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INSIDE UKRAINE

July, 06
2017/ #70

Contents

PUBLIC POLICIES

The first meeting of Petro Poroshenko and Donald Trump: achievements and miscalculations	1
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ECONOMIC ANALYSIS

Budget resolution of 2018–2020 – the first step to the medium-term budget planning	4
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POLITICAL COMPETITION

Initiatives on restoring the state sovereignty over uncontrolled territories of Donbas	8
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Public Policies



The first meeting of Petro Poroshenko and Donald Trump: achievements and miscalculations

The meeting of the presidents of Ukraine and the USA took place before a possible meeting of the U.S. leader with Vladimir Putin, however, it did not become a breakthrough in relations between Ukraine and the United States, did not solve the problem of uncertainty in U.S. policy toward Kyiv and saved the status quo in the matter of the existing formats of settlement of the Ukrainian-Russian conflict. Achievements of the visit included the establishment of several joint projects in the sphere of economy and military-defense complex, as well as announcing of the forthcoming visit of the officials from Trump Administration to Ukraine. The main problems of the bilateral dialogue, which had identified the weakness of the Ukrainian position during the negotiations in Washington was

the lack of real results in the fight against corruption and the implementation of reforms, as well as the lack of a systematic vision on the conflict settlement in Donbas.

The visit of the Ukrainian delegation headed by President Petro Poroshenko to Washington was the first attempt to officially establish direct contacts with the new Administration in the U.S. at the highest level. The need to establish a reliable partnership between the leaders of the countries was reasoned by the fact that the position of the United States and the nature of the US-Ukrainian relations, as a rule, is an important indicator in forming the attitudes to Kyiv on the part of other geopolitical actors. The lack of the White House's policy strategy towards Ukraine at the moment makes the Ukrainian authorities to actively seek new approaches for dialogue with the leader of the United States in order to form his pro-Ukrainian position.

In addition to negotiations with Donald Trump, Petro Poroshenko held 11 formal meetings,



including with U.S. Secretary of State Rex Tillerson, Vice-President Mike Pence, Secretary of Defense James Mattis, Secretary of Energy Rick Perry, the leadership of the Senate, and the IMF Managing Director Christine Lagarde, President of the World Bank Jim Yong Kim etc. Despite the intense agenda, the main purpose of the visit was to explore sentiments in the new Presidential Administration and coordinate the positions with key persons in the team of Donald Trump. It was extremely important for Petro Poroshenko to meet with the U.S. President on the eve of his possible talks with Vladimir Putin to be held in the framework of the G20 Summit.

The support by the Ukrainian authorities of the candidacy of Hillary Clinton during the recent presidential campaign in the United States became an unfavorable background for establishing personal communication between the leaders. As a result of short negotiations held in Washington, the parties have not made joint public statements and have not signed any documents. The modest format of the meeting showed the attempts of Donald Trump to avoid the need for official statements on the results of negotiations, because more solemn conversation would determine the necessity to answer difficult questions about the attitude towards Russia. But the main task of the Ukrainian delegation was to publicly, on the official level, to hear the Trump's position about supporting Ukraine and the policy of relations with Russia in connection with its aggression in Donbas and Crimea. Though the statements on the support for Kyiv from Washington were delivered by the U.S. leader, the expression of the views towards the Kremlin did not happen, as it would become an obliging factor in his future contacts with Vladimir Putin. Thus, Donald Trump man-

aged to keep a room for maneuver with the leader of the Russian Federation, which in the long term perspective gives him a certain freedom of action, including the Russia-US agreements on the conflict settlement in Ukraine.

