the support of foreign donors implemented such the projects as 'Initiating the participatory national dialogue in Ukraine', 'Use of world expert experience and public consultations in the process of amending the Constitution of Ukraine' in the context of peaceful settlement

and "social contract". Since November 2016, ICPS with the support of the International Renaissance Foundation has been running the project 'Modelling of the Minsk agreements implementation and support of strategic advisors at the Ministry of Temporarily Occupied Territories and IDPs'. All analytical publications worked out within the above and other projects are available on the ICPS website. Therefore, search of ICPS is more about attacking the think-tank than carrying out investigatory actions.

Thus, the attack and search of ICPS is an alarming signal that indicates the diminishment of civil freedoms in Ukraine and the fight against "dissent" in issues relevant to peaceful settlement. In this regard, EU countries, the U.S., Canada, Japan and other international partners should exert pressure to the fullest in order to safeguard political and civil rights and freedoms as well as prevent Ukraine's slide towards authoritarianism. If similar attacks are tolerated under the cover of countering Russia's aggression, they will lead to the establishment of a regime in Ukraine resembling that of Putin, though with anti-Putin rhetoric.

### Search of the ICPS signals the diminishment of civil freedoms in Ukraine and fight against "dissent" in peaceful settlement

# Economic Analysis



## Results of the Groysman government's work in 2016

One year has passed since the Cabinet of Ministers of Ukraine was headed by Volodymyr Groysman in April 2016. Following the procedure, on February 14, the Cabinet presented a report on the progress and results of implementation of the program of government activities in 2016.

The main achievements of the government, according to the report, include restoring macroeconomic growth. Generally, the first year of the Groysman government neither brought serious disappointments, nor demonstrated specific achievements in implementing reforms.

The strategic priorities of the Cabinet of Ministers of Ukraine in 2016 were the following:

The first year of the Groysman government neither brought serious disappointments, nor demonstrated specific achievements in implementing reforms.

- ✓ macroeconomic stabilization;
- ✓ creating favorable conditions for business development;
- ✓ ensuring rule of law and combating corruption;
- ✓ improving the quality of public administration and public services;
- ✓ restoration of state and citizens' security.

According to the report, the government achieved positive results in each strategic area identified in the plan of work. However, most of these achievements have either formal or dual character.

According to the report, the government achieved positive results in each strategic area

Macroeconomic stabilization and the growth of GDP are among the greatest achievements in 2016. Ukraine's GDP actually demonstrat-

ed a positive trend in 2016 and grew by 2.3%, however the low base of comparison and the achievements of the previous government should be taken into account.

Volodymyr Groysman considers raising the minimum wage to 3200 UAH and providing subsidies as the greatest achievements. The government also announced a pension increase in October. At the same time, such an increase in the minimum wage has a controversial impact on the budget and macroeconomic situation, including the formation of grounds for inflation processes.

Such an increase in the minimum wage has a controversial impact on the budget and macroeconomic situation.

Volodymyr Groysman also declared the success of economic reforms, especially in the oil and gas sector, which managed to destroy corruption schemes. According to him, these results were achieved by raising utility tariffs for gas and electricity. However, significant tariff increase has negative social consequences and contributes to inflation. A special surprise for Ukrainians was the decision to impose monthly fees for gas for the population, which was suspended due to public outcry.

Some positive results have been achieved under decentralization reform. 366 united territorial communities had been formed by the end of 2016. In fact, significant gaps in legislation hamper overall pace of the decentralization reform.



Significant gaps in legislation hamper overall pace of the decentralization reform.

The main shortcomings of the government's work include low pace of reforms, failure of privatization in 2016, failure of the land market introduction, poor results of anti-corruption, education and health reforms, poor interaction with the Parliament. Achievements in the field of creating a favorable business environment and attracting foreign investment in Ukraine are also questionable. The bulk of foreign investment received by Ukraine's economy in 2016 was formed by re-financing of subsidiary banks by Russian parent structures.

According to the law after a year of work, the Cabinet loses the immunity and the Parliament can initiate its dismissal. The voting on the report of the government in the Parliament is expected to take place after the May holidays. Currently the likelihood of negative voting on the report of the government and its subsequent change is low because the coalition in the Verkhovna Rada is generally satisfied with the government's work, and there are no sufficient number of votes to approve such a decision. In addition, currently President Petro Poroshenko does not have candidates who will be able to hold the post of Prime Minister.

