

# The Ukrainian Week

International edition

#2 (108) February 2017

Economic interaction between  
Ukraine and its occupied regions

VR Speaker Andriy Parubiy  
on red lines in Ukraine's politics

The era of Nikita Khrushchev  
in Soviet nomenklatura



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## The Ukrainian Week

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ТИЖДЕНЬ









## BRIEFING

# A legitimate capitulation?

Roman Malko

**O**n January 11, 2017, the Cabinet of Ministers passed Resolution #8-p On Approving the Package of Measures to Implement Some Basics of Domestic Policy on Certain Areas of Donetsk and Luhansk Oblasts Where Temporarily Not Under the Government Control.

It is obvious that the Donbas and Crimea situation should be regulated in some way. There is a number of ways to move to the solution. The easiest one is to accept the Kremlin's demands and give it what it wants. Another option is to fence off from the occupied territory. It is partly in place already: a buffer zone has been outlined, but it is too porous to actually close all the gaps and forget about the separatists.

PHOTO: UNIAN

Neither the first option, nor the second one should even be considered as debatable. Both lead to the loss of part of Ukraine. Therefore, the only possible scenario would be to eventually liberate the occupied territory and take back Ukraine's eastern and southern frontiers under government control.

Meanwhile, we are witnessing a paradox. The President has instructed his team to sue Russia at the International Court of Justice and defined it as aggressor. The Verkhovna Rada has described Russia as the party responsible for launching the war in Eastern Ukraine, the occupation of Crimea and part of the Donbas; it calls on the international community to recognize Russia's responsibility. PACE confirms in a resolution that the annexation of Crimea by Russia and the military invasion in Eastern Ukraine are in violation of international law. The Ukrainian Government quietly issues decree #8-p, also referred to as the Action Plan, which ignores the mere fact of the occupation or annexation of a large part of Ukraine's land, and limit themselves to the murky "uncontrolled territory" formulation. It says that these were caused by a "military conflict" without specifying the nature of it or mentioning Russia as an aggressor state.



**AT FIRST GLANCE, THE ACTION PLAN FITS INTO THE CONCEPT OF A PEACEFUL RESOLUTION THAT HAS LONG BEEN DISCUSSED AND INSISTED UPON BY PEACEMAKERS. YET, WHEN LOOKED IN MORE DETAIL, IT TURNS INTO A TIME BOMB**

"The formulation approved by the Cabinet de facto recognizes that the armed conflict is not an international one and that Ukraine undertakes (or rather puts on its citizens) the responsibility for renovating the ruined infrastructure in Donetsk and Luhansk oblasts," comments Oksana Syroyid, Deputy Speaker of the Verkhovna Rada. Volodymyr Vasylenko, an expert in international law, has a similar comment: "These government decrees do not meet Ukraine's national interests as they deny the fact of Russia's occupation of part of Ukraine's territory, while the measures listed there encourage occupation and help the aggressor wage its war. This is the result of the lack of a clear legal position in qualifying Russia's actions against Ukraine as an armed aggression and in repelling or dealing with the impact of those. The procedure of repelling is not based on Article 51 of the UN Charter which allows a state to defend itself when faced with aggression, nor on the Law On the Defense of Ukraine which is based on the UN General Assembly 3314 Resolution on the Definition of Aggression."

At first glance, the Action Plan fits into the concept of a peaceful resolution that has long

been discussed and insisted upon by peacemakers. Yet, when looked in more detail, it turns into a time bomb.

Based on the document, the Cabinet should initiate amendments to laws "to regulate the special features of economic activity on the uncontrolled territory." But how is this possible when the territory is not under control, so no state authority acts there. "Moreover, it is well known that the occupant administrations are levying fees on the population that can perfectly qualify as taxes," Oksana Syroyid comments. "These levied taxes are used to fund the aggressor's army, and therefore, to continue the armed aggression against Ukraine and to expand the temporarily occupied territory."

Other provisions of the document include "the creation of favorable conditions for the development of entrepreneurship, the decrease of regulatory pressure on businesses", "the improvement of social protection for the children; the support to spiritually and physically sound, materially and socially safe families." Sounds good. The plan is to protect children from the negative impact of the armed conflict, to encourage society, NGOs and activists, as well as the media to raise awareness amongst the children and their families. One problem with this is that it would at the very least take someone to actually get into the heartland of terrorists and try to unfold the implementation of these good intentions there.

More provisions of the document read as follows: "ensure the payment of salaries at enterprises of all kinds of ownership that carry out legal commercial activity on the uncontrolled territory, provided that they comply with requirements on prevention of funding terrorism and actions to change the borders and territorial integrity of Ukraine"; "ensure the rights of citizens living in the uncontrolled territory to freely choose the language in which they receive information from the media"; "support the principle of media independence and autonomy for the dissemination of information in the state and other languages (including Russian)"; "support the publication and distribution of audio and audio-visual produce and print publications in different languages"; "support public diplomacy to keep the ongoing dialogue between all groups of citizens residing along the contact line", and more.

It is difficult to understand the logic of those who prepared this document: it is obvious that any activities on the occupied territory in line with Ukraine's laws are impossible under the current circumstances. What it fits perfectly into is the logic of the hybrid war.

"Under international law, all responsibility over what happens on the occupied territory lies with the occupant," Prof. Vasylenko states. "The occupant state must take care of ensuring



human rights and maintaining routine life on the occupied territory. That's its responsibility and duty. Meanwhile, the given document suggests that it is Ukraine's responsibility to take care of human rights there. It also suggests that Ukraine funds the occupant which will not stop its armed aggression but chooses to continue the fighting that affects both the civilian population and the Armed Forces of Ukraine. Such a position is detrimental on the international level. These acts will be used to justify the claim that the developments in Eastern Ukraine are caused by an internal conflict, not an armed aggression."

The document was drafted by the Ministry on the Temporarily Occupied Territory and IDPs chaired by Vadym Chernysh. It is the entity tasked with developing a strategy to reintegrate the occupied Donbas and Crimea. But the provisions listed in this one barely differ from the demands of Putin's negotiators expressed in Minsk.

Under the Constitution, Ukraine is a parliamentary-presidential republic. The Cabinet approved by the Parliament has the right to pass similar decisions. Premier Hroysman has signed the document and is in charge of implementing it. Yet, it is a decree, not an instruction (lower in status but binding nevertheless). A decree is approved by vote of the Cabinet while instructions are approved by those charged with implementing them. Could this be because the Government did not want to make the document public and have a wide discussion? Also, it is a way to bypass the President's representative who is otherwise present at all Cabinet meetings.

One possible explanation is that the whole concept could be a product of the Donbas master Rinat Akhmetov. He has his loyal people in many ministries. He is the only Ukrainian oligarch (other than President Poroshenko) not hit by de-oligarchization. He is also one of the major beneficiaries from interaction with the occupied territory. The document opens great opportunities for his business currently divided by the contact line.

One other potentially interested party is Oleksandr Tretiakov, a person who lobbied for Chernysh to get appointed to his current position. Tretiakov looks for ways to join the lucrative business of distributing resources channeled to the restoration of the post-war Donbas.

