Ukraine's economic reforms

Prospects of sustainability

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Sammanfattning

Ukrainas ekonomi har varit föremål för flera reformförsök sedan självständigheten 1991. Trots det har landet inte lyckats att helt övergå till marknadsekonomi. Istället har den ukrainska ekonomin fastnat i ett övergångsläge som är svårt att komma ur och har många brister. Ett huvudproblem är att grundläggande institutioner som ett oberoende rättsväsende aldrig har etablerats. Efter de tidiga privatiseringarna fick en mäktig oligarkklass stort inflytande. Oligarker har kunnat påverka statens politik i ekonomiska frågor vilket effektivt har hindrat marknadsekonomiska reformer och förvärrat korruptionen.

Rapporten diskuterar de ekonomiska reformerna som startade 2014 och försöker bedöma potentialen för att de ska bli hållbara i meningen att de institutioner som underbygger marknadsekonomin kan bli permanenta och främja ekonomisk tillväxt. Rapporten diskuterar också det utländska bistånd som ges för att stödja reformprocessen samt oligarkväldets fortsatta påverkan, vilket utgör en riskfaktor för reformernas framgång. I den avslutande bedömningen finner författarna att även om riskerna för ett misslyckande fortfarande finns, så är möjligheterna för att reformerna ska lyckas relativt goda. Reformer för att stävja korruptionen har påbörjats och åtgärder för att göra rättsväsendet oberoende har inletts. Dagens Ukraina har också ett starkt och engagerat civilsamhälle som följer upp reformernas genomförande och granskar det politiska etablissemangets agerande.

Nyckelord: Ukraina, ekonomiska reformer, utländskt bistånd, oligarker

Summary

Ukraine has been subject to several attempts of economic reforms since independence in 1991, but has not managed to fully transition to a market-based system. As a result, the Ukrainian economy has ended up in a semi-transformed state with many shortcomings. A main problem is that basic institutions like the rule of law have never been properly established. Instead, a powerful oligarch class emerged along with the early privatisations and their influence led to state capture, which has effectively hindered market reform and nurtured vested interests and corruption.

This report attempts to assess the potential of the Ukrainian economic reforms started in 2014 to become sustainable, in the sense that institutions underpinning a market economy may become permanent and sustain economic growth. The report also discusses the significant foreign assistance supporting the reform process, and oligarch influences that represent risks to sustainability. In the concluding assessment, it is found that although the risks for failure of the reforms remain present, for instance in the form of oligarch power, the opportunities for success appear to be quite strong. Reforms addressing corruption and establishing an independent judiciary have been started, and Ukraine has an engaged civil society that plays a key role in keeping the reforms on track and monitoring the behaviour of the political establishment.

Keywords: Ukraine, economic reform, foreign assistance, oligarchs

Foreword

This report was produced within the framework of the Russia and Eurasia Studies Programme at the Swedish Defence Research Agency (FOI), which provides analyses for the Swedish Ministry of Defence. The programme focuses on research in Russian security studies, including Russia's neighbourhood, military, economic and domestic affairs.

"Conducting reforms in a country at war is not the same as doing so in peacetime," Susanne Oxenstierna and Jakob Hedenskog write. They analyse the economic reforms that started in 2014, and highlight the differences from earlier reform attempts. Although many challenges remain, Ukraine has made some impressive progress in the reform process this time.

FOI is most grateful to officials at the Swedish Embassy in Kyiv who arranged the programme for the authors and provided valuable updates of information. We are indebted to Associate Professor Anders Olofsgård, Stockholm School of Economics, for his thorough review of the draft report. All of the participants in the review seminar also contributed to a fruitful discussion on both content and structure. Bengt-Göran Bergstrand revised the figures, Richard Langlais language edited the text, Josefin Bergman did the layout, and Per Wikström designed the map. We thank them wholeheartedly.

Gudrun Persson
Project leader for the Russia Studies Programme
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Acronyms

AA	Association Agreement
AntAC	Anti-corruption Action Centre
CIS	Commonwealth of Independent State
CSO	Civil society organization
DCFTA	Deep and Comprehensive Free Trade Area
DFID	UK Department for International Development
EEAS	European External Action Service
EBRD	European Bank of Reconstruction and Development
EC	European Commission
ECFR	European Council on Foreign Relations
EAEU	Eurasian Economic Union
EFF	Extended Fund Facility
ENP	European Neighbourhood Policy
EU	European Union
FCO	Foreign and Commonwealth Office
FDIs	Foreign direct investments
GIZ	Gesellschaft für Internationale Zusammenarbeit
HR	Higher Representative
IcSP	Instrument contributing to Stability and Peace
IDPs	Internally Displaced Persons
IMF	International Monetary Fund
MP	Member of Parliament
NABU	National Anti-Corruption Bureau of Ukraine
NAPC	National Agency for Prevention of Corruption
NBU	National Bank of Ukraine
NGO	Non-governmental organization
NRC	National Reform Council
OSCE	Organization for Security and Co-operation in Europe
PAR	Public Administration Reform Strategy
PPP	Purchasing power parity
RPR	Reanimation Package of Reforms
SBA	stand-by-arrangement
SECO	Swiss State Secretariat for Economic Affairs
SEK	Swedish Krona
Sida	Swedish International Development Cooperation Agency
TI	Transparency International
USAID	US Agency for International Aid
WGI	Worldwide governance indicators

Map of Ukraine

Source: FOI

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1 Introduction

Ukraine has been subject to a number of attempts of economic reform since independence, but has not managed to fully transition to a market-based system. The International Monetary Fund (IMF) and other international donors have been engaged in this work since the 1990s, but previous efforts have failed to combat inconsistent macroeconomic policies, unsustainable energy pricing, and corruption. As a result, the Ukrainian economy has ended up in a semi-transformed state with many shortcomings. A main problem is that basic institutions such as the rule of law have never been properly established. Instead, a powerful oligarch class emerged with the early privatisation and their influence led to state capture, which has effectively hindered market reform and nurtured vested interests and corruption.

This report attempts to assess whether the Ukrainian economic reforms started in 2014 may create sustainable results in the form of permanent effective economic institutions that support a viable market economy. The study investigates the ongoing institutional reforms that provide the underpinning for a market economy. The report also discusses the significant foreign assistance supporting the reform process and oligarch influences that represent risks to sustainability. In the concluding assessment, the opportunities of success and risks of failure of the reforms in the medium- and long-run are analysed.

The outline of the report is as follows. The second chapter gives a brief overview of Ukraine's reform history after independence. The third chapter discusses the recent economic development in Ukraine. Chapter 4 analyses the need for structural reforms and describes the major reforms that are ongoing. Chapter 5 presents the donors active in Ukraine and discusses the issue of ownership. Chapter 6 discusses the oligarchy and how its negative implications for the economy may be overcome. Chapter 7 assesses the opportunities and risks in the reform process. Chapter 8 provides the conclusions of the study.

1.1 Major stakeholders

The success of the Ukrainian reforms is of course of importance to Ukraine, its government, and people. These are the main stakeholders. However, countries in the West have also invested credibility vis-à-vis the Ukrainian people and their own electorates and, globally, by providing significant support to the reform process through multilateral organizations and bilateral programmes. In August 2014, Ukraine requested a two-year stand-by arrangement (SBA) from the IMF of approximately $17.5 billion (SEK150 billion).[1] The Russian aggression against Ukraine[2] and the following domestic political turmoil had aggravated the macroeconomic imbalances and long-term structural problems of the economy, creating an urgent need for financial assistance from the international community (IMF 2016: 1). As the military conflict in Donbas intensified and domestic political uncertainty prevailed, program implementation became uneven, and in March 2015 the SBA was replaced with an Extended Fund Facility (EFF), to provide more financing for a longer period and support the authorities with deeper reform plans (IMF 2016: 2). In November 2014, provisional application of the Association Agreement (AA) with the European Union (EU) was achieved, and in January 2016 the Deep and Comprehensive Free Trade Area (DCFTA) could be applied (Association Agenda 2015: 1).

These agreements have provided the basic framework for multilateral and bilateral assistance to Ukraine since 2014. The goal is to transform Ukraine into a market economy and democratic society. Moreover, the payments on the EFF are conditioned by structural reforms that Ukraine needs to undertake each period before disbursements. Similar conditionality applies to EU's financial support. The AA defines priorities for action and provides guidance for the implementation of the Association Agenda (Association Agenda 2015: 5).

The stakeholders most likely to lose from successful reforms are actors who have profited from the semi-reformed system, such as the oligarchs and high-positioned state officials who have engaged in rent-seeking behaviour and corruption. Reforms may also be unpopular with state employees, who now risk losing their influence and jobs, and the private actors who have profited from corruption at different levels of society. Russia is a major player that would be losing if reforms become sustainable; it sees Ukraine as part of its "sphere of influence," and regards EU's engagement during the post-Soviet area as hostile towards it. Russia would have preferred to incorporate Ukraine into the Eurasian Economic Union (EAEU).

1.2 Approach and methodology

Assessing the economic transformation in the former socialist countries involves considering how far the economy has assimilated a number of elements intended to liberalize the economy and establish market allocation under rule of law. Key

[1] In all currency conversions in this report, the annual average rates cited by the Swedish Central Bank for 2016 have been used.

[2] In February 2014, Russia sent Special Forces to the Autonomous Republic of Crimea and, in March of the same year, Crimea and Sevastopol (a city with special status in Ukraine) were illegally annexed by Russia. In April 2014, separatist groups in Donetsk and Luhansk *oblasts* started an armed insurgence supported by Russian troops. The war in Donbas is still ongoing.

elements of the transition from a command economy to a market economy include (see e.g. World Bank 1996, Hare 2013):

1) *liberalizing prices,* all economic activity and market operations, along with reallocating resources to their most efficient use;

2) developing indirect, market-oriented instruments for *macroeconomic stabilization;*

3) imposing *hard budget constraints,* which provide incentives to improve efficiency;

4) achieving effective enterprise management and economic efficiency, usually through *privatisation;*

5) establishing an institutional and legal framework to *secure property rights, the rule of law, and transparent market-entry regulations.*

In Ukraine, the liberalizing of economic activity, macroeconomic stabilization, and privatisation have partly and periodically been achieved during former reform eras. Structural reforms have failed, however, and the economy has become locked in a semi-transformed state that has been difficult to break out of, because it is advantageous for influential elites.

Because the deficiency of structural reforms was the main reason for the failure of reform in the past, the focus of this report lies on how Ukraine is now trying to establish the institutional and legal framework that would secure the establishment of market-supporting institutions, particularly the rule of law, the control of corruption, and governance. Other reforms decisive for the functioning of the Ukrainian economy, such as the energy sector reform, reform of the banking sector, and the pending land reform, are discussed as well. The choice of reforms studied in more detail has been governed by interviews and discussions with Ukrainian state officials, researchers, civil society activists, and Western stakeholders engaged in the reforms. The reforms discussed more closely in this report are those mentioned in the interviews as most important for the economy. These reforms are also stressed by the IMF and the EU in the conditions for financial support and in their follow-up reporting. Implementation of structural reforms has in many cases been directly linked to the disbursements of funds.

Besides the interviews, the study is based on publications by the IMF, the World Bank, and the EU, on reform progress and economic performance. Publications by think tanks that follow Ukraine, as well as journal articles, the press, and webpages, have also been used. Interviews were made in Stockholm and Brussels between February and April 2017; and during a study visit to Ukraine, which was undertaken 18-28 April 2017. It included a long range of meetings with Ukrainian officials and specialists in Kyiv, Lviv, and Kharkiv (see list of interviews). Lviv and Kharkiv were chosen because they are major cities that represent both Western and Eastern Ukraine respectively (see map).

When relevant, Ukraine's reform performance is compared to that of other countries. Poland and Russia have been chosen as countries of comparison because they are former socialist countries; they had about the same level of development at the beginning of the transition and they have gone through the same type of reforms. Poland is an example of a country that in the meanwhile has fully transformed to a market economy and is part of the EU, while Russia is an example of a country that is not fully reformed and that has reversed its initial market and democratic ambitions. In Russia, attempts to modernize the economy have failed and it is still heavily dependent on its commodity export.

2 Overview of previous reforms

During independence, Ukraine lost two major opportunities to reform: in 1991, when the country was enjoying its brand new independence, and in 2005, after popular protests against defrauded presidential elections had culminated in the Orange Revolution in the end of 2004 and brought reform-minded politicians to power. In both cases, the country could have experienced a significant transformation of economic structures and processes. But this did not happen, and, for twenty years, Ukraine has been stuck with an economic system that is neither a market economy nor the old Soviet system (Vimont 2016: 1-2). The problem is that a partially reformed economy provides enormous rent-seeking opportunities for well-placed elites, and once reform reaches rent-seeking between the command economy and the market, actors who benefit from this arrangement will seek to obstruct further reform (D'Anieri 2016: 5).

2.1 Initial reforms after independence

Ukraine's first president, Leonid Kravchuk (1991-1994),[3] managed to establish Ukraine as an independent unitary state, despite its regional diversity, but failed in reforming the economy. The old centrally planned Soviet economy stopped functioning, but no market economy replaced it. By 1993, the threat of economic collapse was imminent as coal miners in Donbas went on strike, threatening the economy and politics with chaos. The biggest problem – hyperinflation, which peaked at 91 per cent in December 1993 – had three main causes: maintenance of the rouble zone, excessive monetary expansion, and too large public expenditures. In July 1994, Kravchuk lost the pre-term presidential elections to his former prime minister, Leonid Kuchma (Åslund 2009: 45-49).