The main factors that impeded an effective work of the government in 2016 include the following:

- ① Weak institutional capacity of public authorities, poor professional training and motivation of civil servants that causes poor quality of government decisions.
- ① Formation of the government by party quotas, preservation of political influence on decision-making by the authorities taking into account the interests of stakeholders.
- ① Political instability during 2016 that complicated the work of the government.

Weak institutional capacity of public authorities causes poor quality of government decisions.

# Political Competition



## Three scenarios for political developments in Ukraine

**The Presidential Administration considers several options for political developments in the country: reshaping of the coalition and government structures, freezing of the current situation until 2019 or conduction of early parliamentary elections in autumn 2017.**

**Considering the complicated domestic political competition and geopolitical situation, the probability of these scenarios is quite high. Currently, key stakeholders are actively continuing consultations. However, it is already clear which policy line will be chosen by Petro Poroshenko and what the coalition bargaining will result in.**

## Scenario № 1 – strengthening of the coalition and reshaping of the government structures

Some people from Poroshenko's inner circle believe that redistribution of positions in the central government bodies will help diminish political tensions and weaken populists by resetting the coalition. At the same time, the reshape is necessary due to the weakening influence of several oligarchs, especially Ihor Kolomoyskyi. Besides the political stability, supporters of reshaping are waiting for stabilization of economic situation which will help the authorities feel more confident and better prepare for the election campaigns in 2019.

Prime Minister Volodymyr Groysman is also interested in strengthening the coalition as he seeks to demonstrate the economic growth

and show its political effectiveness. For this purpose, Groyzman personally began to solve the "garbage issue" of the mayor of Lviv Andriy Sadovyi. In exchange for solving the main reputational problem of Andriy Sadovyi, 'Samopomich' faction will support government initiatives of Groyzman during the key voting. It is interesting that Mikheil Saakashvili recently officially accused 'Samopomich' faction and Andriy Sadovyi that they do not enough criticize the government in general and Volodymyr Groyzman in particular.

Andriy Sadovyi and Volodymyr Groyzman have agreed to solve the "garbage issues" together.

'Radical Party of Oleh Lyashko' is considered to be another potential coalition member. However, according to available information, neither 'Samopomich', nor 'Radical Party' are planning to join the coalition because their shareholders believe that their cooperation with the Petro Poroshenko Bloc (BPP) and the 'People's Front' (PF) may lead to a significant

## LIST OF POSITIONS FOR POLITICAL COMPETITION

### VACANT POSITION

**DATE OF RESIGNATION**  
**March 3, 2017**  
**Roman Nasirov**



**HEAD OF THE SFS**

**DATE OF RESIGNATION**  
**April 10, 2017**  
**Valeria Gontareva**



**GOVERNOR  
OF THE NATIONAL BANK  
OF UKRAINE**

**DATE OF RESIGNATION**  
**April 12, 2017**  
**Dmytro Vovk**



**HEAD OF THE NEURC  
(NATIONAL ENERGY  
AND UTILITIES  
REGULATORY  
COMMISSION)**

**DATE OF RESIGNATION**  
**April 13, 2017**  
**Igor Bilous**



**HEAD OF THE STATE  
PROPERTY FUND  
OF UKRAINE**

## LIST OF OFFICIALS WHO CAN BE REPLACED IN THE NEAR FUTURE:


**VOYTSEKH BALCHUN**
**UKRZALIZNYTSIA**

**GENNADIY ZUBKO**
**VICE PRIME MINISTER, MINISTER  
OF REGIONAL DEVELOPMENT, CONSTRUCTION,  
HOUSING AND COMMUNAL SERVICES**