Also, similar messages are often heard from Ukraine's international partners. They are passionate about finding solution to the crisis as soon as possible. Yet, they are less passionate about actually figuring out the nuances of the situation in the region or recognizing the participation of Russia in the war. Instead, experience from distant conflicts in Africa or elsewhere is applied and obscure formulations like "effective control" pop up (Ukrainian offi-

cials would hardly come up with anything like that on their own). Chernysh's presentation of the plan was welcomed by foreign diplomats. "The Plan can pave the way for increased social cohesion, peace building and reconciliation in the conflict-affected areas," the EU Delegation and the embassies of EU member-states in Kyiv wrote in a statement on it.

One other thing to remember is that this whole thing costs money. In addition to the cash that can flow to Akhmetov as a result, significant amounts will probably be channeled from international funds and can be administered lucratively.

How the Action Plan will help restore Ukraine's territorial integrity and the return of its eastern border under its control – the objective clearly stated in the Constitution and outlined by the President and Ukraine's allies who don't recognize the occupation – is hard to see. Instead, it looks like a set of actions that plays well with Putin's strategy to dismantle Ukrainian authorities and further destabilize the country.

**UKRAINE MAY BE UNABLE TO RETURN ITS EASTERN BORDER UNDER CONTROL AND REINTEGRATE ITS CITIZENS FOR NOW. BUT IT DOES NOT MEAN THAT IT SHOULD ACCEPT JUST ANY SCENARIO**

If Ukraine is a truly sovereign state, there can be no discussion about surrendering part of its territory to the enemy. It may be unable to accomplish its strategic task and return its eastern border under control and reintegrate its citizens for now. But it does not mean that Ukraine should accept just any scenario. Ukraine does not need its own Transdnistria. Nor does it need a situation where the Kremlin-fueled terrorist threat spreads over Ukraine.

First of all, Ukraine must figure out the terminology and call things as they are. Then, it should pass a framework law to regulate Ukraine's interaction with the occupied territories. The law should state clearly as a strategic goal the need to liberate them, return its eastern border under control, and give a detailed account on how the state will carry out its policy: in the military, political, economic, humanitarian, information and other areas. Then, the President, officials and the military should work to accomplish that goal. So that all those who live under occupation, those who have occupied the territory, and all other interested parties, understand that this is the zone of Russia's responsibility temporarily, but Ukraine will return to it. This should be a clear policy of a state that knows what it is doing and bases that on international norms. ■

# Feeding the enemy

Oleksandr Kramar

Maintaining socio-economic ties to the occupied territories of Donbas is of dubious value to Ukraine, but makes life a lot easier for the terrorists running them

**T**he Russian Federation spends between one and two billion dollars a year to support its proxies in the Donetsk and Luhansk People's Republics (DNR and LNR) running the occupied territories of Donbas. But Ukraine's direct and indirect support for the "budgets" of these self-proclaimed republics is also estimated to be around US \$1 billion a year. Russia is paying for the opportunity to exercise "effective control" over the territories, whereas Ukraine seems to be paying for useless expectations that they might soon return to Ukraine's control. Given that this might be possible only under two circumstances—either Ukraine capitulates and accepts Russia's conditions for a disastrous reintegration of ORDiLO, as the occupied counties of Donetsk and Luhansk Oblasts are called, or Russia itself goes through a major shake-up or falls apart altogether—, shaping policies in the hope that this will happen any time soon drives Ukraine off-track and wears the country down. And this is exactly what Moscow is counting on. Worse yet would be to simply take back ORDiLO and support and rebuild it entirely in return for a formal recognition of Ukraine's sovereignty while the Kremlin continues to run it for all intents and purposes. *The Ukrainian Week* analyzes what could be the potential cost of stopping all economic ties with the occupied territories.

## MAKING OUT LIKE BANDITS

According to the Main Statistics Bureau in Luhansk Oblast, of the UAH 34.58bn in goods and services sold by enterprises registered on Ukraine-controlled territory, UAH 11.6bn-worth was sold in the occupied territories in 2015. Statistics for 2016 are not available yet. What's more, over UAH 1bn in salaries were paid to 21,800 of their employees in the occupied territories. According to the Main Statistics Bureau in Donetsk Oblast, companies registered in Ukraine but actually located in the occupied part of the oblast sold goods and services worth UAH 115.54bn there, and UAH 210.1bn in the rest of Ukraine. Officially alone, they paid UAH 7.69bn in wages to 107,600 employees. To a large extent, industrial production on the occupied territories, especially the steel industry, is running at a loss and is covered by counterpart enterprises in the rest of Ukraine (**see *Sleeping with the Enemy: How Ukrainian big business operates in the occupied territory* in Issue #12(104), December 2016 at [ukrainianweek.com](http://ukrainianweek.com)**). Countless manufacturers that depend on supplies of raw materials and retail chains that sell consumer goods including food from other parts of Ukraine—which are all considerably cheaper than similar supplies from Russia—also play a major role in supporting the economies of the occupied territories. This kind of cooperation with the occupied territories cannot be accurately measured today, but it is clearly profitable for Ukraine as well. After all,

we're talking about volumes that once covered a single Ukrainian market over more than two decades. However, it is also clear that stopping this trade will not be critical for any domestic producers, either.

## DEAD PENSIONERS SPENDING MONEY

According to data from late 2014 collected under the Yatseniuk Government, expenditures on the budgets and social funds of the occupied counties of Donetsk and Luhansk Oblasts exceeded revenues by UAH 19.6bn and UAH 14.6bn. At that point, a decision was made to stop issuing payments to the occupied territories. Still, all this did was change the mechanism. Residents of ORDiLO who registered temporarily displaced persons on non-occupied Ukrainian territory continue to receive government benefits under law and additional support as IDPs. Not long ago, IDPs, like other citizens of Ukraine, were allowed to register or transfer their pensions to any office of the Pension Fund that was convenient to them.

Of course, the state has to take care of Ukrainians who have been fleeing the war in Donbas. However, most of these people are actually fake refugees. Data for the beginning of 2017 is not available yet, but if we compare indicators, we can see that the number of pensioners registered in Ukraine-controlled Donetsk and Luhansk Oblasts was 2.12mn at the beginning of 2014 and shrank to 1.15mn by the beginning of 2015. However, it then grew to 1.4mn by the beginning of 2016.

In some of the counties next to the occupied territories the number of pensioners registered during 2015 grew at an astonishing rate. For instance, the numbers nearly doubled in Bakhmut—formerly Artemivsk—and county, going from 59,850 on January 1, 2015 to 113,400 by January 1, 2016. In Sloviansk, the number of registered pensioners went from 61,800 to 84,800, in Kostiantynivka it went from 46,700 to 67,200, in Kramatorsk from 79,800 to 92,500, in Lyman—formerly Krasnyi Lyman—from 22,100 to 29,800, in Mrynhrad from 26,300 to 32,200, and in Seldynov from 32,700 to 38,700.