Candidate Kuchma had run on a platform of renewed economic ties to Russia, greater autonomy for Ukraine's regions, and a gradual approach to reforms (Kravchuk 2002: 63). In October 1994, he launched an ambitious economic program of reforms, which was approved in the parliament and received immediate support from numerous Western institutions, such as the IMF and the G-7. The program was comprehensive, embracing the objectives of reducing the budget deficit from 20 per cent of GDP to 4 per cent; liberalizing prices; stabilizing the currency and introducing a national currency, the *hryvnia;* accelerating medium- and large-scale privatisation; reducing heavy tax burdens; cutting business regulation; and easing foreign currency restrictions (ibid: 64). By the end of September 1994, Ukraine had concluded the first of the IMF agreements that

[3] Prior to being elected president on 1 December 1991, Leonid Kravchuk had been a member of the Politburo of the Communist Party of Ukraine and chairman of the Supreme Soviet of the Ukrainian SSR.

led to financial stabilization. The hryvnia was successfully introduced in September 1996. Simultaneously, Ukraine's mass privatisation program took off (Åslund 2009: 62-63). Despite this, from early 1995 Kuchma's commitment to reforms had already appeared to waiver. He began to speak publicly of the need for a correction of reforms, criticizing "blind monetarism" and calling instead for the creation of a "socially-oriented market economy" (Kravchuk 2002: 65). These tendencies increased towards the end of his presidency, when he sought re-election for a second five-year term. He also faced increased resistance from the parliament, where the Communist Party had the largest faction.

Yet, Kuchma's victory in the 1999 presidential election led to a new push in his economic reform programme. Kuchma nominated the National Bank of Ukraine's (NBU) chairman, Viktor Yushchenko, as new Prime Minister. Yushchenko quickly appointed a cabinet of reformers, including Yulia Tymoshenko, as deputy premier for the fuel and energy sector, and developed, in consultations with Western advisors, an economic program. This program differed substantially from previous reform proposals, since it called for a dramatic retreat of the state in the economy, and elevated anti-corruption measures and administrative reform to prominence (Kravchuk 2002: 83). Despite the considerable accomplishments of the Yushchenko government, Kuchma began to criticize the government, and especially Tymoshenko, for the rise of Ukraine's energy debts. He came to see Yushchenko as a potentially powerful rival for the presidency (Kravchuk 2002: 85-87). During spring 2001, criticism from the oligarchic parties in the parliament intensified as well. In January 2001, Tymoshenko was sacked and subsequently investigated for embezzlement; three months later Yushchenko was undone by an unholy alliance between a faction of the Communist Party that had long been unhappy with his market reforms and privatisation policies, and the oligarchic parties in the parliament, which turned against him for his anti-corruption policies and efforts to inject more competition into the energy sector (Kravchuk 2002: 89).

The early rounds of privatisation of state companies under Kuchma led to the development of a strong oligarch class and state capture in Ukraine. State capture is defined as the action of individuals, groups, or firms, both in the public and private sectors, to influence the formation of laws, regulations, decrees, and other government policies to their own advantage, including the illicit and non-transparent provision of private benefits to public officials (Hellman & Kaufman 2001). The oligarch class came to dominate large sectors of the Ukrainian economy, including the state. They profited from the semi-reformed system that opened immense opportunities for rent-seeking and corruption. The oligarchs had financial powers and could easily hinder economic reforms that were not in their interest. The state was weak; the oligarchs have severely interfered with public matters by siphoning cash into the system, keeping seats in parliament, financing political parties, lobbying at all levels, and placing allies in the government. This is an important reason for the collapse of Kuchma's economic reforms and the ones that came later (see further Chapter 6, below).

2.2 The economic reforms after the Orange Revolution

The second period of Kuchma's presidency (1999-2005) was dominated by scandals,[4] which eventually led to his temporary isolation from the West, which in turn forced him to seek closer economic and political ties with Russia (Åslund 2009: 143-145). The public protests against the increasingly authoritarian oligarchic regime under Kuchma culminated during the Orange Revolution, at the end of 2004, which brought the pro-Western candidate Yushchenko to the presidency, after his win over the Prime Minister, Viktor Yanukovych, Kuchma's chosen successor and the Kremlin's favourite. The "Orange rule" (2005-2010) did not become successful, however, in terms of economic reform. There were expectations that Yushchenko, with his reputation as a pragmatic reformer, would kick-start the sluggish reform process. Instead, priority was given to the question of re-privatisation, which was complicated, due to the fact that the oligarchs' big-business interests were represented in parliament as well as in the government (Åslund 2016: 71). In the end, the government recouped some money from this process, but most importantly it lost its momentum in the fight against corruption and in pursuing market reform. Furthermore, all reform plans were disturbed by political rivalry and in-house battles within the Orange camp, particularly between the former allies, President Yushchenko and Prime Minister Tymoshenko (Kuzio 2015: 311). The missed opportunities after the Orange Revolution allowed Viktor Yanukovych to win the 2010 presidential elections.

Despite the failure to reform in the 1990s and early 2000s, Ukraine shares the experience of many emerging markets, of high growth during 2000-2007 (Åslund 2016: 74). Unfortunately, this did not save Ukraine from falling even more behind other post-socialist countries in terms of economic development and living standard (IMF 2017a). The financial crisis struck hard in 2009 and Yushchenko had to apply for financial support from the IMF. To approve credits, the IMF required a fully-financed budget, a realistic exchange rate, and recapitalization of the banking system, but refrained from forcing Ukraine to undertake structural reforms (Åslund 2016: 74). Ukraine received three tranches of $11 billion (SEK94 billion) from the IMF in 2009; however, the remaining tranches were withheld, because the parliament had passed a law on social standards that more than doubled public expenditures as share of GDP (ibid: 75).

Under President Yanukovych (2010-2014), the economy deteriorated and corruptive practices increased (Zhuk 2016). In 2012 and 2013, the Ukrainian economy was stagnant and the country suffered from twin deficit; in 2013 its

[4] Particularly the "Tape Scandal," where the president was accused of being involved in the murder, in September 2000, of the critical journalist Heorhiy Gongadze. The accusations were based on tapes, allegedly recorded in the president's office by Kuchma's bodyguard.

budget deficit was 6.7 per cent of GDP and its current account deficit was 9 per cent of GDP. Ukraine's public expenditures lingered over 50 per cent of GDP, a very high level for such a poor country. There was too much spending on popular items such as pensions, 18 per cent of GDP, and on energy subsidies, at a level of 10 per cent of GDP. The large current account deficit was caused by an overvalued exchange rate that the NBU had kept constant to the US dollar since 2009 (Åslund 2016: 820). Finally, the ominous economic situation and the increasingly authoritarian rule under Yanukovych inspired the Euromaidan protest movement in late 2013.

After the fall of Yanukovych (who had left Kyiv together with his family on the night of 22 February 2014, immediately after signing an EU-brokered deal with the political opposition to end the crisis) the *Verkhovna Rada* (the Ukrainian parliament) voted Oleksandr Turchynov as acting President. Yanukovych did not implement his part of the deal, and after a few days he re-appeared in Russia, from where he asked for Russian military intervention in Ukraine. On 27 February, a new reform government was formed in Kyiv, with Arseniy Yatsenyuk as Prime Minister (Wilson 2014: 90-96). New presidential elections were held on 25 May 2014, resulting in Petro Poroshenko being elected in the first ballot. All these dramatic events happened at the same time as Kyiv had to handle the Russian military aggression, the illegal annexation of Crimea in March, and the Russia-supported separatist unrest in Donbas, from April onwards.[5]

[5] The sequence of events from November 2013 to May 2014 usually goes under the name of Revolution of Dignity (Ukr. *Revoliutsiia hidnosti*). The events include the Euromaidan protests; the fall of the Yanukovych regime following the mass shootings in Kyiv; the creation within days of an interim regime; the restoration of the previous constitution; and the announcement of and subsequent carrying through of earlier presidential elections.

3 Economic development

During 2014, Ukraine was close to bankruptcy and was kept afloat by a €1.6 billion (SEK15 billion) micro-financial assistance loan from the European Commission (interviews in Kyiv). By 2016, fiscal policies and IMF's support package managed to stabilize the Ukrainian economy and the economy grew by 2.3 per cent (World Bank 2017: 14; Figure 1). Yet, this does not compensate for the contraction by 8.7 per cent in 2014-2015, when Ukraine was hit by double shocks, the Russian military aggression and lower global commodity prices (Figure 1).

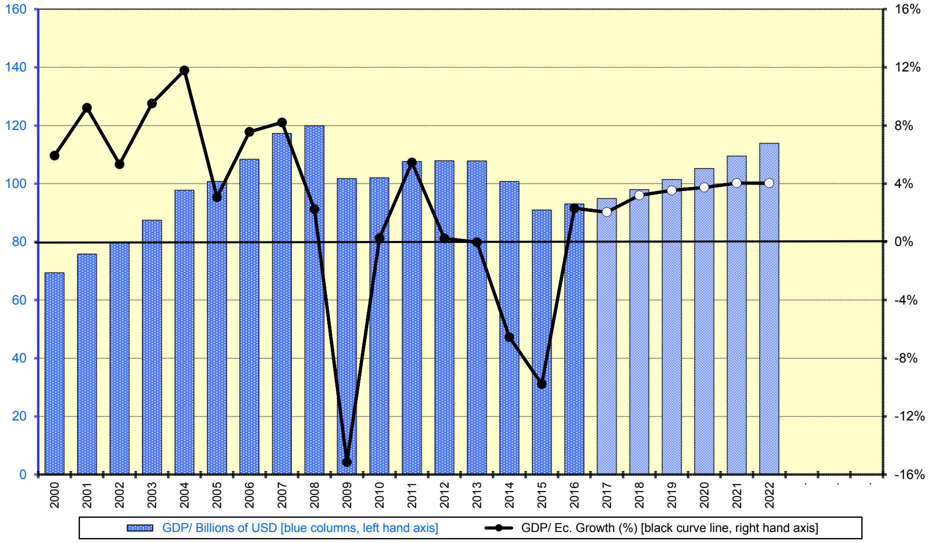

Figure 1 GDP and GDP growth, *billion USD, per cent*
Source: IMF (2017b). *Note*: Forecast from 2017.

The contraction implied that labour market conditions deteriorated and unemployment increased, from 8 per cent in 2013, to 9.5 per cent in 2015. Real wages declined by 13 per cent (year-on-year) in December 2015 (World Bank 2017: 23). These circumstances hit the population directly and there are expectations that conditions will improve with the reforms. The population has already endured earlier periods of hardship. For instance, during the economic crisis in 2009, GDP contracted by 15 per cent and stagnated through 2013.

Looking at the economic sectors' contribution to growth, it is clear that agriculture has served as a steady driver of growth, while industry and services have a more mixed story. Ukraine has excellent conditions for agriculture and is a major exporter of wheat, corn, barley, and sunflower oil. Still, agriculture remains a small part of the economy; it accounted for 12.5 per cent of GDP in 2015 (ibid: 16). One of the reasons for the low share is that there is still no market for land in Ukraine. Industry and services played a major role in generating growth earlier, but added to the stagnation 2008-2013, and to the contraction 2014-2015. During 2014-2015, industrial production decreased by 14.1 per cent per year and services by 7.1 per cent per year. In contrast, agriculture grew steadily, by 6.6 per cent 2008-2013, and contracted only slightly during the economic collapse 2014-2015.

Through 2013, Russia and the remaining Commonwealth of Independent States (CIS) were Ukraine's major trading partners, accounting for 35 per cent of Ukraine's exports, while the share going to the EU was relatively stable around 26 per cent. Following the military conflict in Donbas, and sanctions, the exports to Russia have declined to 12 per cent of total exports in 2015, while the share going to the EU was 30 per cent in 2015 (ibid: 17-18). Primary goods comprised 80 per cent of Ukraine's exports, which are heavily dependent on world market prices. After 2013, export of commodities has declined, due to lower commodity prices and disrupted trade relations with Russia. However, Ukraine did not manage, not even during the improved external conditions and higher growth 2000-2007, to develop new export markets and products.

In March 2017, President Poroshenko imposed a blockade on cargo traffic from the nongovernment-controlled territories. This was a response to the separatists' move to seize control of steel, mining, and other enterprises after Ukrainian war veterans had begun to block coal shipments from separatist regions to government controlled territory (Financial Times 2017). The separatists have since started to ship coal to Russia and the blockade is expected to impact steel production and electricity generation in Ukraine (World Bank 2017b). At the time, NBU estimated that the blockade could reduce growth by 1.5 percentage points of projected growth of 3 per cent in 2017 (New York Times 2016a).[6]

[6] The rail blockade has harmed the business interests of Ukraine's wealthiest oligarch, Rinat Akhmetov, who owns coal mines and steel mills in both separatist- and government-controlled territory. Despite the war, coal trains had continued to run across the front line for years despite the often intense fighting. Akhmetov's company, System Capital Management, conceded to the fact that its property in the rebel zone was no longer under corporate control (New York Times 2016a).

3.1 Poverty

A challenge for the reforms is that per capita income and living standard are still low in Ukraine compared to the EU, and the population has expectations that living standard will rise. This may take time, since Ukraine has had to undertake measures of austerity in the short-run and structural reforms need time to affect living standard. Ukraine's GDP per capita valued at purchasing power parity (PPP) remains at around $8 000 (SEK69 000) in 2015, which is less than a third of the per capita income of Poland and Russia (Figure 2).

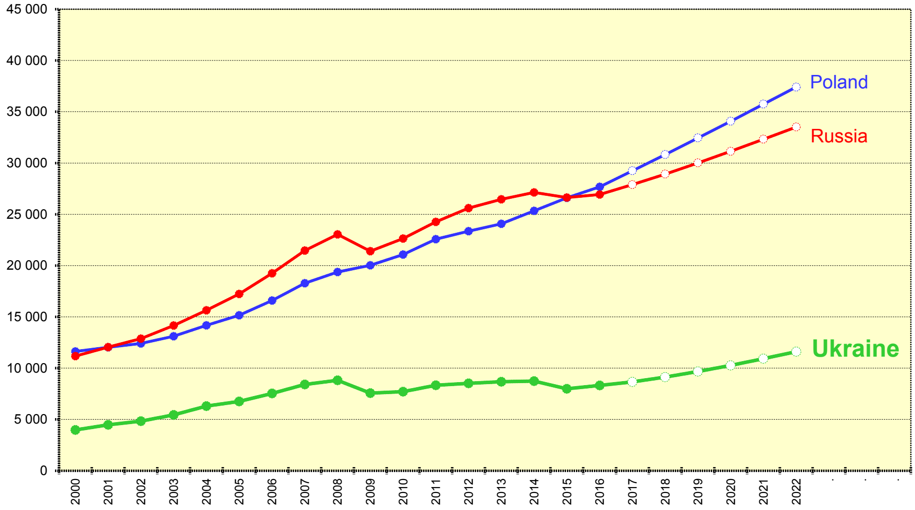

Figure 2 GDP per capita PPP, *current international dollars*
Source: IMF (2017b). *Note:* Forecast from 2017.