Donald Trump used the meeting with Petro Poroshenko to lessen his image losses caused by the current internal situation in the US

The conduction of the meeting between Donald Trump and Petro Poroshenko is indebted to a great extent to the current internal political situation in the United States than to the realization of a certain geopolitical strategy of the White House or to the efforts of the Ukrainian diplomatic corps. Against the backdrop of a resonant political scandal on the relationship of Trump and his entourage with Russia, as well as the investigation of Russian interference in the last presidential election, incumbent President of the United States is permanently in the focus of media critics, and even under the threat impeachment procedure. Due to the image losses from the suspicion of having connections with Russia Donald Trump extremely needed to show to the domestic audience a foreign policy that does not contradict his campaign rhetoric and demonstrates the impartiality concerning Russian interests. Therefore, the meeting with Petro Poroshenko, the leader of a country that counters Russia in a hybrid war, largely levelled the foreign policy orientations in the Trump Administration, taking away from his internal rivals a significant argument for accusations of loyalty to Russia.

The parties did not agree on any new strategic forms of cooperation or plans for settlement of the Ukrainian-Russian conflict alternative to Minsk-2. In return, Ukraine received a typical message of Obama Administration: assurances on further support and prolongation of anti-Russian sanctions.

A period of uncertainty in relations between Ukraine and the US and between Washington and Moscow continues. Considering the priority actions of Donald Trump in the international arena (issues with Iran, North Korea, China, international terrorism, etc.), the priorities of his geopolitical course are sufficiently far away from Eastern Europe, and the foreign policy is sec-

ondary issue for the American leader in comparison with the solution of internal problems. The key positions in the Department of State, responsible in particular for the Ukrainian direction of the US foreign policy, are still vacant, that evidences the inferiority of the "Ukrainian crisis", at least at this stage. This area today in addition to a major work, is jointly supervised by Vice-President Mike Pence and Secretary of State Rex Tillerson.

The leaders' meeting showed the absence of the scenario on finding the way out of the stalemate as regards the Donbas conflict

The lack of the formed concept of Donald Trump's policy towards Ukraine is a consequence not only of new orientations of the executive power in Washington, but a result of explicit flaws of the Ukrainian leadership, first and foremost, in the sphere of anti-corruption efforts, implementation of reforms and in the matter of a clear set of measures to resolve the situation in eastern Ukraine. At the moment, the official Kyiv has no clear plan for further bilateral relations with the United States. Ukrainian authorities tried to create the impression of effective work right before the visit, when the Secretary of the NSDC Oleksandr Turchynov initiated the change of the format of the ATO and reported on the preparation by the authorities of the law on reintegration of Donbas. In addition, the demonstration of the fight against corruption resulted in the accusations by the Prosecutor General's Office of five MPs, and three of them are members of the ruling coalition. It is demonstrative that the filings were sent to the Parliament on the day of Trump's meeting with Poroshenko.

The focus was made on the development of bilateral cooperation in specific sectors of the economy

Thus, both Presidents used the meeting for their image purposes: Trump – to minimize the risk of the "Russian" scandal, Poroshenko – to create



an image of the new geopolitical victory of Ukraine in the difficult political situation. Based on the results of the negotiations, the current format of the Minsk settlement of the conflict in Donbas remains, and therefore the problem of the unresolved conflict in the territory of Ukraine remains as well. Ukraine and the United States declared a deepening of sectoral cooperation, particularly in the military and energy spheres. The specific details of cooperation will be agreed during the visit to Kyiv of the U.S. Secretary of State Rex Tillerson and Secretary of Defense James Mattis that should take place in the coming future.

All existing advantages and achievements of the meeting of Petro Poroshenko with Donald Trump, as well the meeting itself as a whole, have become possible not because of the geopolitical interest of the U.S. President in Ukraine, but due to the urgent need to smother internal fires. If the urgency of the issue on communication of Donald Trump with Russia decreases and there will be changes in the political agenda in the U.S., Ukraine can hardly count on the favor of the U.S. President. The main problem of further development of relations between Ukraine and the United States today is that "the history of Ukrainian success", which Petro Poroshenko was trying to sell to Donald Trump, does not exist yet. And the Ukrainian authorities should at least adhere to the commitments to its international partners, and not to be engaged in imitation, but in the full implementation of the reforms.