The number of pensioners registered in these towns amounted to more than half, and in some cases even two thirds, of the population of those territories. These relative proportions suggest that the majority of migrant pensioners have fictively registered either themselves or through intermediaries only to get their pension benefits, but most of them, in fact, continue to live in the occupied territories. In 2016, the SBU established nearly 4,000 cases where someone continued to take money through the pension cards of individuals who had actually died in ORDiLO, an amount that added up to nearly UAH 8mn a month. Moreover, SBU staff found instances when the money transferred to a dead pensioner's account was actually being taken out by LNR officials. All told, the SBU calculated that it stopped payments of benefits to



450,000 questionable pensioners and only 80,000 filed requests with their local pension office to reinstate their pensions over the course of three months.

## ENERGY ADDICTION

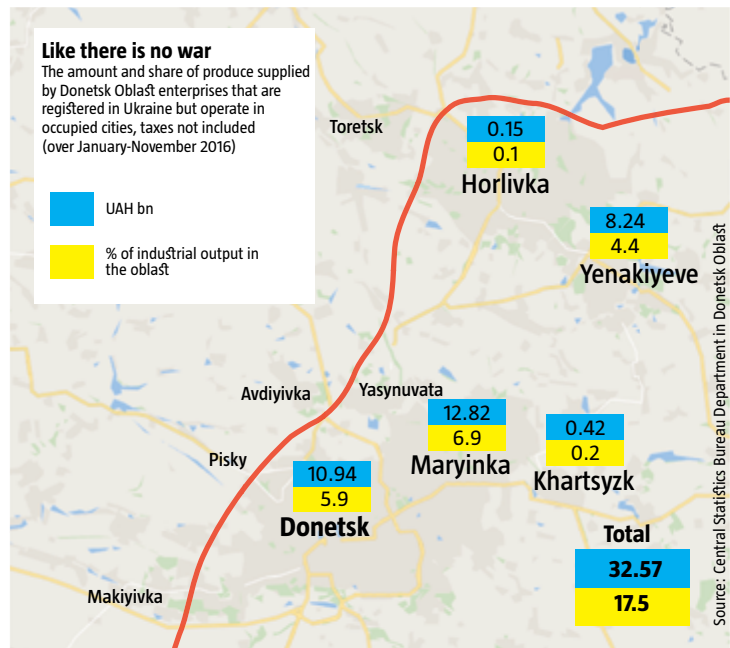
However, the power industry has become the biggest Achilles' heel in economic contacts between Ukraine and ORDiLO. Having got rid of its dependence on Russia for gas, Ukraine remains hostage for the last three years in an artificial dependency on the territories occupied by Moscow when it comes to electricity. The most critical yet the easiest to resolve is the situation in Ukraine-controlled Luhansk Oblast. Its power grid was cut off from the rest of the Ukrainian power grid after Russia occupied the southern corner of the oblast and currently operates as a power island, completely dependent on the Luhansk TES, a co-generation plant located right on the line of contact in the town of Shchastia. This TES can only operate on anthracite, a coal that is in shortage in the rest of Ukraine. But this problem can easily be resolved by building a power transmission line that joins into the power grid of non-occupied Luhansk oblast, the northwestern part of Donetsk Oblast, or southern Kharkiv Oblast.

Dependence on anthracite that is mainly found in the occupied territories but is needed for TESs is a bit harder to resolve, but hardly impossible. Obviously, this can't be done in a week or two or even in a month, so the blockade by activists could genuinely cause serious problem with power supplies to the rest of the country. However, the real problem lies in the fact that converting the state-owned co-generation plants to work on coal gas, of which there is a surplus, rather than unavailable anthracite is happening only when someone is ready to wield a stick. Last year, Energy Minister Nasalyk announced a deadline for converting the Zmiyiv TES in Kharkiv Oblast from anthracite to coal gas, but those deadlines were ignored and so this has not compensated for the deficit of anthracite so far. The situation with the largest private power generation companies operating on coal, operated by Rinat Akhmetov's DTEK, is still worse. This corporation, which owns a slew of major buyers of anthracite on non-occupied Ukrainian territory—Prydniprovsk, Kryvyi Rih and Luhansk TESs—still hasn't considered transferring at least some portion of their power blocks to coal gas, which doesn't need to come from the occupied territories. But this is hardly surprising, as DTEK has three huge coal companies on the occupied territories: RovenkyAntratsyt, SverdlovskAntratsyt and the Komsomolets Donbasu Mine, with a total capacity of over 10mn tonnes a year.

The only way DTEK can be forced to stop shipping coal from them is by requiring all co-generation plants in the rest of Ukraine to switch to coal gas. This, despite some speculation, can be done without major cost and is completely realistic, based on the current Rotterdam+ rates being paid.

## NO NEED TO GO COLD TURKEY

Indeed, even without switching TESs to coal in gas group, which is plentiful on non-occupied Ukrainian territory, the use of anthracite from the occupied territories could be reduced severalfold. Looking at recent months, when the use of electricity is at a seasonal peak, consumption over December 2016-January 2017 28.77bn kWh of power was released on the Wholesale Energy Market (ORE), whereas a year ago during those same months



consumption was 27.16bn kWh. Moreover, power output at TESs increased from 7.38bn kWh to 8.77bn kWh during this same period last year, while output from AESs shrank from 15.61bn kWh to 15.35bn kWh. Sometimes the share of power generated by AESs through the ORE fell to 50% and in the last week of January was only 52%, while in previous years it was up to 60% and more.

If Ukraine's AESs were to provide 60% of all the country's power through ORE today, purchases from TESs could be cut to 6.8bn kWh, although 8.77bn kWh is actually being used. This would in turn reduce the coal being used by 22-23%, of which 35-40% is anthracite, meaning that demand for black coal could be reduced nearly 67% based on current consumption volumes. Altogether for 2016, coal extraction at DTEK mines in ORDiLO grew 77% to 8.03mn t, compared to 4.54mn t in 2015. Over this past December-January, DTEK companies RovenkyAntratsyt and SverdlovskAntratsyt in Luhansk Oblast and Komsomolets Donbasu in Donetsk extracted 1.86mn t of anthracite, which is 310% more than they did in the previous heating season. Curiously, armed conflict along the contact line has not stopped nor interrupted socio-economic links, let alone completely isolated the occupied territories from the rest of the country. Still, such steps will mean shifting the entire burden of supporting them to Moscow and its local proxies. At the same time, stopping commercial ties might cause losses to those who supply and consume goods from ORDiLO, but it will be felt much more in the occupied territories. This will raise the cost of supporting ORDiLO for Russia and push it to look more actively for ways to resolve the situation. Meanwhile, this will reduce costs for Ukraine and increase its capacity to a longer stand-off with Russia. On one hand, additional resources will appear to finance defense and strengthen the line of contact. On the other, it will reduce the scale of economizing needed across the country. After all, just the cost of paying out pensions to residents of the occupied territories will save the Pension Fund far more than even a very significant increase in the retirement age of Ukrainians in the rest of the country. ■

# The ultimate beneficiary

Andriy Holub

Despite the war and partial occupation of the Donbas, Rinat Akhmetov has preserved his business empire and is increasing output

Some four years ago Rinat Akhmetov's role in Ukrainian business and politics raised no questions. He was the country's richest entrepreneur, owner of a business empire with assets in virtually all sectors of economy, and a full-fledged stakeholder in the most influential political force, the Party of Regions. The PR's iron grip on power seemed perpetual and Akhmetov's influence was such that even his frenemies from the then president Viktor Yanukovich's entourage, who had just started a large-scale redistribution of markets to suit their interests, would not risk an open conflict with "the master of the Donbas."