Poverty has nevertheless declined significantly over the past decades, but increased again after 2014. The share of the population below the $5 PPP poverty line (SEK43) decreased from 46 per cent in 2002, to 8 per cent in 2008, and to 3.2 per cent 2013.[7] An important objective of the Strategy for Sustainable Development of Ukraine until 2020 (Strategy 2020), which Ukraine adopted in 2015, is to increase the number of people living in "economic security," defined as having more than $15 a day PPP (SEK129). However, "moderate poverty" ($8.5 per day PPP/SEK73) has increased from 14 per cent 2013, to 22 per cent 2015, and the $5 poverty rate (SEK43) has increased from about 3 per cent in 2013, to almost 6 per cent 2015 (World Bank 2017: 23). The rural-urban poverty gap has

[7] The extreme poverty rate based on the food line decreased from 26 per cent in 2002 to 0.4 per cent in 2014, while the poverty rate based on $2.5 PPP per day (SEK21) declined from 6.5 per cent in 2002 to 0.1 per cent in 2013 (World Bank 2017: 22).

been around 7-8 percentage points in recent years. A significant share of poor people live in rural areas, and here pensioners are an overrepresented key group (ibid).

The military conflict in Donbas has had significant impact on poverty and the well-being of large population groups (interview in Kyiv). Over 4 million Ukrainians in the east of the country have been affected. The Donetsk region has one of the highest populations in the lowest 40 decile of the income scale, and 1.4 million pensioners lived there before the outbreak of the military conflict in 2014. In the Luhansk region, the number of pensioners amounted to about 730 000 (World Bank 2017). The sharp increase in the number of people needing support from Kyiv is a challenge to the already overstretched social protection systems (interview in Kyiv).

In February 2016, social benefits for at least 450 000 Internally Displaced Persons (IDPs) (between 500 000 and 600 000 according to the UN) were suspended, on the basis of fraud allegations. Verification procedures were launched, and as of 16 November, social payments had been reinstated for 274 764 IDPs, while up to 175 000 IDPs (or 325 000, taking into account the UN upper estimate) remain potentially without access to their social benefits and pensions (EC/HR 2016). Pension payments to citizens residing in nongovernment-controlled areas had been suspended in February 2015, an act that the Supreme Administrative Court of Ukraine declared illegal in October 2015. In April 2016, the Ministry for Temporarily Occupied Territories and IDPs was established, to coordinate government efforts in addressing all issues related to the conflict region, including IDPs, conflict management, and humanitarian assistance. A comprehensive IDP integration strategy and action plan remains to be developed (ibid).

3.2 Degree of transition

Ukraine has been subject to different reform efforts over the years and despite the weak results in terms of economic development and remaining structural problems it is of interest to see how Ukraine compares to other countries with regards to broader transition indicators. Since 1994, The European Bank of Reconstruction and Development (EBRD) has presented transition indicators for countries in transition that reflect the judgements of the office of the Chief Economist of EBRD about country-specific progress in transition. The scores of the assessment are based on a classification system developed by the EBRD (EBRD 2017a). The latest update is from 2014, which gives a picture of Ukraine's transition status before the ongoing reforms started. Comparisons are made with Poland and Russia, since these countries come from the same socialist past and had a similar standard of living in 1991. The EBRD's main indicators refer to six areas:

- competition policy;
- governance and enterprise restructuring;
- large scale privatisation;
- price liberalisation;
- small scale privatisation;
- trade and foreign exchange system.

Figure 3 depicts the scores for Poland, Russia, and Ukraine in 2014. In this scale, up to 1 reflects no transition; 2 indicates that initial steps have been taken; 3, that there are some comprehensive programmes or approaches; and 4, that the country is implementing the policy. Higher scores indicate that the country is approaching the level of a developed industrial country. First, it may be noted that Poland, as other EU countries, scores better in all these indicators, and significantly higher than Russia and Ukraine concerning competition policy, governance, and enterprise restructuring (ibid.).

In the area of competition policy Ukraine scores just over 2, and was only at the initial state of transition in 2014 (Figure 3). Russia was only slightly better. In the area of governance and enterprise restructuring, Ukraine and Russia are both at the same initial stage. In the area of large-scale privatisation, both countries are at a more advanced level, with scores around 3, and, regarding price liberalization, they score at a level of 4. The same is true for small-scale privatisation. When it comes to trade and foreign exchange system, Ukraine was more developed than Russia. Thus, in order to approach the standards of Poland, Ukraine needs to substantially improve on governance, rule of law, competition policies, and enterprise restructuring. This means that Western legislation must be adopted in these areas, and that efficient institutions of implementation are established.

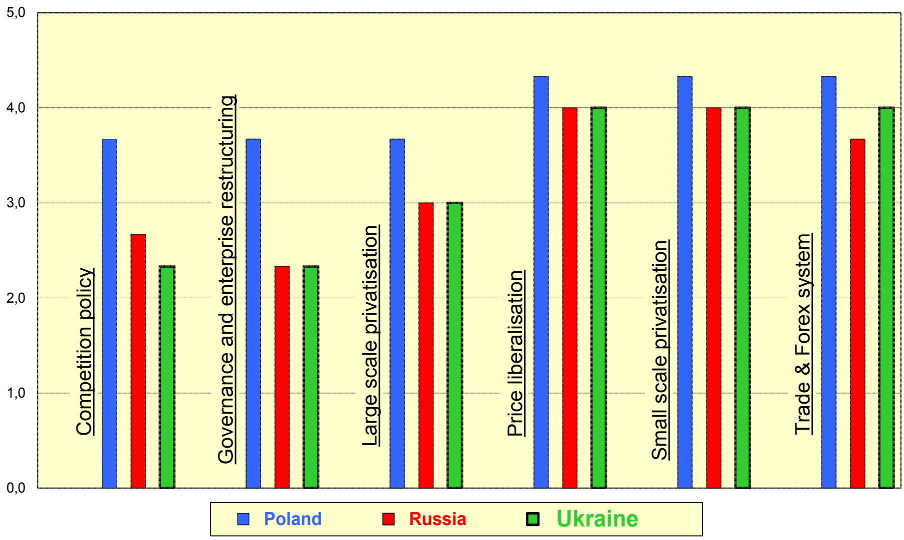

Figure 3 EBRD Transition indicators 2014
Source: EBRD (2017b). *Note*: In this scale, up to 1 reflects no transition; 2 indicates that initial steps have been taken; 3, that there are some comprehensive programmes, or approaches; 4, that the country is implementing the policy. Higher scores indicate that the country is approaching the level of a developed industrial country.

3.3 Ways forward

The World Bank (2017: 7-12) identifies four "pathways", or areas, along which Ukraine needs to develop and reform in order to achieve a sustainable recovery. The most important, and the prerequisite for development in all areas, is building institutions of better governance and anti-corruption. For this Ukraine needs to prioritise the reforms of public fiscal management, anti-corruption and justice institutions, the public administration reform, and citizens' engagement. These reforms would improve the efficiency of public administration, service delivery, accountability, and transparency. Transparency and accountability are critical tools for battling grand corruption, state capture, and the influence of vested interests. The engagement of civil society is vital for advancing and monitoring these structural reforms.

Likewise important is safeguarding macroeconomic stability. Ukraine made important progress in 2014-2016 in managing fiscal and financial imbalances. Going forward, the largest medium-term fiscal vulnerabilities come from a narrow tax base, weak tax administration, and an ineffective pension system. Prioritised reforms in this area include a tax reform that broadens the tax base, improves international taxation treaties, and strengthens tax administration. Pension expenditures constituted 11 per cent of GDP in 2016, but the average old age pension was only about $2 per day (SEK17) (ibid: 8) and benefit packages need to be restructured and better linked to contributions. Furthermore, incentives to retire later must be developed.[8]

Private sector productivity is a third area that needs to be improved. Ukraine's weak infrastructure and highly uncompetitive market structure inhibit business development. This requires more public investment under strengthened management and better conditions for private actors. The business environment in Ukraine has improved during recent years, with improvement in its Ease of Doing Business ranking, from 137th place in 2011/12, to 80th in 2017 (World Bank 2012: 12; 2017a: 6). Yet, deeper structural problems undermine the emergence of a more productive private sector and export structure, and the delayed land reform is a main bottleneck for private sector development. Finally, the World Bank (2017) points to the need to provide effective public services and targeted assistance in education, health services, social assistance, and support to conflict-affected persons.

[8] In 2011, the *Rada* passed a law, which gained legal force on 1 January 2012, on gradually postponing the standard retirement age, from 55 to 60, for women, and from 60 to 63, for male civil servants, up to 2021 (Ria Novosti 2011).

4 Economic reforms

The authorities have committed to the reform agenda, guided by the AA/DCFTA and the Association Agenda and their implementation. Key strategic documents underpinning the reform process have been adopted by the government. The strategy up to 2020, “Ukraine – 2020”, signed by the president in January 2015, includes a wide range of goals and priorities (Strategy 2020). The top priorities are reformation of the country’s national security and defence system; renewal of authorities and anti-corruption reform; the reformation of the judiciary and law enforcement; decentralisation and public administration reform; deregulation and development of entrepreneurship; healthcare reform; and tax reform (Strategy 2020). The strategy aims at improving economic performance in all respects and, most importantly, doubling the income per capita for the population. Different parts of government and different donors appear to support these objectives, but stress different aspects.

Moreover, in April 2017, the Cabinet of Ministers approved the medium-term government priority action plan, which is a more operational document that contains essential priorities of the government’s activities for the next three years up to 2020. The goal, as stated by the action plan, is to increase people’s living standards and improve their quality of life as a result of sustainable economic growth. The action plan defines the following objectives: economic growth; effective governance; human capital development; the rule of law and the fight against corruption; and security and defence (Government priority action plan 2017).

The practice of consultation with civil society and professional organisations in Ukraine has gained ground. Across many reform areas, implementation is well advanced, while in others, legislation has been adopted and institutions put in place, although actual implementation is still pending. The general condition for succeeding with the reforms is to create strong institutions that can implement reform policies. In particular, improving governance and introducing strong anti-corruption measures is of priority.

4.1 Governance and public administration reform

Better quality of governance is mandatory, if Ukraine is going to succeed in reviving the economy and ensuring that delivery of public goods and services will be executed in a fair and cost-efficient way. Strengthening governance involves strengthening transparency and accountability of all government institutions, including state enterprises; implementing anti-corruption laws and building effective institutions; establishing an independent judiciary; and reforming public administration.

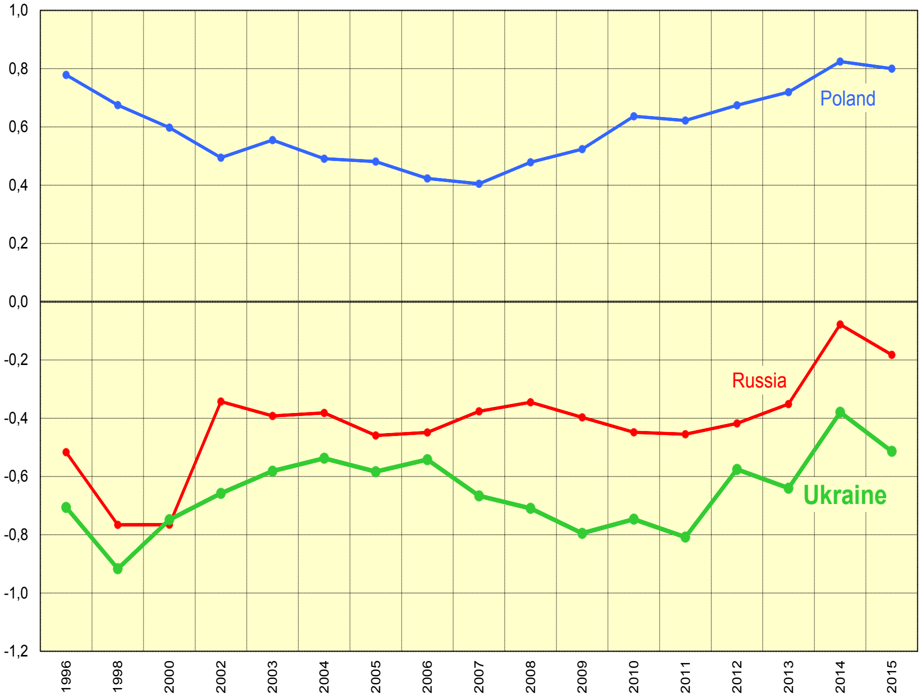

Figure 4 Government effectiveness

Source: World Bank (2016). *Note*: The WGI estimates lie between –2.5, very weak, and +2.5, very strong. The indicator, government effectiveness, depicts perceptions of the quality of public administration and the degree of its independence from political pressures; the quality of policy formulation and implementation; and the credibility of the government's commitment to such policies.

In the World Bank's Worldwide Governance Indicators (WGI), Ukraine scores very low for the indicator, "Government effectiveness," which describes perceptions of the quality of public services; the quality of the civil service and the degree of its independence from political pressures; the quality of policy formulation and implementation; and the credibility of the government's commitment to such policies. As shown in Figure 4, governance has been low in Ukraine since independence and Ukraine's scores have been lower than Russia's. After 2005, there was a significant deterioration and the negative trend has not changed until recently.

With regards to the WGI indicator, "Regulatory quality", Ukraine scores low, and lower than Russia. This indicator captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development (Figure 5).