ECONOMIC ANALYSIS



Budget resolution of 2018–2020 – the first step to the medium-term budget planning

According to the explanatory Memorandum, the main directions of budgetary policy for 2018–2020 (hereinafter – the budget resolution) are based on the provisions of the Program of Activities of the Cabinet of Ministers of Ukraine, the Coalition Agreement, the Medium-term plan of priority actions of the Government until 2020, Strategy for Sustainable Development “Ukraine-2020”, programs of cooperation with international financial organizations. For the first time this document envisages the introduction of mid-term budgeting for three years. The main problem of the budget resolution is its weak correlation with the provisions of the state budget, which makes it a purely formal document.

The main directions of the budget resolution for 2018–2020 are, according to accompanying documents, as follows:

- acceleration of economic growth by creating a favorable investment climate and maintaining macroeconomic stability, in particular, continued fiscal consolidation;
- public administration reform, decentralization and public finance reform;
- development of human capital through the reform of the health system and education, improving the provision of state social support;
- establishing the rule of law and fight against corruption;
- ensuring security and defense of the state.

As regards foreign policy, in 2019 it is planned to successfully complete a program of cooper-

ation with the International Monetary Fund and to obtain a stable position on foreign markets of borrowings.

The budget resolution is made on the basis of policy documents

The most positive aspect of this document is the introduction of medium-term budget planning with the harmonization of several policy documents. First, the three-year budget is necessary if a country is actively pursuing reform. The reform plan should not just be embodied in the form of strategy, but to have understandable financial security. Therefore, in the case of Ukraine a medium-term budget plan may be the financial reform agenda. This is especially necessary in the context of stability of tax policy in connection with the permanent non-systemic changes in the Tax Code.

Secondly, the move to three-year planning in many cases became the reason of the decrease of populist decisions concerning increase of social expenditures in pre-election periods. Legislative increasing of the interdependence of formation of the budget for the current year and a medium-term fiscal plan will help to avoid political influence in making budget decisions.

Thirdly, the introduction of a medium term budget plan will also help in improving the effectiveness of the government programs. This is important, given the possibility of resource planning and more effective and balanced allocation of budgetary funds. Very often certain projects, especially concerning construction and reconstruction, last decades because of annual changes in budget priorities and lack of funding. In case of medium-term budget planning, long-term infrastructure projects are possible, and the Ministries will be interested in the implementation of important programs, not only in the disbursement of funds. In the future, the medium-term plan will improve cooperation between the responsible bodies for the preparation of the budget and the budget forecast of the central and local level of government. Three-year budget plan can be the first step on the path to a long-term scenario that will generate long-term state strategy of the main directions of state policy. Moreover,



the proposed cap in government spending may be a good benchmark for assessing the quality of state decisions.

If we analyze the specifics of the document, its main problem is that the provisions of the budget resolution are very weakly correlated with the provisions of the state budget, which was passed in Parliament. This situation makes it a purely formal document.

Other problematic issues are as follows:

1. **The lack of explanation of the measures and directions of the state policy on achieving the proposed indicators.** Most of them are quite declarative, making it impossible to assess how realistic they are. The question remains as following – on the basis of what calculations the main parameters of the budget resolution were determined.

Most indicators have no justification that contributes to declarative nature of the document

2. One of the problems is **the lack of a monitoring system and adjustments of the proposed expenditure caps, which makes it impossible to evaluate how realistic they are.** This also applies to the planned revenues and expenditures for future years, for which the significant growth in the next 3 years is stipulated. In Ukraine, URS may depend not only on economic situation but also on the political one, which increases the risk. In addition, the law does not define any monitoring mechanism, there is no mechanism to adjust the proposed "cap" that is essential in the changing economic situation. The solu-



tion to this problem is to develop responsible planning of the necessary regulatory framework for the budget for monitoring and adjustment of deviations. The adjustment mechanism should be implemented with reference to previous plans and forecasts.