The situation came to change with the revolution and war. The former sway of the Party of Regions lay in tatters. Bad news started to come in from economy. While the 100%-Akhmetov owned SCM Group is doing its best to restructure business, mining, metallurgy and energy remain the mogul's main sectors. These are united under Metinvest and DTEK respectively. In 2014, as global metal, ore and steel markets began to shift, the prices went in a downward spiral. That was just the beginning of the problems, which were further exacerbated by hostilities. A large section of Metinvest and DTEK plants are integrated in a single production cycle. Explained in simple terms, coal from Akhmetov's coalmines goes to Akhmetov's coke and power plants. The output from these is shipped to Akhmetov's steelworks, where iron ore from Akhmetov's mines is already waiting. Then, all this is exported as metal and steel. Revenue in foreign currency is on the top of the pyramid. The splitting of the Donbas has complicated this scheme to say the least, as enterprises are located both on the occupied and Ukraine-controlled territories. For a while it caused substantial difficulties. The proof can be seen in statistics dating back to the early months of the war. In the first half of 2014 Ukrainian enterprises were still producing 2.4 to 2.8 tons of steel per month. In August, when hostilities flared up and Russia made an open invasion at Ilovaisk, production plummeted by 28% to 1.7 ton. A number of steelworks were now on the occupied territory. The fact that in 2015 agricultural business ousted metallurgy from its leading position in Ukraine's exports gives an idea of the scale of changes that took place during that period. Metallurgy had for decades been the main source of currency revenues for Ukraine. This status largely propped up the slogan "Donbas feeds Ukraine."

In 2015, Metinvest reported total losses of \$1bn compared to \$160m revenue from the previous year. Along with the publication of the financial report, Metinvest announced a default in payment and initiated negotiations on debt restructuring with its lenders. Luckily for Akhmetov, the dire situation began to look up. Early in 2015 the second Minsk Accords were signed, and the situation at the front stabilized. In April that same year growth in steel production was first reported, continuing into the following month, and the industry again returned to the figures above 2m ton per month.

Statistics show that good news came from commodity markets, too. Prices had stopped falling. According to Metal Bulletin, the price of iron ore almost doubled in 2016. The year saw also a growth in steel prices, despite the forecasts from experts on the market. After January to September 2016 Metinvest reported \$989m EBITDA. Another sign of an improving situation is the beginning of investment in production. In particular, the Ilich Steel and Iron Works in Mariupol invested over 1.6bn UAH in own production. On 30 January it was reported that the Metinvest mining and processing plants had paid 19bn UAH in dividends to the owners. According to the report, the shareholders' dividends will be used "to serve the Metinvest debts and as part of capital investment in production facilities."

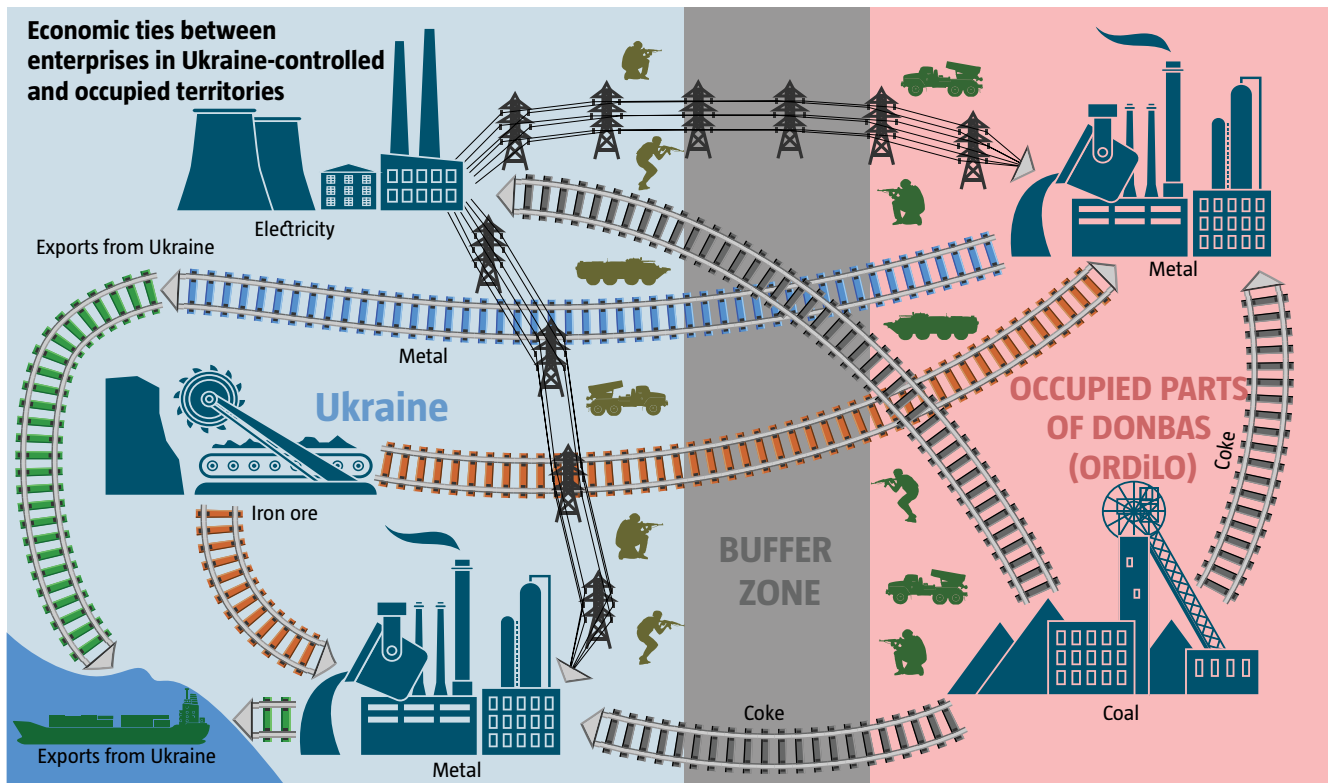
In most cases, investments in production and debt payment are demanded by the lenders, who once agreed to restructure the Metinvest debt. However, the fact of such funding shows that the state of Akhmetov's business is far from critical, in fact, it has fully adapted to the new conditions and is developing. That a part of the production facilities are now on the occupied territories did not sever the links with them. Mines and metalworks are running like clockwork for the owner's benefit, all thanks to the change of the facilities' registered address. For instance, the Yenaikie Metalworks is now registered in Mariupol. By the way, the Russian owners of the Alchevsk Metalworks did the same and registered their firm in Siverodonetsk. The status quo after almost three years of war might look comical, if it were not for the underlying tragedy. Enterprises which are working virtually in occupation, but are nominally registered on Ukraine-held territories, duly pay taxes to the state.