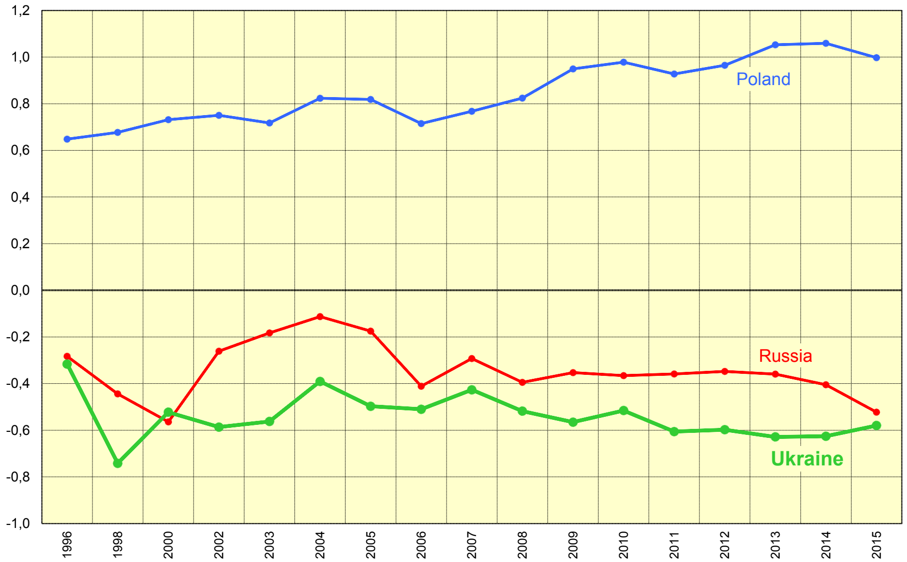

Figure 5 Regulatory quality
Source: World Bank (2016). *Note*: The WGI estimates lie between –2.5, very weak, and +2.5, very strong. The indicator, regulatory quality, captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

The government needs to dramatically improve transparency in policy and administrative decision-making and to deeply reform public administration in order to guarantee effective service delivery. According to a Gallup poll 2015, only 8 per cent of the population trust the government (World Bank 2017: 49). Corruption is a major problem in the administration and a salient feature of its culture. Reforming the public administration is key to improving governance. In June 2016, the Government approved a Public Administration Reform Strategy (PAR). The PAR aims at improving the effectiveness, efficiency, and transparency of public administration. In 2013, there were almost 4 million persons employed in public administration (including, education, defence, etc.) and another 1 million in state-owned enterprises (World Bank 2017: 49).

Wages are low in the public sector and in order to increase remuneration the number of employees needs to decline. The PAR envisages that state employees will go through readmission exams every two years and if they fail twice they will be fired. However, the PAR and the restructuring of the civil service will not be fully implemented for another four years. The reform is hampered, above all, by inflexible structures (Gressel 2016: 34). Its main problems are old loyalties and the non-competitive salaries that makes it difficult to recruit and keep staff. Apparently, civil servants can hardly live on their wages, which nourishes corruption. On average, a civil servant earns €100 (SEK947) to €150 (SEK1 421) per month. Some ministries have hired young people in key positions to help implement reforms (ibid.). However, after two-three years, these people have gained experience and they quit if they are not better paid.

Donors have put pressure on the government to raise salaries and occasionally pay salaries through projects, which is a quite unorthodox procedure in development projects. According to the European Council on Foreign Relations (ECFR) analyst Gustav Gressel (2016: 35) the US has paid the salaries of the new National Patrol Police, and Sweden has paid the salaries of some reformist officials and top bureaucrats in the Ministry of Economic Development and Trade. The Ministry of Infrastructure has a double structure: new officials are hired through an international programme that funds local specialists to drive the reforms in the ministry. Raising the administration's salaries is a key issue for the PAR, and there are claims that €40 million (SEK379 million) is needed to close the pay gap (ibid.). However, it is doubtful whether using EU funds for this is the right way to solve the problem. It appears that a sharp reduction of staff in public administration and economies on other costs in the budget would be better ways to proceed, if the EU is to avoid having the Ukrainian public administration on its payroll for the foreseeable future.

A civil service law and a strategy for reforming the public administration, in line with European standards, are in place. Work is underway to improve public financial management and introduce greater transparency to the handling of privatisation. Last but not least, the launch of the electronic asset declarations of public officials resulted in the publication of over 100 000 detailed income declarations. Constitutional amendments related to decentralisation have been adopted by the parliament in the first reading, with the second reading still pending. Further steps have been taken in the merger of municipalities and in fiscal decentralisation. Public access to information has been improved and the Ombudsperson's office has been empowered to oversee this process (EC/HR 2016).

4.2 Anti-corruption measures

Ukraine's problem with corruption represents a deeply embedded social equilibrium that has proven extremely stubborn. As long as this equilibrium is not broken, it is hard to envisage that Ukraine can ever create a true democracy where rights cannot be sold off to the highest bidder, or even a developed market economy, which depends on a rule of law capable of lending confidence to investors (Hale & Orttung 2016: x). In 2015, Transparency International (TI) ranked Ukraine as 130th in their corruption perception index (TI 2016). The bad situation is reflected in the WGI indicator, "Control of corruption", as well. It captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as state capture, by elites and private interests (Figure 6). As may be seen in Figure 6, Ukraine scores lower in this indicator than for the indicators of governance and regulatory quality. It has about the same level as Russia, with some improvement being registered for the period under Yushchenko.

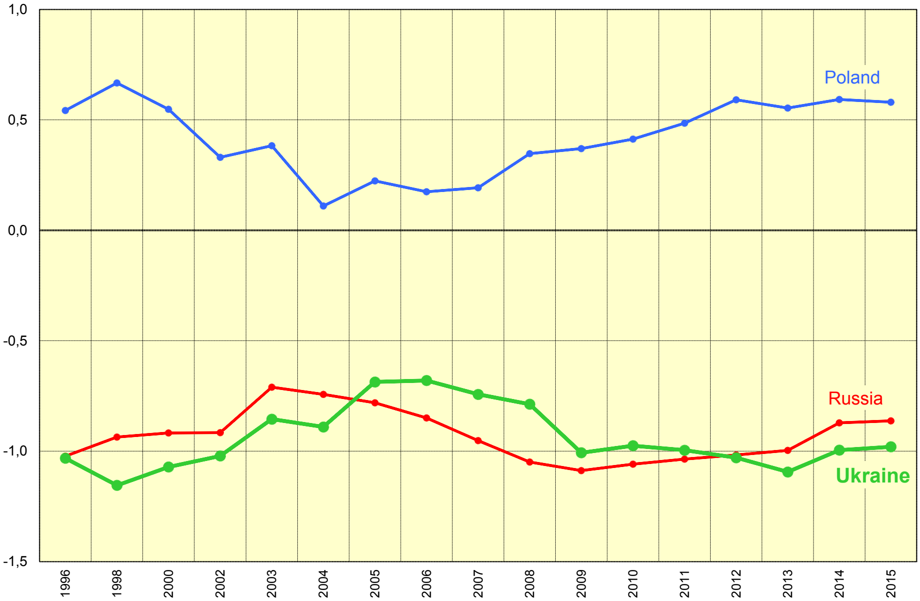

Figure 6 Control of corruption

Source: World Bank (2016). *Note*: The WGI estimates lie between –2.5, very weak, and +2.5, very strong. The indicator, control of corruption, describes perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as state capture by elites and private interests.

Under the pressure of donors, Ukraine has adopted legislation and created new anti-corruption institutions, which are starting to work. The National Anti-Corruption Bureau of Ukraine (NABU) should investigate cases of corruption, and monitor electronic declarations and officials' income. Two high profile cases opened by NABU in 2017, against Roman Nasirov, the head of the State Fiscal Service, and Mykola Martynenko, a former lawmaker and deputy chief of Naftogaz, both for embezzlement of millions of US dollars from state funds, have the potential to become signs of concrete results in anti-corruption implementation (Zinets & Polityuk 2017). The establishment of the Special Anti-Corruption Prosecutor General Office, which supervises NABU, represents important progress. Besides, there is a National Agency for Prevention of Corruption (NAPC). Full-fledged launch of the NAPC was not only a precondition required by the EU to introduce Ukraine's visa-free regime, but a necessary condition to get EU's financial support (Ukraine Crises 2015).

Another important element in the fight against corruption is the introduction of a new innovative system of public procurement. The system, ProZorro, is an electronic tendering system that provides transparency in the public procurement process and makes it more competitive. Besides these measures, the harmonization of domestic and export energy prices has removed one of the main factors of corruption (interviews in Kyiv). Also, Ukraine has diminished the space for corruption through reforms of the banking system (interviews in Stockholm, Kyiv).

4.3 Judiciary reform

Political influence over the judiciary system is a core problem in fighting corruption and creating a business environment that is ruled by law. In June 2016, Ukraine’s parliament approved a package of constitutional amendments aiming at reforming the justice system, the law on the judiciary and the status of judges. The court system was simplified, becoming a three-tier setup consisting of local courts, appellate courts, and the Supreme Court, instead of a four-tier model, a step that shortens the time required for resolving disputes. The new rules are designed to strengthen the independence of judges from political and commercial influence. The authority to nominate and remove judges was transferred from the parliament to the Supreme Council of Justice, a new body created to ensure judicial self-governance. But the amendments increased the president’s influence over the judiciary for a transitional period, and the role of the president remains decisive: judges are now appointed by the president, following their nomination by the Supreme Council of Justice. The reform reduced the authority of the Prosecutor General’s Office, while access to the Constitutional Court of Ukraine was significantly expanded to include all individuals and companies (Carnegie 2017).

Thus, constitutional amendments as well as new legislation on the judiciary have been adopted to strengthen judicial independence and to reorganise the court system. Apart from streamlining the judicial system, the amendments imply that sitting judges are subject to examinations and mandatory electronic asset declarations. However, the changes are deemed to be insufficient and central figures in the system are still corrupt. In 2016, Prosecutor General Viktor Shokin was dismissed, after severe criticism from Western donors for turning a blind eye to corrupt practices and for defending the interests of the old elite. He was replaced by Yury Lutsenko, the head of the Petro Poroshenko Bloc’s parliamentary faction. To be able to appoint him, the *Verkhovna Rada* had to change amendments to legislation allowing a person to hold the office without a law degree (UNIAN 2016, New York Times 2016). Furthermore, civil society organizations (CSOs) investigating corruption have been intimidated and are suspected of embezzlement (interviews in Kyiv; Gressel 2016: 39).

It may be noted that the constitutional amendments do not completely break old practices of political influence in the judiciary system. The president can still appoint his allies to senior positions to achieve political control of the system (interviews in Kyiv). Corruption among judges is still a big problem. Lustration and re-admission of judges, a process designed to ensure that all judges are free from corruption, began in September 2016. However, disciplinary oversight is still weak and penalties too soft, or lacking altogether (interviews in Kyiv). Lack of competitive salaries amplifies the problem (Gressel 2016: 39). European support for this reform process comes from the Venice Commission of the Council of Europe, which comments on draft legislation. The EU has linked progress in reform of the judiciary to key benefits such as visa liberalization (ibid.).

Important initial steps have been taken, but still real judiciary reform has not taken off. Until institutions such as the NABU and the Special Anti-Corruption Prosecutor General Office are fully independent and backed up by the judiciary system, they cannot work efficiently. The NABU can highlight some corruption cases, but only a reformed judiciary can reduce systemic corruption (interview in Kyiv). The public must be able to trust that the anti-corruption institutions are free from political influence, otherwise their role becomes ambiguous and they lose legitimacy. Serious questions have arisen, for example, around the fact that the anti-corruption prosecutor missed the chance to demand the extradition of and recover stolen assets from Yanukovych allies (interviews in Kyiv).

From an economic standpoint, an independent judiciary is the core of rule of law, which is fundamental in a market economy, to protect property rights, ensure efficient allocation of resources, and business on equal terms. In Figure 7, the WGI indicator, “Rule of law,” reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Ukraine scores very low in this indicator, and is at the same level as Russia.

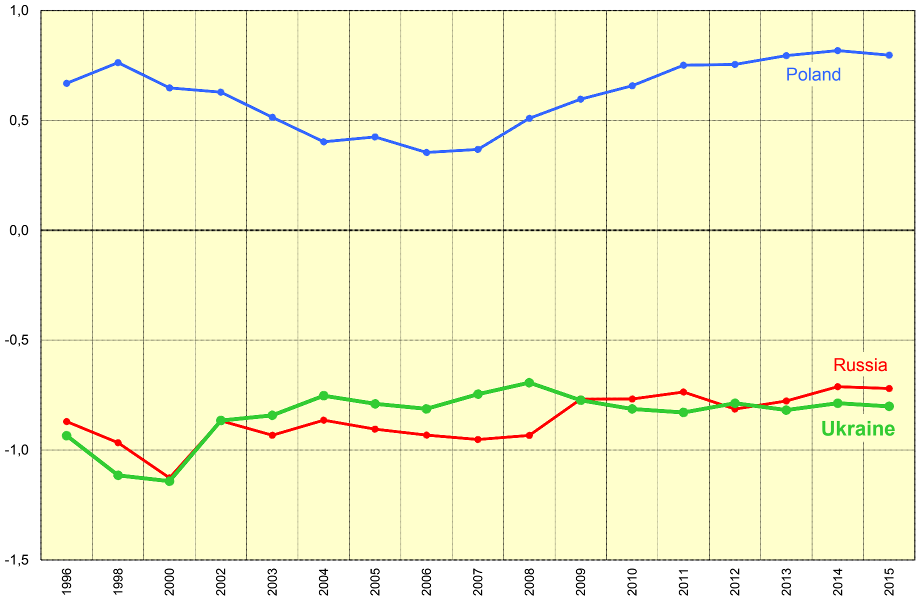

Figure 7 Rule of law
Source: World Bank (2016). *Note*: The WGI estimates lie between –2.5, very weak, and +2.5, very strong. The indicator, rule of law, reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.

4.4 Decentralisation

The decentralisation reform began in 2014 and aims at transferring power from the central government in Kyiv to local administrations. The importance of this reform was particularly stressed in our interviews with central and regional stake-holders in Ukraine, and by several donors (interviews in Stockholm, Brussels, Kyiv, Lviv, and Kharkiv). Local administrations will get an increasing share of tax receipts and take increased responsibility for the delivery of public services such as roads, schools, and heating to the population. CSOs see decentralisation as a means of reducing the influence of Kyiv and its corrupt behaviour. Western donors see decentralisation as a necessity for the democratization and modernization of the country; the reform is widely supported by donors (Balázs & Yesmukhanova 2017:1).

Decentralisation has been on the agenda for a long time, but attempted reforms have had limited success. A new budget code in 2001 established procedures for direct transfers between the government and the local level to facilitate fiscal decentralisation, but the Yanukovych administration transferred delegated power back to Kyiv, and recentralized power and responsibilities back from *rayons* and regional administrations (Balázs & Yesmukhanova 2017:1-2). The Revolution of Dignity reenergized the decentralisation process, but unfortunately, it is proceeding without political consensus, and the necessary constitutional amendments have not been passed. The amendments required for decentralisation were put in the same legislative package as that proposed in the Minsk agreement, regarding legal changes in the separatist regions. This has created political complications and it appears difficult to get the amendments through the *Rada* (ibid).