**IGOR NASALYK**
**MINISTRY OF  
ENERGY AND COAL  
INDUSTRY**

**ULYANA SUPRUN**
**MINISTRY OF HEALTH  
OF UKRAINE**

**VADYM CHERNYSH**
**MINISTRY OF TEMPORARY  
OCCUPIED TERRITORIES  
AND IDPS**

**YURIY STETS'**
**MINISTRY  
OF INFORMATION  
POLICY**

**HEAD  
OF RIVNE  
RSA**

**HEAD  
OF VOLYN  
RSA**

**HEAD OF  
IVANO-FRANKIVSK  
RSA**

**HEAD  
OF ODESA  
RSA**

**HEAD  
OF SUMY  
RSA**

**HEAD  
OF POLTAVA  
RSA**

### HEADS OF REGIONAL STATE ADMINISTRATIONS

drop in their party ratings. In addition, NABU and SAPO also launched an investigation regarding possible illicit enrichment by Oleh Lyashko. This may demonstrate that authorities exert pressure on the 'Radical Party of Oleh Lyashko' in order to force them to return to the coalition. Such factions would rather situationally vote for some decisions in exchange for economic dividends.

### Scenario № 2 – freezing of the situation until 2019

The rest of people in the inner business circle convince the President that he has a full control of the political and economic situation in

the country and his presidency is not threatened. Although the Parliament is weak, but votes for important decisions, the government is controlled by the Presidential Administration and domestic political opposition is fragmented and bitty. Despite the fact that the situation in Donbas is far from political settlement, the international partners continue supporting the existing architecture of the authorities and the IMF gives positive political signals regarding the next tranche for Ukrainian economy.

*Presidential business circle convince him that the situation is under control.*

In addition, there is no clearly expressed opponent who can challenge Poroshenko in

2019 (Arseniy Yatsenyuk and Andriy Sadovyi are discredited and significantly limited in access to resources). Business group of interests in the Presidential Administration convinces Poroshenko that all vacant positions should be completed by his own people by "BPP" quota and internal margin of safety is enough to win the election in 2019.

### **Scenario № 3 – early elections in autumn 2017**

One of the main problems for Presidential Administration is strong positions of the coalition partner – the "People's Front" which also controls a significant part of important posts. In particular, the Presidential Administration considers how to eliminate the 'People's Front' from political processes to the fullest so that to avoid early elections. In this context, the third case against Martynenko should be noted, through which the Presidential Administration jointly with the Georgian group (Gizo Uglava, Mikheil Saakashvili) in NABU tried to weaken political positions of the 'People's Front' to remove Martynenko from the energy market and replace him with the structures of Kononenko and Grygoryshyn.

The scenario of early elections started to be discussed in expert community and on political sidelines after NABU detectives detained a close ally of Arseniy Yatsenyuk – a former MP Mykola Martynenko. Numerous political analysts were convinced that the PF will blackmail the Presidential Administration threatening to leave the coalition. However, this did not happen so far, as the PF is not interested in early elections. However, MPs and Ministers from the PF who bailed out Mykola Martynenko demonstrated to the Presidential Administration that they are a consolidated team and ready for any form of political pressure.

*Group of Leshchenko and Saakashvili who make influence on NABU seeks to conduct early parliamentary elections.*

A part of the Poroshenko's team believes that early elections will give a chance to reset the system with minimal losses since the decision on visa-free regime with the EU is adopted, the IMF allocates a tranche, and macroeconomic situation is gradually improving. In addition, there are many high-profile political anti-corruption cases on which representatives of Poroshenko's team, in addition to Saakashvili and Leshchenko, are also making PR.

*Petro Poroshenko thinks that visa-free regime with the EU is his main personal achievement during the presidency.*

The Presidential Administration considers that in case of early elections, the government at least will not lose its position as the old electoral system will be saved and administrative resources will allow to achieve good results.

However, the scenario of early elections in autumn 2017 still seems to be unlikely. Poroshenko does not want to enter into political turbulence zone while the 'People's Front' is ready for the maximum concessions in order to preserve the existing configuration of power.

Regardless of the fact which scenario for political developments Poroshenko chooses, the government should continue the course of reforms. Early parliamentary elections without profound changes in rules of the game will neither modify the political situation nor lead to resetting of the political elite. Therefore, a primary task should be the adoption of the new electoral legislation and initiation of a comprehensive constitutional reform which must stop the duality of powers between the president and the government. Also, it is important for international partners to pay attention to fight against corruption, in which law enforcement agencies and anti-corruption bodies have become a tool of political competition.

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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*If citing please give reference on the ICPS*

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