According to the SBU, in 2016 they paid more than 31bn UAH, of which 777,445,908.57 was the military tax providing for the needs of the Ukrainian Army. Moreover, Energy and Coal Minister Ihor Nasalyk says that 50,000 mine-workers from the occupied region are legally employed on Kyiv-controlled territories, where they also receive their wages. These have paid 1.9bn UAH in taxes.

Meanwhile Ukraine's government has failed to introduce transparent rules in the matter of trade with the occupied regions. The "smuggling in Donbas," which has become a staple item in the news, does not in fact break any laws. Instead the only ones who are effectively punished for contraband are the ordinary inhabitants of the occupied regions who smuggle relatively small amounts of food.

"When I worked in Luhansk oblast, I had trouble explaining why a person may not carry 100 kg of cheese in the boot of his car, while border guards detained a freight car with electronic devices and all the necessary papers on the way to the occupied territories. I could not fathom it. Nor could I understand how to explain this to the border guards, from whom I demanded compliance with the restrictive orders. They did not understand it either. Because there is not a grain of logic to it," said the former head of the Luhansk Oblast State Administration Heorhiy Tuka in his interview





to *The Ukrainian Week* in September 2016 (see in **Is.10 (104) of October 2016 at ukrainianweek.com**).

Coal has become the addictive injection which captured the Ukrainian government giving it an argument against the blockade of the occupied territory to throw in the face of the voters. The country has 12 co-generation stations or thermal electro stations (TESSs) running exclusively on high grade anthracites which are not mined on the Ukraine-controlled territory. The electricity produced by those TESSs is not only consumed by industry, it is also used to light and warm homes. According to minister Nasalyk, Ukraine is working on the diversification of supplies and re-equipment of the facilities so they can use other fuels. In particular, a pilot project is already launched at the Zmiivska TES. However, over these three years the government has failed to fully cover the country's need in energy without anthracite.

"Should the ATO zone be totally cut off, we will have to resort to rolling blackouts. There will be a certain adaptation period. We have developed a schedule. The current supplies are sufficient to last roughly through the end of March," said the minister. He added that the shipping time to get anthracites from Australia, South Africa, China, or the US (the countries producing this type of coal) would be 50 to 55 days. This should be the period when rolling blackouts would be applied. Most TESSs in Ukraine are private property. Nasalyk claims that the government negotiated with the owners, but to no avail.

"It is very hard to force a private owner into doing things. Besides, it involves significant costs. If the reconstruction of the Zmiivska TES cost us 240m UAH, the bill for re-equipping Block 7 at the Sloviansk TES will stand at 500m UAH or even higher. The majority of owners insisted on reconstruction costs to be incorporated in energy prices, so that they might compensate the costs. But there is no room to raise the prices any further," said he at a press conference on 7 February. Out of the 12 TESSs running on anthracite

only three belong to Akhmetov's holding: the Luhansk TES in Shchastia and two in Kryvyi Rih and Dnipro. Yet there is solid evidence that they consume the most anthracite imported from the occupied territories. In March 2016 the Ukrainian Cyber Army, a hacker group, reported hacking into mailboxes of the so-called transport ministries of the self-proclaimed Donetsk and Luhansk "People's Republics" (in fact, the facilities of the Donetsk Railways on the occupied territories). According to their data, most coal containers from the occupied territories went to those particular TESSs: 2,203 freight cars (132,000 ton) to Shchastia and 4,452 cars (267,000 ton) to the facilities of the DTEK Dnipropetrovsk (which includes the TESSs in Kryvyi Rih and Dnipro). That very month coal was also shipped to six more TESSs, but the total of only 3,741 freight cars is almost the half of what was shipped to Akhmetov's three facilities.

A self-fulfilling prophecy here is that not only big investment costs, but the structure of the business hinder the re-equipment of energy-producing facilities. For Akhmetov, tycoon and owner of TESSs, giving up anthracite would mean giving up his own profits. In the meantime coal production on the occupied territory grew considerably over 2016: DTEK Rovenky Anthracite increased anthracite production by 43% last year, up to 2.2m ton, and DTEK Sverdlov Anthracite by 30%, up to 2.3m ton. Even three years after the change of government Ukraine's richest business owner still holds sway over politics in the country. His business is virtually adapted to the current "neither war nor peace" situation. Regardless of personalities, any tycoon's money loves silence and once adapted, a business is least interested in serious change. Since the stabilization of the division line in Donbas, stable financial flows and commercial routes have come into being. Changing this would be probably the trickiest task for Ukraine's government, if the de-occupation of Donbas is really a priority. Since the Minsk Accords were signed, more than 400 civilians and 500 troops have been killed there. ■



# Andriy Parubiy:

«E-declarations should seriously kill the desire to run for the Rada in many folks»

Interviewed by  
Roman Malko

**T**he Speaker of the Verkhovna Rada on the main contradictions and temptations of Ukrainian politics, the major ideological camps in the legislature, the war, lobbying, and geopolitics

**It's been three years since the Maidan. How much of what you imagined at that time has actually come to pass in Ukraine politically?**

— You can look at the Maidan from a number of different angles. Some say that, wow, the dollar used to cost UAH 8 and now it's UAH 28, others say that Ukraine covered a specific territory and now part of it is occupied, and they ask what the purpose was. For me, the point-of-view hasn't changed from what it was on the Maidan and what it is now, and it covers a much larger timeline than just three years. Today, we mark 100 years since the formation of the Ukrainian National Republic. As a patriot and historian, this is the angle from which I look at everything. This war has been going on for 100 years. The Maidan,

the ATO and current events are merely stages of that war. If we look at it in greater detail, we can see many analogies between that time and today. And if we compare them, it is a lot easier to give a correct assessment of what's going on today. I want to remind people that the first volunteer soldiers were in 1914. WWI had just started and the Austrian army allowed the first Ukrainian divisions to be formed. Thousands of our best, all our elite that was raised in Plast, Sich and Sokil (various scouting and patriotic organizations for young people. **Ed.**), all of them joined as volunteers. One hundred years later, this same volunteer movement appears, those same people who have determined the course of this war.

In the midst of the World War, an opportunity appeared to establish a Ukrainian state. One hundred years ago, when the Ukrainian National Republic was declared in Kyiv, a bolshevik government was formed in Kharkiv and it invited the Russian army to Ukraine. Where did Yanukovich go after the Maidan? To an assembly in



Kharkiv. And Russian Federation forces were invited to enter Ukraine. For 100 years, we see the same scenario, the same enemy, the same empire. It may have had different names—Tsarist Russia, USSR or the Russian Federation—but it's the same essential empire. And its aim with Ukraine has not changed either: complete subordination to the empire.

The reason for the Maidan was not only protesting against the reneging on the agreement with the EU. It was far deeper than that. It was a mass public action that made it impossible to join the Customs Union with Russia, a *de facto* new colonial entity. The failure to sign the Association Agreement with the EU meant that in a very short time, Ukraine, just like Belarus, would have become an appendage of the Russian Federation. And so for me, both the Maidan and the ATO are elements of that same nation-liberating struggle for statehood. The lessons of 1917-1919 are key and provide an answer to the question: Why did we fail to maintain Ukrainian statehood at that time and how to prevent the same mistake from happening again today?