A condition for the success of the decentralisation reform is that the numerous districts, towns, settlements, and villages can merge into larger communities, so-called *hromadas*. Ukraine would keep its 24 *oblasts,* but the number of districts would be reduced to 100 (from nearly 500), and instead of around 12 000 towns, settlements, and villages, there would be 1 500 new communities. This would ensure that communities are big enough to collect sufficient taxes to take responsibility for local service delivery and for creating, in each oblast, an administrative structure that is workable and more transparent. The process of amalgamation has so far been voluntary, which is quite original when looking at other countries where amalgamation on the municipal level has often been mandatory and managed by the central power. But in Ukraine, several opposition parties are against decentralisation, so it would be difficult for the government to impose the reform from above, even if the constitutional problems could be solved (interviews in Kyiv, Lviv). In September 2017, about 600 new communities had been formed, which is 40 per cent of the planned amount (interviews in Kyiv; update by e-mail). The newly amalgamated communities are permitted to determine the size and structure of their own executive administrations, although the centre still decides the salaries of local employees (interviews in Kyiv, Lviv).

Fiscal decentralisation follows the decentralisation process, and there are new rules for how taxes are allocated to local budgets. From the start, the amalgamated community should get 60 per cent of personal income taxes in their community, 100 per cent of state duties, and all the fees of administrative services. Communities also gained the right to levy a local property tax and a local excise on alcohol, tobacco, and fuel. However, in September 2017, the state duties had been recentralised (interviews in Kyiv, Lviv; update by e-mail). In addition, communities have been given the right to borrow larger sums for public spending. The budgets of amalgamated communities increased by almost 50 per cent in 2016, compared to 2015, and, in 2017, an increase of 23 per cent was foreseen in April (interviews in Kyiv, Lviv). At the same time, state subsidies have decreased, and there is uncertainty at the local level regarding how much of the income they will actually be allowed to keep in a longer perspective. The recentralising of the use of state duties reflects the uncertainties still plaguing the new system. The Ministry of Finance monitors the use of funds, and there seems to be a concern in Kyiv that some communities, in some cases, get too high an income (interview in Kyiv).

4.5 Banking reform

A necessary element in a market economy is a well-functioning financial sector. The central bank is the regulator of commercial banks, while the banking sector in Ukraine has had many abnormalities and facilitated money laundering and corruption. In June 2014, Valeriya Hontaryeva took office as the central bank governor, with the task of cleaning up the Ukrainian banking sector and stabilizing the currency. At the time, there were 180 banks in Ukraine. The result of the efforts of Hontaryeva and NBU was that, after three years, over 80 banks had been closed, and 92 remained. The clean-up process culminated, at the end of 2016, in the nationalization and recapitalization of PrivatBank, the country's largest lender (fDi Magazine 2017). The main reason for closures is that banks cannot meet the recapitalization requirements. Some of these banks were pure money-laundering machines; others were "zombie banks," with no assets, only liabilities; and some were oligarch banks, with corruptive management that used private individuals' deposits for their own private gain (interview in Kyiv; Financial Times 2017a). Some oligarch banks, such as PrivatBank, which alone held a third of the country's deposits, had pyramid schemes; PrivatBank was nationalized after NBU found a $5.5 billion (SEK47 billion) deficit in its accounts (Financial Times 2017a). Despite these draconic actions over a short time, there are still problems in the Ukrainian banking sector. Some experts find that there are still too many banks and they should merge to fewer and stronger actors; there is the question of creditor protection; and there is a large portfolio of non-performing loans that needs restructuring (interviews in Kyiv; fDi Magazine 2017).

Apart from cleaning the banking sector, Hontaryeva carried out several other reforms to unlock the IMF loans. Most importantly, she undertook the necessary measures to stabilize the currency, and also managed to reduce the staff of the NBU from 12 000 to 5 000 (interviews in Kyiv, Stockholm; Financial Times 2017a). Hontaryeva left her position at NBU in May 2017.

4.6 Reform of the energy sector

The increases of tariffs for housing and communal services has long been a requirement of the IMF for lending. Previous governments have been reluctant to go ahead with this unpopular measure, but in 2014 the government of Yatsenyuk made the decision to liberalise the gas market and prices were raised to market price level (Unian 2015). Furthermore, in June 2017 the National Commission for regulating the energy sector raised electricity tariffs for the population by 10-40 per cent depending on volume of consumption (ibid). EU support for Ukraine's energy reforms has been focused on issues around deregulation and restructuring of Naftogaz, the national gas and oil company, which is important for the integration of Ukraine in the European Energy Community (Gressel 2016: 52). In addition, the EU helped to broker the deals between Naftogaz and Gazprom, before the winter of 2014/2015, to guarantee Ukraine's gas supply over that period. Eventually, Ukraine has become independent of Russian gas, through increased production and reverse flow substitutes from Slovakia, Poland, and Hungary. The reduction of gas imports, competitive pricing, and gas diversification have helped in stabilising Ukraine's public finances as well as in improving its resilience. Privatisation of Naftogaz, in line with the EU Third Energy Package, is a necessary next step for completing the reform (ibid).

4.7 Land reform

Land reform is essential to stimulate the much-needed economic growth. A result of a liberal reform will be that the country's citizens will finally be able to exercise their constitutional right to buy, sell, and use their land. The state will receive substantial additional revenue; agricultural companies and farmers will mobilize additional investments to further strengthen Ukraine's agriculture and position as the "breadbasket of Europe"; and commercial banks will finally have a high-quality form of collateral that will enable them to initiate long-term financing of other sectors of the economy (Abromavičus & Alexey 2017). According to the EBRD, Ukraine could unlock some $50 billion (SEK429 billion) of collateral for lending to the country's agricultural industry by overhauling its land legislation (Businessweek 2017). Everybody wins, but there is still no consensus on what model should be used to achieve these goals.

In Ukraine, twenty-four million hectares of land are cultivated by thousands of agricultural companies that each lease 1 000 hectares or more. Most of them have invested substantial capital into supporting local infrastructure, as well as new technologies to improve the quality of land and propel the country's harvest to all-time highs. Those companies and their colleagues, the smaller farms, see both huge risks and exciting opportunities with a land reform. Populist myths that "oligarchs will buy all the land," or that "Russia will take over," are common, and sustain the scepticism against the reform that is widespread in the countryside (interviews in Kyiv).

The government has put forward a proposal of land reform, which is a condition for further aid from the IMF. According to its critics, this proposal would have a very limited effect on the economy (Abromavičus & Mushak 2017). It would only allow private persons to buy land, and only up to 200 hectares per person. The agricultural sector would hardly become globally competitive with such small holdings. Also, such small assets could not be used as bank collateral and would fail to attract both additional bank financing and foreign direct investment. Abromavičus and Mushak (2017) state that it would unlikely be supported by agricultural business interests and would have only limited economic impact.

An alternative option was discussed by a group of lawmakers in May 2017. This proposal would open the market to both private persons and legal entities registered in Ukraine, starting on 1 January 2018. Concentration restrictions apply at 20 percent at the district level (roughly 20 000 hectares), 9 percent at the regional level (about 110 000 hectares), and 1 percent at the state level (approximately 400 000 hectares). All transactions would occur using an electronic auction system to avoid hostile purchases of land, which already occurs occasionally. Lease agreements signed before a sale would be honoured and valid until the end of the contract.

Former Minister of Economic Development and Trade Aivaras Abromavičus and MP Oleksiy Mushak (2017) claim that this proposed concept would have a strong, positive impact on the economy. In the first year after the market opens, the state budget could profit from $1.5-2 billion (SEK13-17 billion), due to the sale of one million hectares of state land. Two to three years after the market opens, they anticipate investments in the agricultural sector to rise to $10 billion (SEK86 billion) and, over time, an additional highly liquid mortgage market worth $45 billion (SEK386 billion) should arise, stabilizing Ukraine’s banking system. This estimate is in line with EBRD’s estimate mentioned above.

4.8 Pension reform

As with the land reform, Ukraine has delayed its pension reform, despite its being a critical condition for receiving further tranches of the EFF facility from the IMF. In May 2017, the government presented a bill that was accepted by the IMF and the World Bank, but this does not seem to be a full reform. In 2011, Ukraine carried out a pension reform that entailed a gradual increase in the retirement age (Åslund 2015: 210) and as a result the average retirement age in Ukraine is now around 58.5 years. In EU countries, these indicators are 63.6 for men, and 62.6 for women (UAWIRE 2017b). There are currently 12 million pensioners in Ukraine, and the low age requirement affects the number, but other beneficiaries such as those receiving disability pensions and privileged pensions are also counted in this group. This is nearly 30 per cent of the population. The number of employed people is about 15 million (Tradingeconomics 2017), which entails that on average each employed person should provide for 0.8 pensioners.

According to the bill on pensions in 2017, the minimum period of contributions to the pension system required for obtaining a pension will increase from 15 to 25 years. Also, special conditions for retirement and the right for certain professions to receive a retirement pension will be abolished. In addition, the Ukrainian government plans to reduce the index used in estimating the worth of a year of work in the formula for calculating pensions, from 1.35 to 1 (UAWIRE 2017a).

Because contributions cannot produce decent pensions, eight million of the pensioners receive a minimum pension of 1 312 hryvnia (about $50/SEK429) per month. It is estimated that about 8 million persons in Ukraine work in the shadow economy and do not pay contributions into the social security system. Some of these are pensioners, since many pensioners work both legally and illegally to make ends meet, due to the meagre pensions. The government hopes that the increase in the working period required to qualify for a pension will urge people in the grey sector to legalize their work and start paying contributions. There is substantial lack of trust in the pension system. The incentives to pay contributions are weak when people do not trust they will get enough pension anyway (interviews in Kyiv).

5 Foreign assistance and ownership

Ukraine benefits from both financial assistance and technical assistance from abroad. Foreign donors have pledged huge sums in support of both macroeconomic stabilization and large structural reform packages. The reasons for the intensity of foreign engagement in Ukraine are largely political. After Russia's aggression, there seems to be a consensus in the West to show determination and willingness to provide support in order to limit the risk that Ukraine falls back into the Russian sphere. Past programmes have failed, due to the lack of ownership, and resistance from elites (IMF 2016: 6). The hope today is that Ukraine is ready to make the necessary changes, and that the intensified foreign assistance since 2014 will facilitate a full transition to a market economy.

5.1 The IMF

The loans from IMF provide the back-bone of Ukraine's macroeconomic stabilization. The agreed SBA and later EFF amount to a total of $17.5 billion (SEK150 billion) and are paid out in tranches. The payments are on the condition that the Ukrainian government undertakes a broad range of measures and reforms, and reaches certain benchmarks. The conditions concern, e.g., fiscal policy, pension reform, public administration reform, institutional reform, energy policy, financial and exchange rate reform, anti-corruption, etc. (IMF 2017: 70-100). Prior to disbursement of each tranche, IMF undertakes a review of economic performance and of how the reform assignments have been implemented. So far, the Ukrainian government has been committed to implementing the programme with the IMF, although there have been requests to modify and delay some of the assignments, for example in land reform and pension reform (IMF 2017: 71).

5.2 The EU

The EU provides a significant support package to help stabilise Ukraine. Macro-financial assistance loans amounting to €3.4 billion (SEK32 billion) have been committed since 2014, of which €2.2 billion (SEK21 billion) have been disbursed. Ukraine began negotiation of an AA in 2007 and of a DCFTA, as part of the Agreement, in 2008. The negotiation of the AA was finalised in 2011, and the DCFTA in 2012. In 2011, the EU postponed the signing of the DCFTA for two years, due to the seven-year imprisonment of former Prime Minister Tymoshenko. Brussels considered the accusations that she had abused power to be political. However, despite Tymoshenko's remaining in prison, one week before the actual signing was finally going to take place, in November 2013, the Ukrainian side decided to postpone the signing indefinitely. The surprise decision, after months of Russian pressure, became the igniting spark for the Euromaidan protests (Hedenskog 2015: 21).

After the Euromaidan, the AA/DCFTA could finally be signed, the political part in March, and the economic part in June 2014. The EU-Ukraine Association Agenda, a shorter document that spells out in more concrete terms which measures Ukraine should undertake in cooperation with the EU, was agreed upon in 2015 (interview in Brussels; Association Agenda 2015). Although the Ukrainian parliament and the European parliament in a parallel ceremony on 16 September 2014 had already ratified the AA/DCFTA, the implementation of the DCFTA was postponed until 1 January 2016, as a result of trilateral negotiations between the EU, Ukraine, and Russia (Hedenskog 2015: 26). Even after the AA/DCFTA implementation and the end of the fruitless trilateral negotiations, the full implementation of Ukraine's DCFTA was hampered by the Dutch referendum on 6 April 2016, which resulted in rejection of the agreement. Only after the Dutch government had been given explicit guarantees that the AA would not lead to membership for Ukraine was the agreement (RFE/RL 2016) finally ratified by the Dutch parliament, and entered into full force on 1 September 2017 (EC 2017).

The priority reform areas that the EU has established together with Ukraine have been facilitated in particular via the Support Group for Ukraine. The focus for 2015-2016 was on (interviews in Brussels, Kyiv; EC/HR 2016):

- decentralisation (€100 million/SEK947 million);
- economic development (€90 million/SEK852 million);
- anti-corruption (€15 million/SEK142 million);
- public administration reform (€104 million/SEK985 million);
- rule of law (€52.5 million/SEK497 million, plus a technical cooperation facility of €29.5 million/SEK279 million); and
- migration management (€28 million/SEK265 million).

The EU's support related to the military conflict in eastern Ukraine, through the Instrument contributing to Stability and Peace (IcSP), has amounted to €73.7 million (SEK698 million) since 2014. In 2015 and 2016, the Commission of Humanitarian Aid Department allocated a total of €54.8 million (SEK519 million), which was reinforced by contributions from individual EU countries. Ukraine has benefitted from the so-called "umbrella" funds, which are allocated based on a partner country's progress on reform (EC/HR 2016).