The introduction of the three-year plan at the local level may have problems

3. **Problems of implementation of the three-year plan at the local level.** This question is of particular relevance concerning fiscal decentralization. In Ukraine there is the situation when the budget is prepared without taking into account the real needs of the regions, preparation of budget requests of local authorities is purely formal, and all decisions are taken at the level of main managers of budgetary funds. Simple bringing medium-term budgetary planning figures to local authorities has nothing to do with the medium-term budget planning. Therefore, in the context of fiscal decentralization it is necessary to develop an effective mecha-

nism of cooperation of competent authorities for its implementation in central executive authorities and at the local level. A three-year plan can give the local government an understanding of the importance of efficient use of resources and a constant search revenues of local budgets, and not only the expectation of permanent funding from the center.

Three scenarios for the budget resolution

Scenarios. The future fate of the medium-term budget resolution can have 3 scenarios:

- 1) status quo – budget resolution will remain a formal document and its provisions will be poorly correlated with a budget proposed by the Cabinet of Ministers in September 2017. This will lead to the continuation of the chaotic and inconsistent state policy, the loss of state capacity to implement reforms and stimulate economic and social development, to the accumulation of systemic risks.

- 2) based on the proposed three-year budget resolution, the introduction of a medium term budget planning without a simultaneous reform of the entire system of strategic planning will not lead to the desired effect (predictability and consistency of the state budget policy). This can also create conditions for the permanent inconsistency of medium-term budget plans with the policy in relevant spheres of activity of state authorities. This scenario can bring all efforts spent on its preparation to nothing and does not protect against implementation of the risks associated with the uncertainty and frequent changes of economic policy priorities.

- 3) based on the proposed three-year budget resolution, the introduction of strict medium-term budget planning simultaneously with the reforms of the entire system of strategic planning is optimal. Medium-term budget resolution should be integrated into the system of state forecasting and program documents. Approval of the budget plan should be carried out annually together with the law on state budget for corresponding year, at the same time to prevent its refinement in subsequent years in the event of changes in the macroe-



conomic situation or state policy in a particular area.

The lack of political will on transition to the medium-term budget planning on the basis of leading experience of European countries will not allow to achieve the following objectives:

1) conducting a balanced policy of forecasting of budget revenues and expenditures;

2) the realism of the budget decision-making and legislative interdependence of formation of the budget for the current year and medium-term fiscal plan will help to avoid political influence on the adoption of budgetary decisions;

3) improved cooperation between the responsible bodies for the preparation of the budget and the budget forecast of the authorities at the central level and local level;

4) avoiding populist decisions to increase social expenditures in pre-election periods;

5) improvement of the efficiency of public programs, taking into account capacity planning rather than annual dependence on the current budget, the budget funds will be more effectively distributed and balanced;

6) medium-term budget planning is the first step on the path to long-term scenario that will generate long-term state strategy of the main directions of the state policy.

POLITICAL COMPETITION



Initiatives on restoring the state sovereignty over uncontrolled territories of Donbas

The initiatives regarding restoration of the state sovereignty over uncontrolled territories of Donbas have more formal character in the form of general provisions without a specific road map for conflict resolution and a coherent strategy. The proposed ideas are of framework nature, establish certain general principles, maintain the status quo and do not propose a new systemic vision for the conflict settlement. They are aimed at the legalization of hostilities in the territory of Ukraine without declaring war and introducing martial law, and it is a response to the current foreign policy situation.

In recent weeks, a major political issue, which raised a wave of interest in media and political circles, were the initiatives with respect to the document on the legal status of certain districts of Donetsk and Luhansk regions. The basis for this document should be the concept of de-occupation (restoration of the state sovereignty) proposed by the Secretary of the National Security and Defense Council (hereinafter NSDC) Oleksandr Turchynov and the reintegration plan of the President Petro Poroshenko.