**THE REASON FOR THE MAIDAN WAS NOT ONLY PROTESTING AGAINST THE RENEGING ON THE AGREEMENT WITH THE EU. IT WAS A MASS PUBLIC ACTION THAT MADE IT IMPOSSIBLE TO JOIN THE CUSTOMS UNION WITH RUSSIA, A DE FACTO NEW COLONIAL ENTITY**

The main issue was the confrontation among Ukrainian leaders. So the first lesson is not to allow for confrontation among the political leadership. In contrast to our predecessors, we were able, even without an army or special forces, to rebuild ourselves, to contain the aggression and, above all, to counterattack and liberate a significant part of the occupied territories. And now we are strengthening our positions, step by step. That has been our successful effort. The occupant did not make it to Kyiv, even though his tanks stood very close at one point—just outside Chernihiv.

The second lesson is the army. A century ago, Ukrainians were unable to organize one at a high enough level. Bolshevik propaganda demoralized complete units. In our time, volunteers formed the ideological foundation at the front and thus our army was completely rebuilt on a new basis during the course of this war. Today, most of the combat brigades are almost entirely new people who have gone through battle. The military elite has all been changed, as has the military ideology. Today, without any exaggeration, we have one of the strongest armies in Europe, one that is battle-hardened and knows modern tactics, and this experience is now being adopted by NATO soldiers.

The third lesson is international support. A hundred years ago, we were losing completely on that front. The international community was not on Ukraine's side. We were unable to persuade

them of our view. Today, the civilized world has united around Ukraine. Who would have believed it when all the EU members voted for sanctions? Ukraine has managed to achieve this much. Step by step, sanctions against Russia keep being extended, although we were told that this would not happen any more.

These are the key factors that explain why we failed 100 years ago. Today, we've learned from those mistakes and have held on to statehood. We didn't allow Putin to carry out his aggressive plans. This is the only vantage point from which I look at the events today—and at what needs to be done.

Some say a state is a mere formality. I'd like to remind them: because Ukraine lost its statehood 100 years ago, we had the Holodomor in which millions of Ukrainians died. Statehood is not a formal illusion. It means the security of every citizen and the protection of all Ukrainians.

**How much does the current make-up of the Rada, which was elected six months after the Maidan, reflect the confrontation with Russia's armed aggression and the mood among Ukrainians?**

For the last 25 years, there have been two camps in the legislature that confronted each other: pro-Ukrainian and pro-Russian, to one extent or another. Initially, the pro-Ukrainian camp was small: Narodna Rada included all of 150 people. After the Orange Revolution, the two camps became almost equal. That's probably when the first battle in this war took place: the Kharkiv agreements, when the pro-Russian camp didn't have the necessary votes and had to resort to paying titushky. Symbolically, this was a key turning point: they were wearing their orange-and-black imperial ribbons, while we wore blue-and-yellow ones.

**You were about the only one fighting...**

Yes, that was my first fight in this war. And I'm very sorry that we were unable to stop them then. Today there are more than 300 deputies in the Ukrainian legislature who, to greater and lesser degrees—that's a matter of some discussion—believe in pro-Ukrainian, pro-European principles. And this is the line along which the Rada divides, not into coalition/opposition. That's why they vote on all matters of security, eurointegration and the fight against corruption regardless of whether they belong to the coalition or not.

So, does the Verkhovna Rada reflect Ukrainian society? Conceptually, yes. It reflects the general mood today.

Ratings are often a matter of debate, because parties in power will always be in the negative there. Somehow, reforms have to be undertaken across the board, but many of them are highly unpopular. Poland, Czechia and Slovakia went through reforms that generally covered the same territory as ours: increasing prices for natural gas and other utilities and raising the retirement age back in the 1990s. Unfortunately, we have to take these same unpopular steps right now. Of course, »

they will never give those in power a boost in the ratings. Of course, plenty of mistakes get made, especially in terms of who is hired.

Meanwhile, many of the old schemes are still very much in place. Are we fighting against them? Yes. We legally got rid of one oligarch's monopoly over petroleum, another one's monopoly over natural gas, a third one's over electricity. We've set up anti-corruption agencies that are working to eliminate these old scams. We've established mechanisms and organizations that can do the job. We've been able to move to that level where it's now possible to double the minimum wage. I think we've bottomed out and trends should all be towards recovery now. Ukraine's economy was on the verge of default at one point and now it's growing again. Sure, it's not happening as fast as we'd like. But what other country has been at war and managed to recover its economy while most of its public spending was going to the defense sector?

**What are the main political trends in the Rada now—not meaning factions, but actual political and ideological currents that might be represented in different factions? To what extent is Ukraine's legislature just a club lobbying business and foreign interests, especially Russia's?**

My response continues from the previous ones. For 25 years now, Ukraine has had to deal with two diametrically opposed forces, including in its legislature: the pro-Ukrainian and the pro-Russian. This is a clash of civilizations and worldviews. From the Rukh movement to Nasha Ukraina, which brought everybody together. People joined forces to stop Russian influence that kept undermining us through the other camp. This has left Ukraine politically amorphous to this day. Perhaps this was the only possibility, given that the country was going through a nation-liberating struggle. If Poland, France, Italy or Germany can afford to discuss raising and cutting taxes or healthcare reform without also being enmeshed in discussions about the country's very existence, we are only now getting close to that stage when we no longer swing but have 300 solid votes.

In the next Rada, there may well be more of those for whom domestic and foreign policy issues are identical: NATO, the EU, a Ukrainian state, and a Ukrainian identity. In this sense, I think, we also saw a break in the evolution of political culture and political structuring. Most of the current political forces are more easily identifiable as belonging to a camp than to an ideology.

Does the Rada include members who clearly represent oligarchs? Yes, it does. The old schemes are still there. Are there members who are oriented towards Russia? Yes. But this same Rada passed legislation cutting off the monopolist oligarchs. This gives us reason to believe that, while their influence may not be insignificant, it's nothing like it was prior to the Maidan. All the anti-corruption legislation was passed by the current Rada, by the current pro-Ukrainian, pro-European majority. Some influence remains

from the other camp, but they no longer have a decisive impact on key policy decisions.

Obviously, political structuring will take place. If nothing else, we have to recognize that the EU itself is going through a difficult period now, where conservative approaches are gaining in popularity, and this clearly has an impact on Ukraine.

**What kind of preventions do you see against business influencing the government? How might the influence of financial-industrial groups be eliminated? What do you know about the political and ideological views of these FIGs? Or are they strictly business?**

There clearly are Russian businessmen who are trying to leverage the situation in Ukraine economically. They represent the aggressor and are trying to monopolize certain sectors and to work towards Russia's objectives through business. Many others are indifferent: for them it's all just business. And of course, there are those who have taken a stance on the side of Ukraine. Largely because their business interests are here, they understand that the continuing existence of the Ukrainian state is a guarantee of their success. All the more that they have seen what happens to Russian oligarchs who felt the long arm of the Kremlin even in London. But generally speaking, clearly most business operates according to the Laws of Manu and financial interests will be the key determinant.