5.3 The World Bank

The World Bank Group has a Country Partnership Strategy with Ukraine; it aims at assisting Ukraine in implanting its reforms and the EU integration agenda. The World Bank strategy is organized around two pillars. The first focuses on improving the relations between government and citizens, including the reform of public services, and on a more transparent and accountable use of public resources. The second pillar is devoted to improving the business climate, public investments, and competition, thereby creating growth. The World Bank has committed $4.6 billion (SEK39 billion), including $2.2 billion (SEK17 billion) in investment project financing (IMF 2017). The World Bank's development policy operations support Ukraine in structural reforms such as fiscal consolidation, moving to flexible exchange rate, reform of energy tariffs, and strengthening the social safety net. The World Bank investment lending portfolio includes eight operations, totalling $2.62 billion (SEK22 billion), of which less than 20 per cent has been disbursed. These operations include programmes in social safety nets, health sector reform, energy efficiency, and infrastructure (IMF 2017).

5.4 Bilateral assistance

The United States (US) provided $305 million (SEK2.6 billion) of assistance in 2015 and has given Ukraine between $150-315 million (SEK1.3-2.7 billion) per year during the past 15 years (USAID 2017). Several US agencies are involved, first and foremost the US Agency for International Aid (USAID), but also the State Department, Department of Agriculture, etc. USAID has been in Ukraine since 1992, and worked for a market-based economy, the development of a participatory democracy, and for developing a social sector that can support the most vulnerable parts of the population (interview in Kyiv, USAID 2017). Currently, USAID continues to support Ukraine in these areas, and there are special programmes in agriculture, health care, and energy, among others (USAID 2017).

Germany is a large bilateral donor that contributes about €300 million (SEK2.8 billion) per year to the Ukrainian reforms (GIZ 2017). The German development agency is the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). GIZ currently implements projects and programmes on behalf of five German ministries, the EU, the UK Department for International Development (DFID), the Foreign and Commonwealth Office (FCO), and the Swiss State Secretariat for Economic Affairs (SECO), at around 20 locations in Ukraine. The current priority areas of German development cooperation with Ukraine are (interview in Kyiv; GIZ 2017):

- democracy, civil society, public administration, and decentralisation;
- energy;
- sustainable economic development.

Sweden is another important bilateral donor. Sweden contributes about SEK240 million per year in bilateral assistance, for the support of rule of law, public administration reform, and macroeconomic stabilisation, and to civil society (interviews in Stockholm, Kyiv). In addition, Sweden has given SEK154 million, during 2014-2016, for humanitarian support. Most of the Swedish assistance is channelled through the Swedish International Development Cooperation Agency (Sida), but some goes directly through other agencies (interviews in Stockholm, Kyiv).[9] The military cooperation amounts to SEK2.5 million. In addition, Sweden provides support through the Organization for Security and Co-operation in Europe (OSCE), international financial institutions, and the European Council. Sweden manages part of the EU programme to support local administration and decentralisation. Sweden is engaged in the development of 600 local administrative centres and in projects to strengthen transparency and citizen participation in local democracy (interviews in Stockholm, Kyiv). Several other countries, e.g. Canada, Norway, and Switzerland, have bilateral programmes with Ukraine (interviews in Kyiv).

5.5 Ownership and donor coordination

Local “ownership” of the reforms is of key importance for succeeding with the transition. Ownership refers to the degree that the Ukrainians participate in and “own” the reform process vis-à-vis the donors. In order to perform effective ownership, the beneficiary needs capacity to develop reform agendas in different fields, coordinate different donor initiatives, legislate, implement, and follow up on reforms. Moreover, ownership implies that politicians, media, and civil society promote the reform process in order to continuously secure support for reforms among the electorate.

Deficient ownership represents a risk to the reform process and sustainability. In 2014, Ukraine’s capacity to develop a reform plan as requested by the EU was weak. The country was at war and few political leaders had time to develop reform plans in detail. Eventually, however, the government adopted a strategy for sustainable development, "Ukraine – 2020” (Strategy 2020). The strategy was followed by an action plan that spells out in more detail the priority reform areas and their implementation over time (see Chapter 4 above).

In December 2014, the government established the National Reform Council (NRC) to coordinate the work of international donors. It was led by the deputy

[9] For instance, the Swedish Central Bank has provided technical assistance to NBU, and had a six-month SWAP arrangement of SEK500 with NBU in 2015 (interview in Stockholm; Ekonomistas 2016). A currency swap is an agreement between two central banks to exchange currencies. They allow a central bank, in this case NABU, to obtain foreign currency liquidity from the central bank that issues it.

head of the presidential administration, Dmytro Shymkiv. The council was divided into 18 working groups, comprised of Ukrainian officials, civil society representatives, members of parliament, and international donors. The function of the council was to review drafts, develop programmes, coordinate reform efforts across the government, and evaluate reforms (Gressel 2016: 30-31). The NRC is the only institutional body where the presidential administration and the government work together. The NRC coordinated the work on the medium-term strategy “Ukraine-2020” strategy. In addition, EU has internal coordination among member states and the EU representation. Non-EU actors are not included here and lack inter-group coordination (ibid.).

NRC represents the first structured approach, on the Ukrainian side, to coordinate the work on reforms with the donors. The EU is responsible for donor coordination in four of the working groups and mobilizes behind four priorities: tax reform and state finance; reform of the energy market; rule of law and judicial reform; and the fight against corruption. EU is pushing other member states to throw their efforts behind them. Sweden and Germany share responsibility with the EU in two other groups. Germany and the EBRD lead another group, as does NATO. Lithuania is currently in charge of coordinating NATO programmes in Ukraine. To improve coordination and integration a Vice Prime Minister for European and Euro-Atlantic Integration, Ivanna Klympush-Tsintsadze, was appointed in April 2016.

Throughout 2015-2016, Ukrainian civil society played an active role in the design and oversight of reforms (interviews in Brussel, Stockholm, Kyiv). Coalitions of think-tanks have participated in the preparation of different reforms, especially in the area of anti-corruption and judicial reform (interviews in Brussels, Kyiv). In addition, the Civil Society Platform under the Eastern Partnership, the EU-Ukraine Civil Society Platform foreseen by the AA, and other members of civil society have been participating actively in consultative meetings between civil society and institutions in charge of European integration (EC/HR 2016). Civil society has become stronger and is an important player in the reform process compared to earlier reform periods (interviews in Brussels, Stockholm, Kyiv).

6 Breaking oligarch power?

In no other post-Soviet country do oligarchs have such a strong position as in Ukraine. Oligarchs also hold prominent positions in Moldova and Georgia, for instance, but in these countries oligarchic power has been gradually monopolized. In Ukraine, however, several oligarchs representing various interests still compete (Hedenskog 2016). Furthermore, in comparison to Russia, no "purge of oligarchs" similar to what Putin undertook in the early 2000s, when oligarchs were told not to intervene in politics, has ever happened in Ukraine. Despite the fact that both the Orange Revolution and the Revolution of Dignity brought changes in political power on waves of anti-elite populism, they did not lead to any mass arrests of senior officials that led to criminal convictions or re-privatisations of oligarchs' assets (Kuzio: 386). Some re-distribution of wealth and power influence have appeared, after the Revolution of Dignity, but in essence the oligarchic system in Ukraine persists.

The oligarchs' power comes first of all from the sheer concentration of wealth in their hands. In November 2013, just before the Euromaidan protests began, it was estimated that the assets of Ukraine's 50 richest individuals made up over 45 per cent of the GDP, compared to 20 per cent in Russia, and 10 per cent in the US (Wilson 2016: 1). The channels of accumulating wealth in Ukraine have primarily been: through trade of metals and chemicals bought at state-regulated prices and sold abroad at full market prices; through trade of commodities, such as Russian gas, imported at subsidized prices and sold in hard currency at market price; through subsidized credits; and, finally, through budget subsidies concentrated mainly in the gas and coal industry and the agricultural sector (Puglisi 2003: 104-105).

The roots of the Ukrainian oligarchic system lie in the high level of regionalization of the Ukrainian economy, with strong regional economic centres like Donetsk (mining industry), Kharkiv (machine-building industry), and Dnipropetrovsk[10] (military-industry) (Puglisi 2003: 112). This regionalization of the economy was facilitated as the political centre – Kyiv – remained relatively weak during Soviet time, while oblasts could establish direct political and economic ties with Moscow (Kriukov 2006: 80-81). Further, during Kravchuk's presidency, the Donetsk elite were rewarded for not pursuing political integration with Russia, and were granted far-reaching autonomy to run the region without much interference from Kyiv (Zimmer 2003: 21).

By the time of Kuchma's presidency, the post-Soviet oligarchic system had consolidated, thanks to the special privileges awarded by the president and his

[10] In May 2016, the city's name changed to Dnipro (see the map of Ukraine above). The oblast, however, is still called Dnipropetrovsk.

administration to the members of his inner circle. Closeness to the president guaranteed access to the administration, and redistribution and utilization of state financial or administrative resources. Kuchma's patronage network developed on three pillars, with major oligarchic clans based in the Dnipropetrovsk region (his native region), the Donetsk region and in Kyiv (Puglisi 2003:111).

The Yanukovych presidency (2010-2014) was marked by the rapid expansion of wealth of "the Family" oligarchic group, which was run by the president's oldest son Oleksandr and also included other prominent members of the government and state administration with roots in the Donetsk region (Korrespondent.net 2013). The position as the richest oligarch in the country, however, was kept by another Donetsk-oligarch, Rinat Akhmetov. He had great influence over several branches, including energy, the metallurgy and coal industry, the financial sector, media, and telecommunications. Another influential group was the one led by Dmytro Firtash, with particular interests in the gas sector and the media, and close ties to Russia and Gazprombank. Yet another group was led by Dnipropetrovsk-based Ihor Kolomoyskyi, with interests in the financial sector, the energy sector, the chemical, metallurgic and transport sectors, and media (see Annex for details; Konończuk 2016: 11-12).

The immediate consequences of the Revolution of Dignity was that "the Family" completely lost significance in the Ukrainian oligarchic system, since its members fled to Russia together with the former president. Kolomoyskyi managed to expand his influence temporarily, as he was appointed the governor of the Dnipropetrovsk oblast in March 2014. Akhmetov lost control of his assets in war-torn Donbas, and Firtash was arrested in March 2014, in Vienna, at the request of the Federal Bureau of Investigation (FBI) (Konończuk 2016: 12-13). Further, the steep fall in Ukraine's GDP in 2014 and 2015 cut the total wealth of the top Ukrainian oligarchs. Despite these changes and the substantial loss in wealth, the Ukrainian oligarchs have been able to hold on to their influence, both in politics and the economy, thanks to a number of factors. One is the weakness of the government in Kyiv, which is pre-occupied with the war in Donbas and defence of the country's territorial integrity. Another is the fact that the oligarchs' groups still possess powerful instruments to defend their positions, including dominance of the media market and some strategic sectors of the economy (ibid: 5).

According to Konończuk (2016: 6) the post-revolution elite has entered into an informal alliance with the oligarchs. The oligarchs have preserved much of their influence, and new political-business groups have started to emerge around the Ukrainian leadership, which is also oligarchic. The situation is similar to the one during Yanukovych's presidency, although the scale is smaller, and the oligarchs are now operating in the conditions of deep economic crisis, with fewer assets to grab. In the 2014 parliamentary elections, all major oligarchic groups entered the battle for seats in the new parliament and managed to place their people on the lists of nearly all major parties.

After the Revolution of Dignity, the new rulers in Kyiv have not launched a single prosecution against any of the oligarchs, and have not even threatened to reverse the Yanukovych-era privatisation, although Poroshenko made a promise in March 2015 that de-oligarchisation was his key starting position. The only major conflict between the old oligarchs and the new leadership occurred after Poroshenko removed Kolomoyskyi from his post as the governor of Dnipropetrovsk, in March 2015 (interviews in Kyiv).

Parallel to the old oligarchs from the pre-Euromaidan era, new oligarchs have appeared after the Revolution of Dignity, as an indication that representatives of the new leadership have taken over businesses formerly held by associates of Yanukovych's "Family." Most of the new oligarchs, such as Ihor Kononenko and Yury Kosiuk, are closely working within the president's camp (see Annex).

Thus, the oligarchic system changed only slightly after the Revolution of Dignity. It has adapted to the new political situation. The long-established oligarchic groups started more or less closely to cooperate with the new government elite, which needed their support and is not in a position to really undermine the oligarchs' position (Konończuk 2016: 35). Oligarchs have been granted personal safety, protection of assets, and the ability to continue lobbying for their business interests. New oligarchs have appeared, but they still remain weaker in comparison to the old ones, as they neither own major businesses nor major TV channels (interviews in Kyiv).

Summing up, the prospects for reforms that attempt to curb the oligarchs' influence are rather muddy. On the one hand, President Petro Poroshenko has not proven to be the right man to put an end to the oligarchy, since he is himself an oligarch. Neither has he delivered on his campaign promise to sell all his businesses except for his TV channel. Although he has lost half of his assets, his rise in political importance has probably contributed to the fact that others have lost more. In the short term, therefore, nothing points in the direction of a serious de-oligarchisation in Ukraine, as Poroshenko is likely to be dependent, in the next parliamentary elections in 2019, on the oligarchic parties "Revival" and "People's Will," both sponsored by Kolomoyskyi (interviews in Kyiv). On the other hand, the biggest oligarchs have all seen their activities curtailed, and some of their schemes blocked, though in every case this was due to politics and fiscal necessity, rather than targeted de-oligarchisation programmes (Wilson 2016: 9). Some of the reforms that followed the Revolution of Dignity, particularly the removal of state subsidies on energy prices, have already seriously limited oligarchs' access to state funds and rents. Future reforms, particularly in anti-corruption measures and in the judicial sphere, could finally, in the longer run, brake the vicious circle of corruption and informal ties between the oligarchs and the politicians in Ukraine.

7 Will the reforms be sustainable? Assessment of risks and opportunities

For more than the past 25 years, despite advice from some of the world's most prominent economists and successful managers, Ukraine's parliament and government have consistently failed to provide a framework capable of truly kick-starting Ukraine's flourishing economy after the collapse in the 1990s (Hale & Orttung 2016: xii). Will it be different this time? Will changes become sustainable? The sustainability of the reform process depends on breaking with past path-dependence and mobilising the political will and energy to follow-through with the reform agenda, while maintaining the support of the population. Foreign assistance plays a crucial role in guiding and supporting the reforms both financially and technically.