Statements of Turchynov on a new format for the ATO were probably not coordinated with the President

Public discussion began with the statements of Oleksandr Turchynov that it is necessary to complete the ATO in Donbas that has fulfilled its task (liberation of the part of occupied ter-

ritory, stopping the enemy's attack, creating opportunities for political restart in the country) and transition to the new format of defending Ukraine from the Russian hybrid war that would not negate the Minsk agreements. Probably, this statement has not been agreed with Petro Poroshenko, who on the next day took the initiative and said that he instructed to elaborate a draft law for the reintegration of Donbas.

Turchynov seeks to legitimize the decision on the introduction of ATO

The emergence of this initiative has both domestic and foreign policy implications. It can be the desire of Oleksandr Turchynov as a former acting President of Ukraine, who declared the beginning of the ATO, at least *post factum*, to legitimize this decision, because according to the Ukrainian legislation, the use of the Armed Forces in the territory of Ukraine is possible only under condition of war or under martial law. Turchynov saw a window of opportunity (due to the foreign policy situation) and decided to push the President to initiate such a draft law. Also this initiative is a response to the already registered in Parliament draft laws No. 6400 dated 20.04.2017 and No. 6400-2 dated 10.05.2017 on the temporarily occupied territory of Ukraine by the Russian federation, which impose on Russia an obligation to take care of the population and infrastructure of the territories not controlled by the Ukrainian government. While in the Minsk agreement it is stipulated that Ukraine is responsible for the state of social and economic spheres of these territories.

Foreign policy factors were the main stimulus to initiate the draft law

The foreign policy incentives of the emergence of such initiatives include the statement of the U.S. Secretary of State Rex Tillerson about a possible deal between Ukraine and Russia above the Minsk format and the visit of Petro Poroshenko to the United States, where he met with the U.S. President Donald Trump and other senior officials. If Trump took an active anti-Russian position Poroshenko could have presented a plan to settle the conflict in Donbas in the form of such a draft law. Considering the fact that Trump did not want to make any specif-



ic and even more anti-Russian statements, it is possible that the U.S. would not take, at least so far, active participation in resolving the conflict, leaving it to the European allies. The United States may be committed just to the monetary and military (without providing lethal weapons) assistance to Ukraine.

An important foreign policy factor is also the activation by the French President Emmanuel Macron of negotiations in the "Normandy format". Emmanuel Macron seeks to lead the negotiations out of the impasse, to determine preconditions and elaborate the drafts of possible solutions. The first thing, in the opinion of the President of France, is to stop concealing the real situation and to start its objective assessment. The so called "Macron's formula" provides for joint purposeful work in incrementally way (small, gradual, exact steps) to ensure the full implementation of the Minsk agreements. In particular, it is about: 1) full compliance with the ceasefire; 2) withdrawal of military forces and weapons; 3) providing the access for international observers to all the facilities and ensuring their security; 4) release of the hostages. That is, from a practical point of view, the "Macron's plan" provides for a new discussion with a clear definition of steps (timeframes) with implementation part of the Minsk agreements. The issue on the fulfilment of the political part and corresponding commitments of Ukraine has not yet been raised. The position of the Russian Federation is important in this context, since it may accept the proposed measures, but will not make the efforts to implement them that will make any progress in this area impossible.



Thus, Kyiv wants to be prepared for a possible pressure from Western partners or to the changes in international arena and to have something to offer on its part.

This draft law can also become a response of Ukraine to Russia's actions, which systematically violates the Minsk agreements, de facto, going beyond them: it created the ruble zone in the territory of certain districts of Donetsk and Luhansk regions, "nationalized" Ukrainian enterprises and recognized documents of self-proclaimed DPR/LPR.

The draft law is being discussed by politicians and experts behind closed doors

The details of this draft law were not revealed. There is only a concept document "On state policy for the restoration of state sovereignty over the temporarily occupied territory of Donetsk and Lugansk regions of Ukraine" available. According to the concept, the draft law may contain two components: 1) determination of a number of interconnected politi-



cal-military steps that should lead to liberation of occupied territories; 2) establishment of legal mechanisms for the use of the AFU in Donbas.