To separate business from politics, we need a slew of measures. Deputies don't come from the moon, they're elected. The political culture of a society is an important element. When people complain, "Gee, so many of you guys in power are oligarchs," but then the oligarch goes to his constituency and hands out UAH 200 before the election and another UAH 200 after if he's elected to the legislature, hello? How did he get there anyway? This whole issue is complicated. I participated in many election campaigns and saw some real horrors: people standing in line to get that money, not seeing any cause-and-effect relationship, not wanting to understand that a lot more will later be stolen from their pockets.

Another issue is legislation. E-declarations are a serious blow that should kill the desire to run for the Rada in many folks. I know quite a few who are saying that this kind of public strip show doesn't interest them any more. But more importantly, the role of the oligarchs in Ukraine should be diminished, thanks to combined efforts. I mentioned the example of their being cut off from monopolizing the market, which gave them enormous profits. A proper oligarch in Ukraine should have some kind of representation in the Rada, enormous financial resources and his own television channel. And of course own a football team as a sign of his prestige. Every anti-oligarch move of ours went through a perfect storm of attacks against those who initiated them, especially in the press. Where are those super profits from? From corrupt schemes. And



cutting them off from these means turning them into simply “business owners” or “entrepreneurs”. There won’t be any more windfall profits from all this corrupt skimming and kickbacks, there won’t be the money to pay for television channels, football clubs or political teams. By stripping and bringing down the old schemes, we can build up transparent relations across the economy—and that’s how you change the system.

**What real influence does the Speaker have on the way the Rada works, or do you become hostage to all kinds of games while the real decisions are made outside the walls of the session hall?**

Of course, policy is made in the legislature, sometimes accompanied by really aggressive debate. To get very different groups to come together around various issues is important and difficult—and takes a lot of effort. If you’re asking what this involves, then it’s a matter of communication and persuasion. You can’t simply break people. Forcing the session hall is impossible. If there aren’t enough votes, then they just aren’t there. The only thing that’s possible, and I’ve done it more than once, is to declare a five-minute recess and ask the faction chairs to get all the deputies who might be in committee or in the cafeteria or at an interview back in the hall. When I see that there are only 222 members sitting, I know that there are people who support the proposed policy but they simply aren’t present and the only way to deal with this is to invite them. Once they are there, we can return to the vote.

Needless to say, when putting together the agenda and including issues to vote on, I determine the prerogatives and consult about them. I think that when we bring packages of bills for debate, the efficiency and depth of the legislature’s work improves considerably. This is one of the many important parliamentary reforms that make it possible for me to identify prerogatives and specific directions that could, in my opinion, be a priority. It’s all about negotiation and persuasion.

Of course, there are issues that I personally consider important and I don’t hide that. For me this is security and defense. And yes, I bring them up for a vote several times and return to them because this is the basis for the Ukrainian state to exist and survive. Some accuse me of violating the VR Regulations, but this is nonsense. There is no prohibition in the Regulations on repeating a vote. It’s a regular standard. As is a show of hands to see what the support for a proposition might be. There is a rule and it does not state how many times this can be done.

The other fundamental area for me is decommunization. I remember the day we passed the last legislative act on Kropyvnytskyi (formerly Kirovohrad. **Ed.**). I understand that we are mortal, we come and go, but this reform is aimed against the psychological and mental crippling that happens when people are born and raised in a town named after a butcher who killed their grandparents, and will likely last for a century. It’s very hard to build a Ukrainian state living in

a city named after Kirov on a street named after Lenin and to also volunteer to go to the front.

The other issue is songs on the radio and Ukrainian-language books. I have been working on this very deliberately and organized meetings to come up with a policy. It’s not a question of forcing something through: this is a long preparatory process and consensus-building. With the radio quotas, we have already held more than half a dozen very intense consultations.

One more critical issue was a letter to the Ecumenical Patriarch Bartholomew about a Ukrainian national church. I didn’t know how this might work, so I got together all the heads of the pro-European, pro-Ukrainian factions, invited Patriarch Filaret to join us, and said: “Please bless us.” He blessed us and in the morning I went, not knowing what the Rada’s decision might be. I was really worried, because a negative response would have had a very bad impact. But everything went nicely. This was extremely important for me.

**How realistic is it, in your opinion, that a new electoral law will be adopted so that the 2019 election really takes place based on new, fairer rules?**

The working group I set up when I became Speaker has held many meetings where we reviewed all the available bills to change electoral legislation. My position is clear. My signature is on the first one under the Electoral Code that calls for changes to the electoral system, both for

**IF POLAND, FRANCE, ITALY OR GERMANY CAN AFFORD TO DISCUSS TAXES OR HEALTHCARE REFORM WITHOUT BEING ENMIRENED IN DISCUSSIONS ABOUT THE COUNTRY’S EXISTENCE, WE ARE ONLY NOW GETTING CLOSE TO THAT STAGE**

the Verkhovna Rada and local councils: instituting open lists with regional ridings. This means that in every riding people will be voting, not just for a political party but also for a specific representative. Each party has to present not just a single nominee but also a list of them and voters get to choose which individual deputy they’d like to see elected. Whoever gets more votes moves up in the list.

Right now, this is all just at the level of discussions. Some parties think that elections should be based simply on open lists or on proportional voting. But half the people in the Rada today were elected in the FPTP system. They have their own ridings and they know this guarantees that they will be elected, so they will never support a purely proportional model. Well, in fact, some of them do support such a system. I think the current proportional system with closed lists, combined with FPTP seats where we can really see financial power at work is bad. Are there enough votes today to change it? Not at the moment. The debate continues. The group addressed all the factions with a proposition that they submit their

own conclusions about not just one but three bills to see which one gets the most support. So far, not all factions have responded.

**Why is it that Ukrainian politicians refuse to call this war that has been storming for three years now a war, but keep coming up with all kinds of nice-sounding excuses?**

Declaring a state of war will put the country in a completely different regime where many of the human rights and freedoms in the Constitution will be restricted and military administrations are supposed to take over in the regions. This means a change in the very philosophy of running the country. And let's not even discuss whether all the commanders have the necessary experience to head administrations that are responsible for governing and making social policy in the regions.

Plus, you might say that historically this has happened and it doesn't get in the way of engaging in military action right now. You know that I initially favored declaring a state of war when I was secretary of the NSC. I raised the issue especially when the conflict was at its most intense. Today, this isn't even on the agenda. Such a declaration won't offer the Ukrainian Armed Forces any more options, while it could cut short a slew of processes that are allowing us to carry out reforms in the country, including electoral reform. If we declare a state of war, there won't be any elections at all—presidential, parliamentary or local.

**What are the most pressing tasks facing Ukraine's state-building forces?**

To hold on. Not to waver. This is the challenge that we faced on the Maidan and in the ATO. Strange as it may seem, it remains the main challenge today, too. Who could have foretold how the Revolution of Dignity would end or how the ATO would unfold? Would they invade through Chernihiv or not? Our main task was to hold on. To stand on the barricades and hold the perimeter. Just like now. Of course, international cooperation is extremely important, as are reforming the country, establishing an army and growing the economy. What's more, we have to do this all simultaneously: defend the country, develop it and make a modern European state with high standards. This is extremely difficult when you are under attack, but this is our goal and we are moving towards it.