Sustainability entails that market-supporting institutions in the economy become permanent and can operate in an efficient way. This means they are directed by rule of law, which demands accountability and legal consequences when rules are not followed. However, it may be questioned whether this "Western" institutional design is possible in a country like Ukraine, with a historical heritage of paternalism and allocation according to political goals and the interests of the elite. In other post-socialist countries, sustainability of market and democratic reforms was achieved when they acceded to the EU. By then, national legislation, institutional structure, norms, and values had already been adjusted to EU benchmarks for several years. Among the post-Soviet countries, only Estonia, Latvia, and Lithuania have mastered this, as they became EU members in 2004. They thereby fully accomplished their transformation to democracies and market economies, something that other post-Soviet countries have not managed. Ukraine has its AA with the EU, but there is no perspective of membership in the Union.

7.1 Risks

Populism and political turmoil

In the wake of the revolution and in the midst of war, Ukrainian politics is becoming increasingly more volatile. Growing poverty, the inability to root out corruption and oligarchic rule, as well as a general lack of trust in authorities, make a perfect ground for populist politicians and anti-establishment grass-roots organisations to preach simple solutions. The presidential and parliamentary elections of 2019, therefore, will be decisive for the current reform process.

Another potential risk is that the current leadership will try to concentrate power in its own hands. Like Yanukovych, Poroshenko has shown a proclivity to monopolize power and surround himself in government not with professionals whose credentials are based on merit, but with close friends, business partners, and loyalists – some of whom are accused of massive corruption (Sukhov et al. 2016). Both Kuchma and Yanukovych moved in an increasingly authoritarian way and their presidencies ended up in revolutions. Should Poroshenko walk the same path, the consequences could be severe, and not only for the reforms. A potential "third Maidan" risks becoming even more violent than Euromaidan. And more important, it could also be easily manipulated by Russia, something that could lead to disastrous consequences for the country's unity and territorial integrity.

State capture and oligarchs

The symbioses linking oligarchs with politicians and state officials stand in the way of reforms that could eliminate rent-seeking, and provide an efficient market allocation and a more equal income distribution. President Poroshenko is himself one of the wealthiest oligarchs in the country and has an interest in keeping the system. Is he more broad-minded and able to look beyond his own and his friends' interests? Oligarch interests are represented in parliament and the government, and they will probably continue financing political parties and expensive election campaigns. Earlier civil society was too weak to counter such deep-seated influence. However, after Euromaidan, civil society is more organised and CSOs and independent media can be seen as counter-forces to the oligarch power, but they still need support and funding from the West.

Corruption and deficient judicial reform

To attain a state where the rule of law prevails, and make it possible for markets to operate efficiently, Ukraine must combat corruption and create both a judiciary that follows the law and strong institutions of implementation. Initial steps have been taken in this area, but the changes are not sufficient to produce sustainable results. A salient problem in Ukraine and many other countries in the region is that informal rules and customs from the Soviet era exist parallel to the new order, and representatives of the *ancien régime* can still use their influence in the new structures. Ukraine's reform history shows that initial reforms are easily turned around when the reform policies cannot be followed through, due to resistance from old elites and other political reasons. Some successes have recently been emerging, for example, with watchdog CSOs that keep anti-corruption measures on track and provide independent analyses and assessments. Foreign funding is usually a prerequisite for the existence of these organizations and it is essential that it continues.

The military conflict

The war in Donbas remains a major issue in Ukraine's foreign and domestic policy. It is now clear that the war and the external military involvement and threat from Russia will remain for a long time. The war affects all other developments in Ukraine. For instance, Ukraine misses business opportunities and foreign direct investments (FDIs), because of the uncertainty created by the war and the territory that is not controlled by the government. According to the Global Peace Index 2017, published by the Institute for Economics and Peace in Sydney, Ukraine's economic losses from the conflict in the Donbas in 2016 amounted to 20 per cent of GDP (UAWIRE 2017).

Military spending has risen considerably, to 5 per cent of GDP in 2015, compared to 1.4 per cent in 2014 (Moshes 2015: 4). Under the strict budgetary discipline that Ukraine needs, respecting the higher military expenditure certainly decreases other public spending. Furthermore, the war has caused immense human hardship; over a million IDPs have lost or left their homes. The migration crisis is a substantial challenge to the social support system and public finances of a relatively poor country. In addition, the losses caused by material damage and destroyed businesses and infrastructure are enormous.

It must be acknowledged that the war sets the rules of the game, but also that it has a dual effect on the development in Ukraine. On the one hand, the war imposes huge costs on the economy that restrict civil public spending. Also, it distracts the government in Kyiv from other important matters and creates uncertainty, which discourages investment and FDIs. On the other hand, the war has consolidated the nation and the governing coalition (Moshes 2015: 4). Ukraine without Crimea and the occupied territories of Donbas is more ethnically and linguistically homogenous than before 2014, which has increased the support for the pro-European policy (Hedenskog 2015: 61). Without the war, even stronger domestic political conflicts might evolve that could jeopardize the reform path. The unparalleled strong support from the international community can also be attributed to the fact that Ukraine was invaded by Russia and lost part of its territory to an aggressor. Without these circumstances, donors may not have been so forthcoming with their financial support.

7.2 Opportunities

Comprehensive reform strategy

In the early days of transition, in the 1990s, not so much attention was paid to building the institutions that support a market economy; the focus lay more on the other aspects of transition (see section 1.2 above) and on tearing down the institutions of the command economy (Hare 2013: 34-35). To a great extent, this was because those involved in the process saw the institutions as something evident that would develop when markets were allowed. This led to a vacuum, during a period when neither old nor new institutions worked. Numerous disturbing effects evolved in this unregulated landscape, and it became more obvious after a few years that it was necessary to support institutional development.

Structural reforms are in focus in Ukraine, and the overall strategy appears to be to tackle all the problems from all sides at once. Continuing support for macroeconomic stabilisation is conditional on the implementation of structural reforms, in order to change and establish institutions. A decentralisation reform is being pursued, although not all constitutional changes have been made, because decentralisation is perceived as necessary for creating a public sector that can deliver. Civil society is supported by foreign donors to provide a voice for the citizens and make the authorities accountable. By introducing reforms on all levels of the economy, these will hopefully have a greater chance of succeeding than previous attempts.

Civil society

During the Orange Revolution, civil society began to be a force in Ukrainian society and a channel for the voice of the population against the elites. This is clearly reflected in the WGI indicator for voice and accountability (Figure 8). During the Euromaidan protests of 2013-2014, civil society emerged even more strongly as a central vehicle for change in Ukraine. In 2013, the platform Reanimation Package of Reforms (RPR) was founded, and it functions as a coordination centre for 80 NGOs and 22 expert groups (interviews in Kyiv).

The pivotal role played by CSOs and ordinary Ukrainian citizens in pushing for change heightened civic activism and fundamentally altered the way Ukrainians engaged in the governance of the country. The Revolution of Dignity illustrates the real and potential role of a maturing civil society that is better organized and a stronger force on key issues. The strengthened social capital illustrates how people can be empowered to stimulate change and express their demand for change (World Bank 2017). In Figure 8, the indicator “Voice and accountability” captures perceptions of the extent to which a country’s citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. As can be seen, the indicator improved after the Orange Revolution, and then decreased during Yanukovich’s reign. Since 2014, voice and accountability has improved, but there is still a big gap between Ukraine and an EU country like Poland.

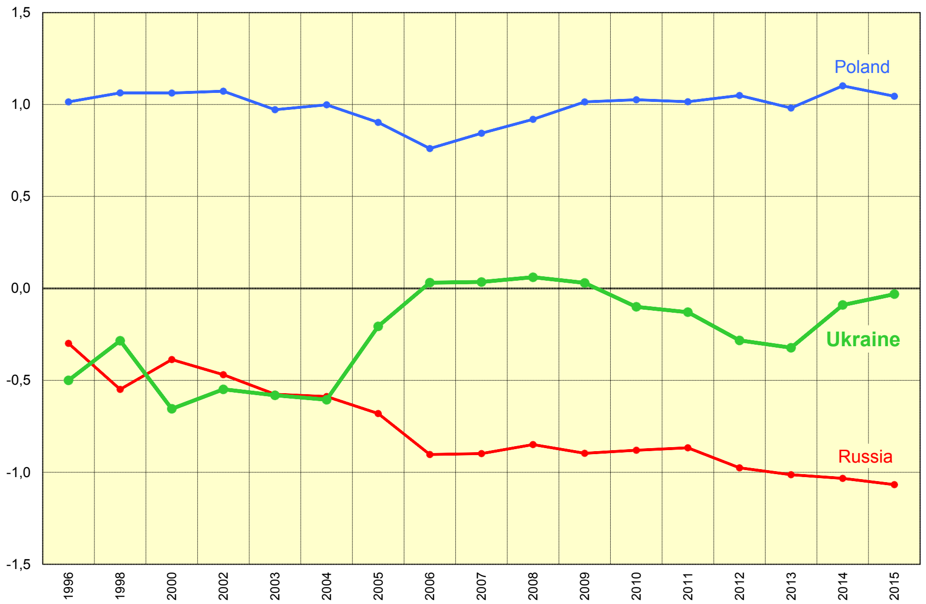

Figure 8 Voice and accountability
Source: World Bank (2016). *Note*: The WGI estimates lie between –2.5, very weak, and +2.5, very strong. The indicator, voice and accountability, captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.

Anti-corruption measures and rule of law

Ukraine has undertaken a number of measures to curb corruption. The first is the process of harmonization of domestic gas prices to the external world market level. This has removed a main source of rent-seeking and corruption in Ukraine. In addition, Ukraine no longer imports any gas from Russia for its own needs. Electricity prices have been increased. Removing energy subsidies has liquidated a quasi-deficit in the state budget. At the same time, utility costs have increased dramatically for households that have been used to very low utility costs. Secondly, Ukraine has established three anti-corruption agencies, with the support of donors, which represents a beginning for fighting corruption in a systematic way. The Anti-corruption Action Centre (AntAC) is a CSO that performs an important watch-dog function in highlighting corruption in these organizations' procedures (interviews in Kyiv). Thirdly, the electronic procurement system ProZorro has been introduced, which makes state procurement more transparent and competitive. Finally, mandatory income declaration of MPs and state officials has made it more difficult to hide income and steal from the state, which may eventually increase people's trust in the public sphere.

Decentralisation reform

In the academic literature, there is a dispute about the effects of decentralisation on economic reform and growth. Some of the literature indicates positive effects of decentralisation, others negative. There are many studies, and China's fiscal decentralisation has drawn attention, since China's economic system is more decentralised than the post-Soviet one and offers interesting data. Some of these studies conclude that fiscal decentralisation has made a significant contribution to growth, basically because it raises economic efficiency through better resource allocation (see e.g. Lin & Liu 2000). Other studies show that fiscal decentralisation can have a negative impact on regional growth, and here the argument is that the central government has a better overview of how money is best spent, particularly when it comes to infrastructure (Jin et al. 2005). To argue for positive effects of decentralisation on purely economic grounds is thus difficult.

In the Ukrainian case, it appears that those who argue for decentralisation do so mainly on political grounds. The reform appears to be seen as a democracy reform and a way to remove power from Kyiv. Assumed positive economic impact is cited as support of that argument: transferring power and resources to local communities makes governance easier; and public service delivery will be more efficient, etc. Removing power and resources from Kyiv could also reduce corruption. The EU and bilateral donors such as Sweden and Germany have pushed hard for the implementation of this reform, despite the fact that its constitutional underpinnings are not ready.

An important prerequisite for decentralisation to succeed and produce positive results, though, is that local autonomy is quite significant and that the rules of the game are stable. Local politicians, when they do not control funding, cannot be held fully accountable by voters for the quality of public services (Pandey 2005). It follows that the changing rules that may be observed in Ukraine, regarding e.g. which and how much of tax receipts can be kept at the local level, creates uncertainty, and may jeopardize the expected results of the reform.

Foreign assistance

The high level of engagement of the West in supporting the Ukrainian reforms is unprecedented. It is clear that many of the lessons learnt from earlier engagements in Ukraine and other transition economies have been applied when designing the Ukrainian reform packages. The stress on structural reforms from the beginning of the reform process and their linkage to financial support appear to be a key element that may produce long-term results. Nevertheless, some observers question whether the support is sufficient, and it will probably have to continue for some time yet.

Great efforts are being made to coordinate donor efforts, both among the donors themselves and by the beneficiary. This makes assistance more efficient and increases the chances that reforms will produce expected results. In many transition countries and areas at the beginning of the reforms in the 1990s, there could be problems of donor competition and, sometimes, very poor coordination, which led to contradictory projects and advice, as well as fatigue on the receiving side.

The EU as an anchor for the reforms

The "EU-anchor" was decisive for the transition of other former socialist countries that became members of the EU in 2004 and 2007. With the start of the EU accession process, it became clear to these countries what legal, institutional, and structural adaptations were needed, and the process provided access to expertise and resources from for example EU's social funds. The EU accession process speeded up the reforms in the candidate countries, and they were highly motivated to adapt to EU standards. Ukraine is part of the European Neighbourhood Policy (ENP) and has an AA with the EU, but EU accession is not in sight. The present massive EU support is based on the AA conditions, in terms of implementation of reforms to its contributions. When the Ukrainian government attempts to stall major reforms, the EU and the IMF have so far used their financial leverage; for instance, when the government did not disburse budget funding to NABU in 2015, or delayed the law on the energy regulator (Nizhnikau & Moshes 2016: 9).

8 Conclusions

The Revolution of Dignity in 2014 created unprecedentedly favourable conditions for breaking a vicious circle of bad governance and predatory corruption in Ukraine, and for the final transformation of the Ukrainian economy and society to market and democracy. The preconditions for the success of economic reforms are better than ever. First, the population has demanded and welcomed change, and is seemingly ready to endure the economic hardship such change will cause, at least for a limited period. Second, the Revolution of Dignity brought about a pro-reform consensus to form a governing coalition that originally enjoyed a constitutional majority in the parliament. Third, Ukraine is receiving exceptional external support from Westerns countries and financial institutions for its reform process.