The draft law provides for the recognition of non-controlled territories to be the occupied territories, but without determining the occupier country

The concept of the draft law covers the following key points:

- 1) it does not contradict to the Minsk agreements;
- 2) recognition of certain areas of Donetsk and Luhansk regions to be temporarily occupied territories of Ukraine (which means shifting of responsibility for the situation there on the occupier country, but at the same time, there is no clear indication of the occupier in the document);
- 3) definition of legal basis of the state policy in this area, its objectives and fundamental principles;
- 4) establishment of the Operational Headquarters of the Donetsk and Lugansk regions, given the powers and the formation of which, the President will be able to manage these regions in fact in a "manual" mode;
- 5) granting the head of state with the right to decide on the use of the Armed Forces of Ukraine, and the right to impose martial law in the territory of Donetsk and Lugansk regions.

The ATO will be replaced by 'self-defence with the possibility of a military response'

It is planned that in this draft law, the ATO will be replaced by the 'self-defence with the possibility of a military response' with a clear description of the procedure for the execution of military operations. There are intentions to fix, on a legal basis, the OSCE mission and to establish the possibility of its transformation into an armed police mission. It is also stipulated to clearly prescribe the mode of provision of services (medical, educational, social and

administrative) to people in the occupied territories. Separately, there are discussions on the possibility of obtaining biometric passports for visa-free travel by the residents of certain areas of Donetsk and Luhansk regions.

There will be only one plenary week left for the adoption of the draft law

It is unknown exactly when the draft law will be submitted to Parliament and especially when it will be adopted, since there is only one plenary week left till the completion of the session of Parliament (from 11th to 14th of July). The next session will begin in the autumn. Although there is an option of holding the extraordinary meeting.

The proposed draft law contains certain risks

It is also necessary to take into account certain hazards which a proposed draft law in practice may lead to, namely: 1) limitation of rights and freedoms of residents in Luhansk and Donetsk regions, which is stipulated by the Law on the military situation; 2) the extension of the powers of the President in these areas without leveling from the other branches of power; 3) likely increase of confrontation subject to poorly defined procedures for the conduction of military operations without declaring war and imposing martial law.

Thus, the draft law does not provide for a clear vision regarding the settlement of the conflict, and allows more properly within the legal framework to determine the situation in the East of Ukraine and to avoid legal problems after the conflict. One of the main objectives of the draft law is the settlement of administrative chaos in the area of the ATO through the establishment of the Operational Headquarters of the Donetsk and Lugansk regions, which will coordinate civil-military activities in the region. This draft law is also a foreign policy tool – a kind of declaration of intentions of Ukraine to its Western partners.



There are three possible scenarios with the draft law on restoration of the sovereignty over non-controlled territories

Depending on the content of provisions, which will be finally included in the draft law, there are several possible scenarios.

First, subject to the operating concepts of “re-integration”, “deoccupation”, which provide for a wide range of actions and clear results, the Parliament will have intense debate on this draft law and it is unlikely to be voted on.

Secondly, provided purely technical corrections, without using controversial and very obliging terms, for example, focusing solely on changing the format of the ATO and settlement of administrative chaos in Donbas, the draft law could be voted during the last week of the Parliament's work or at an extraordinary session, subject to the need to consider other urgent draft laws.

Thirdly, despite the decline of social and political interest in this draft law and a large number of issues (particularly controversial) that need to be addressed by MPs at the last session, the draft law regarding the restoration of state sovereignty over non-controlled territories will not be considered in Parliament, at least during this session. During parliamentary summer holidays, the political situation may radically change and its relevance will disappear at all.

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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This issue of 'Inside Ukraine' has been realized with the support of the Embassy of Switzerland in Ukraine.

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