This report has attempted to assess the potential of the Ukrainian economic reforms started in 2014 to become sustainable, in the sense that institutions that underpin a market economy may become stable and permanent and sustain economic growth. The short-term achievements of the economic reform of the post-revolution governments under Yatsenyuk and Groysman have so far been quite impressive in many respects. Macroeconomic stabilization has been obtained with the help of the IMF, the EU, and other Western partners' loan facilities. The fiscal balance is under control and the government's share of the economy has decreased. Growth has been restored and forecasts indicate that it will be low but positive during the nearest years. The government has respected the conditionality of the IMF and EU, and most of the structural reforms demanded in the agreements have been started. The energy subsidies are being removed, and the domestic gas price is now at the same level as the external world market price. The banking system has been cleansed of the most corruptive actors. Thereby, some of the main factors behind rent-seeking and corruption have been eliminated. Other parts of the energy sector are also under reform and a rise of electricity prices will follow suit.

To combat corruption in the long-run, three anti-corruption agencies have been established. This should increase the chance that crimes of corruption are notified and brought to justice. A full reform of the judiciary is not yet in place, and the problem with political influence over courts and judges will remain, until lustration has been carried out and a judiciary that is truly independent from the executive branch has been created. However, anti-corruption policies are closely monitored by CSOs and the independent media, and deviations from dealing with these crimes properly are reported to the population. The civil society is fairly strong and well-organised, and plays a main role in this part of the reform process. But it should be noted that many CSOs, not least those active in the anti-corruption field, are dependent on foreign funding. Moreover, the introduction of a transparent state procurement system, and mandatory open declarations of incomes for state employees and politicians, decrease the opportunity for corruption, but these are not airtight measures; the media criticizes the anti-corruption authorities for being too weak and not prosecuting officials, businessmen, and MPs for their roles in corrupt schemes during the government of former president Viktor Yanukovych. President Poroshenko is himself a business tycoon who has profited from the corrupt system and it is difficult for him to strip his friends of privileges.

There are two striking differences in approach compared to earlier reform attempts. The first is that donors have insisted on frontloading the reform process with structural reforms, and linked the implementation of these to financial support. Building sustainable institutions that support the market economy is the core aim of the reforms, and a necessity if oligarch power is to be diminished. Market allocation entails competition and implies that it is the most productive producers that should get investment resources, not the ones with the closest ties to political power. The second difference is that civil society plays a more prominent role and is involved at all levels of the process. This bottom-up pressure for change increases the opportunities of the reforms to succeed.

Decentralisation of decisions to local communities is a significant democracy reform that moves decisions and financial resources nearer to the population. The outcome of fiscal decentralisation is uncertain, but it could improve public service delivery if local governments are given sufficient autonomy. By transferring power to local governments, the possibility to hold politicians accountable increases. Moreover, greater independence of local communities allows better access to cooperation with EU communities, and opens opportunities for increased citizen participation.

Conducting reforms in a country at war is not the same as doing so in peacetime. Despite the military conflict, however, the government has been able to pursue most reform initiatives. The direct effect of the conflict on the economy is foregone economic growth, because resources need to be allocated to defence. Of course, Ukraine would be better off if these resources could be devoted to developing infrastructure and society as a whole instead of fighting the enemy. Nevertheless, as long as the conflict with Russia continues, Ukraine needs to defend itself and build military capability in order to have a country and nation to develop in the future. Ukraine has been a divided country since independence, with the Western parts being mostly oriented towards Europe and the eastern and southern regions leaning towards closer ties with Russia. Russia’s aggression against Ukraine has led to national cohesion and restrained the domestic political conflicts. This has enabled the government to push the reform agenda.

There is still far to go to a trust-based system in Ukraine; confidence in the government is low. The risks that the reforms will fail are still many, but it appears that the opportunities for the success of the reforms are quite strong. Many Ukrainians see the present reform process as the last chance to lay the foundation for a modern Ukraine with close ties to the EU. The reforms are not only a top-down process; this time initiatives and participation are forthcoming from large parts of society. The Ukrainian people and a well-organized civil society play a key role in keeping the reforms on track and monitoring the behaviour of the political establishment. However, it will be important that the reforms deliver in terms of growth and living standard in order to sustain their engagement.

Annex: Major oligarchs in Ukraine in 2017

Sources: Forbes (2016); Konończuk (2016); Zhartovska & Kravets (2016), and; Kyiv Post's "Oligarch Watch" series 2016: Koshiw (2016a-b), Grytsenko & Sukhov (2016), Grytsenko et al. (2016), Sukhov (2016).

Rinat Akhmetov, born in 1966, in Donetsk			
Wealth	**Key assets**	**Political influence**	**Other**
$2.3 billion (2016), the richest person in Ukraine. In 2013, his wealth was estimated by Forbes as $15.4 billion.	System Capital Management (SCM), which incorporates more than 100 mining, metal, energy, finance, media, and other companies. Metinvest mining and steel company, DTEK energy company, Ukrtelecom, Media Group Ukraine. Shakhtar Donetsk football team.	Sponsor of Opposition Block in the parliament. Alleged sponsoring of Oleh Lyashko's Radical Party. Long-time main sponsor of Party of the Regions of Ukraine, Yanukovych party until 2014. Political partner with Yatsenyuk as Prime Minster. After Yatsenyuk was dismissed, Akhmetov turned to Poroshenko.	Amassing wealth thanks to long-time ties with Ukraine's top officials, especially ousted President Yanukovych. Has lost wealth and fortunes in Donbas after 2014. Alleged links to separatist forces in Donbas, accusations he denies.

Dmytro Firtash, born in 1965, in Sinkiv, Ternopil oblast			
Wealth	**Key assets**	**Political influence**	**Other**
$251 million (2016), the 12th richest person in Ukraine. Down from $2.7 billion (2013)	Group DF (a conglomerate comprising regional gas distribution companies), titanium and fertilizer plants, Inter, and several other TV channels.	Sponsor of Opposition Block fraction in the parliament. One of the sponsors for the UDAR party (Vitaly Klichko) in the 2012 elections, which later joined Petro Poroshenko's Bloc.	Exiled in Vienna since 2014, fighting US criminal bribery charges. It is widely suspected that Firtash played an important role in clearing Poroshenko's path to the presidency. In April 2014, the two met in Vienna. In exchange for supporting Poroshenko in the elections, Poroshenko, allegedly, agreed not to prosecute Firtash.

Ihor Kolomoyskyi, born in 1963, in Dnipropetrovsk			
Wealth	**Key assets**	**Political influence**	**Other**
$1.3 billion, the second richest person in Ukraine. Down from $2.4 billion in 2013.	Ukraine International Airlines, 1+1 Media. Until recently *PrivatBank*, *Ukrnaft*a. Closely associated with the London-based, but Dnipropetrovsk-raised, oligarch Hennadiy Bogolyubov, who was rated Ukraine's third richest man ($1.3 billion) in 2016.	Holds balance of power in the parliament. Sponsor of parliamentary fraction Popular Front and (rumoured) Selfhelp, as well as parliamentary groups Revival and People's Will. Also sponsor of nationalist parties such as Right Sector and UKROP outside the parliament.	Governor of Dnipropetrovsk oblast 2014-2015, sponsor of voluntary battalions like "Dnipro-1." Holds three passports (Ukrainian, Israeli, and Cyprian). He defended himself saying that "the constitution says that dual citizenship is banned. It doesn't ban triple." Prominent sponsor of Ukraine's Jewish community.
Ihor Kononenko, born 1965, in Kyiv.			
Wealth	**Key assets**	**Political influence**	**Other**
No estimation. Not listed on Forbes' latest (2016) rating of the 100 richest persons in Ukraine. His rapid rise in political influence in close association with the President will likely improve his coming rating.	Has his own investment fund VIK and several industrial plants, including in Zaporozhia and Luhansk. Is junior partner to Poroshenko in the International Investment Bank and *Kraina* insurance company. Interests in many state-owned companies, particularly in the energy sector.	Not widely known before he was elected to the Verkhovna Rada in 2014. Now the president's "grey cardinal" in the parliament and considered to be one of the most influential men in President Poroshenko's circle. Poroshenko and Kononenko did military service together in the Soviet army in the 1980s and have been business partners since 1992.	Accused for corruption and of promoting his people to high positions in many state-owned companies, including Naftogaz and companies in the metallurgy and chemical sectors, in order to control their financial flows. Both Aivaras Abromavičius, former minister of Economy, and Vitaly Kasko, former deputy Prosecutor General, two of the most prominent reformers, directly pointed to Kononenko's interference as the reason for the resignations in 2016.

Yury Kosiuk, born in 1968, in Chervone, Kirovohrad oblast			
Wealth	**Key assets**	**Political influence**	**Other**
$1 billion, the fifth richest person in Ukraine. Down from $1.6 billion in 2013.	Main stakeholder in *Myronivskyi Khlibprodukt* (MHP), one of Ukraine's largest agriculture and food concerns.	Close links with Poroshenko, probably due to the fact that both men have their business base in the Vinnytsia region. Kosiuk has a strong position in the agrarian lobby, which accounts for a quarter of Ukraine's export.	In 2014, appointed deputy chief of the presidential administration, but dismissed after facing criticism over lobbying for his own company. Since then, Poroshenko has appointed him as his advisor.

Viktor Pinchuk, born in 1960, in Kyiv, but shortly after moved to Dnipropetrovsk			
Wealth	**Key assets**	**Political influence**	**Other**
$1.2 billion, the fourth richest person in Ukraine (2016). Down from $3.8 billion in 2013.	Interpipe, Credit Dnipro Bank, ferroalloy plants, media (ICTV, Novy Kanal, STB TV channels).	Officially no longer politically active, but estimated large political influence. Controversial for his close ties to former presidents Kuchma and Yanukovych, as well as for his silence on Russia's aggression in Ukraine, allegedly to preserves his business in Russia.	Founder of YES (Yalta European Strategy) conference, Pinchuk Art Center. Prominent sponsor of Jewish causes. Son-in-law of former president Leonid Kuchma. In 2016, he sued Kolomoyskyi and Bogolyubov for $2 billion at High Court of Justice in London, over a 2004 purchase of a mining company.

Petro Poroshenko, born in 1965, in Bolhrad, Odesa oblast, then moved to Bendery, Moldovan SSR. Political and business base was in Vinnytsia.			
Wealth	**Key assets**	**Political influence**	**Other**
$858 million (2016), the sixth richest person in Ukraine. Down from $1.6 billion in 2013.	Roshen confectionary, 5 Kanal (TV channel), *Kuznya na Rybalskomu* (shipyard). In the 2014 presidential elections, Poroshenko promised he would sell all his assets except for 5 Kanal. He hired Rothschild & Cieto to assist in the deal-making, but the process has come to a standstill.	President of Ukraine since 2014. Founder of the Solidarity Party, which in 2014 changed name to Petro Poroshenko Bloc. In the early 2000s, he was one of the founding fathers of the Party of Regions of Ukraine.	The Panama Papers, in 2016, revealed that Poroshenko had registered an off-shore firm on the British Virgin Islands in August 2014. The registration coincided with the battle of Ilovaisk, one of the bloodiest battles in Donbas, where 1 000 Ukrainian soldiers and volunteers died when trying to retreat under separatist and Russian fire.

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List of interviews

Date 2017	Organization
9 Feb	Sida, Stockholm
10 Feb	SKL International, Stockholm
15 Feb	Swedish Ministry of Foreign Affairs, Department for Eastern Europe and Central Asia, Stockholm
21 Feb	Folke Bernadotte Academy (FBA), Stockholm
22 Feb	Conference of UkraineLab and the Ukrainian Think Tanks Liaison Office, Brussels
22 Feb	Support Group for Ukraine, EC, Brussels
22 Feb	European External Action Service (EEAS), Brussels
6 April	Central Bank of Sweden, Stockholm
19 April	Embassy of Sweden, Kyiv
19 April	International Monetary Fund (IMF), Kyiv
19 April	Cabinet of Ministers of Ukraine, Kyiv
19 April	Centre for economic strategy, Kyiv
19 April	SKL International, Kyiv
20 April	Institute for economic research and policy consulting, Kyiv
20 April	SKL International, Kyiv
20 April	Transparency International (TI), Kyiv
21 April	Lviv City Council, City Institute, Lviv
21 April	Lviv City Council, Lviv
21 April	Lviv regional state administration, Lviv
24 April	Ministry of Economic Development and Trade, Kyiv
24 April	National Bank of Ukraine (NBU), Kyiv
24 April	World Bank, Kyiv
24 April	Anti-corruption Action Centre (AntAC), Kyiv
24 April	Kyiv Post, Kyiv
25 April	EU delegation, Kyiv
25 April	Sida, Kyiv
25 April	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Kyiv
25 April	Ministry of Finance, Kyiv

25 April	FBA, Kyiv
26 April	USAID, Embassy of the United States, Kyiv
26 April	Kyiv School of Economics, Kyiv
27 April	Center for Political Analysis “Observatory of Democracy,” Kharkiv
27 April	NGO “Ekspertiza reform,” Kharkiv
27 April	NGO “Pazom,” Kharkiv
27 April	Association of Private Employers, Kharkiv
28 April	Kharkiv Service Centre Transparent office, Kharkiv
28 April	Kharkiv State Administration, Kharkiv
28 April	Department of Political Science, Kharkiv University, Kharkiv
28 April	Kharkiv Observer, Kharkiv

Ukraine has been subject to a number of attempts of economic reform since independence, but has not managed to fully transition to a market-based system. International donors have been engaged in Ukraine since the 1990s, but previous economic reform efforts have failed to combat inconsistent macroeconomic policies, unsustainable energy pricing, and corruption. As a result, the Ukrainian economy has ended up in a semi-transformed state with many shortcomings. A main problem is that basic institutions such as the rule of law have never been properly established. Instead, a powerful oligarch class emerged and their influence led to state capture, which has effectively hindered market reform and nurtured vested interests and corruption.

This report attempts to assess whether the Ukrainian economic reforms started in 2014 may create sustainable results in the form of permanent effective economic institutions that support a viable market economy. The success of the economic reforms is a prerequisite for creating a stable Ukraine in Europe and economic prosperity for its people. The reform process is supported by significant foreign assistance from the West.

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