This year's budget is already a growth budget. We've been able to increase spending on the security sector, on wages and on road-building. This shows that the economy has shifted into growth again. Of course, it's important to set priorities and this is what we are now planning and discussing. Agriculture, aviation, the military-defense complex, IT, and infrastructure.

The issue of regional cooperation is very important for Ukraine, so I'm also focusing on: cooperating in the Baltic-Black Sea Union and in the Adriatic-Baltic-Black Sea Initiative. This year, I'm supposed to visit Lithuania, Poland, Croatia

and Romania, to a number of interparliamentary platforms for dialog, including on this theme. I think that, for Ukraine it's critical to have close relations in these regions. We have every chance of becoming a regional leader in time.

**How likely will these somehow be confirmed in the nearest future?**

There are a variety of options. Scandinavia does it at the parliamentary level. We have the Europe-Carpathians platform where discussion is about common infrastructure throughout the Carpathian region, the way it was done in the Alps after WWII, when the countries in the regions put together a joint infrastructure project. Then there's the Visegrad Four, which is playing an active role. We shouldn't make a mistake with the formats, so everything has to be carefully thought through, thoroughly discussed and agreed before coming up with a specific decision. But I think that interparliamentary cooperation such as Northern Europe has is a quite acceptable alternative and appropriate for our region. This could be in the form of an interparliamentary assembly.

**What red lines do you see in the current political process that your state-building forces will not cross: a snap Rada election? an early presidential race? or changes to the Constitution?**

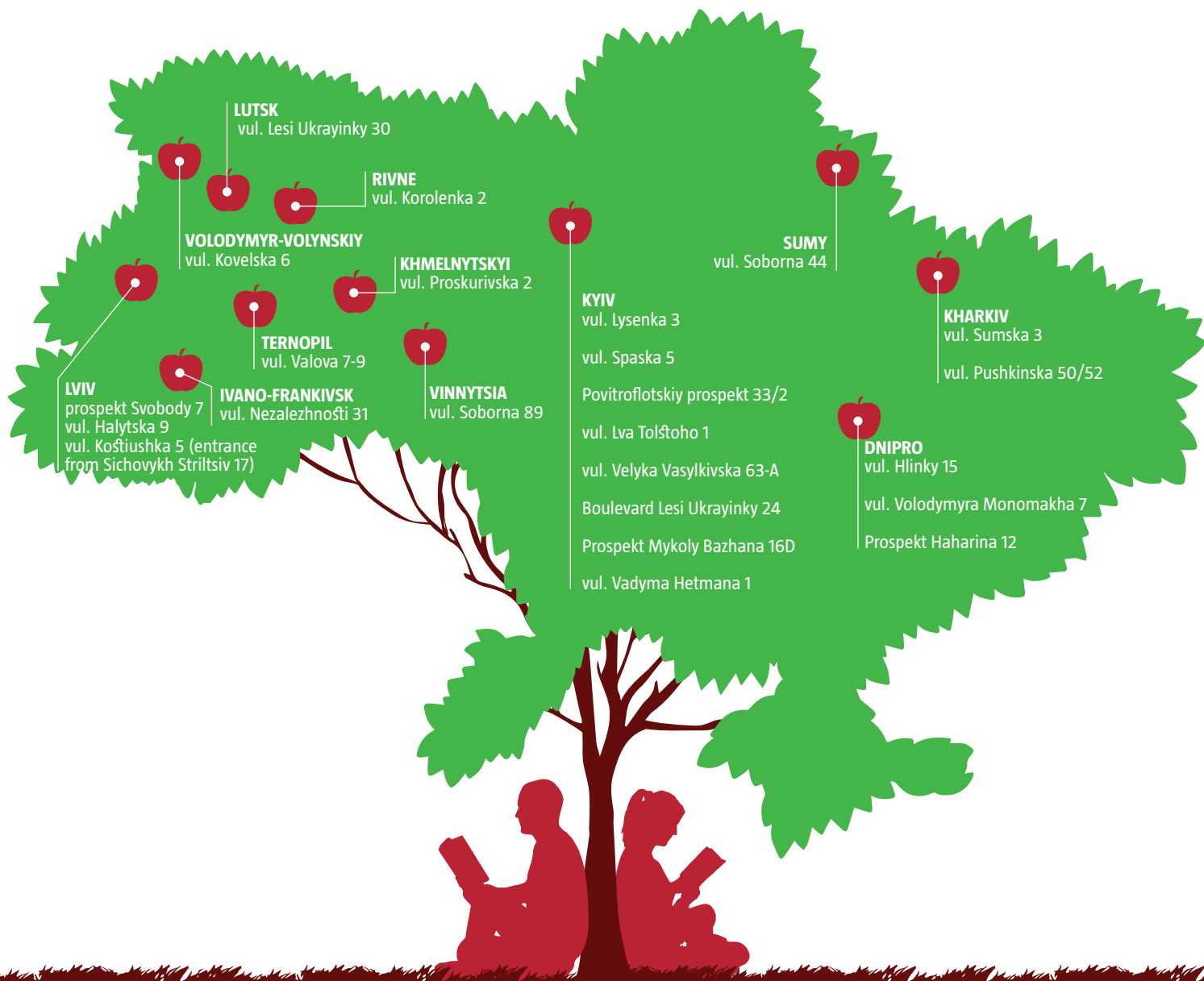
Snap elections would be used as a mechanism to destabilize the country. We have more than enough examples of that, such as Moldova. They were in a similar situation, with a confrontation between pro-Russian and pro-European forces going on for years. Finally, the pro-Europeans gained a slight majority, and then it began. Scandals, demonstrations, and demands for a snap election. What's more, two of the three opposition leaders made no bones about the fact that they were travelling and reporting to the Kremlin. With the pre-term campaign, came a crisis, the IMF decided not to issue its regular tranche, and then came a presidential election in which the openly pro-Russian candidate won.

We all understand that Putin has no need of the slice of Donetsk or Luhansk Oblast that he has today. Russia's plans today, just like 100 years ago, are to control all of Ukraine. He can already see that getting to his goal militarily is not as easy as it was a century ago, and so he is using other means to destabilize and change the government in Ukraine to one that is loyal to him. For an early election to lead to a so-called 'coalition of unity' that says, "We have to stitch the country together and that means rejecting NATO and the EU and declaring neutrality. As though there were no other options for unifying Ukraine. I understand that this plan is already out there, to say nothing of the memos I've been able to read. I think we have to do everything to prevent this concept from taking root, knowing how important this is for the defense of our state. This is the equivalent of preventing the bolshevik insurgency in Kyiv 100 years ago. ■





B O O K S T O R E S



**LUTSK**  
vul. Lesi Ukrayinky 30

**RIVNE**  
vul. Korolenka 2

**VOLODYMYR-VOLYNSKIY**  
vul. Kovelska 6

**KHMELNYTSKYI**  
vul. Proskurivska 2

**SUMY**  
vul. Soborna 44

**KHARKIV**  
vul. Sumska 3  
vul. Pushkinska 50/52

**TERNOPIL**  
vul. Valova 7-9

**VINNYTSIA**  
vul. Soborna 89

**LVIV**  
prospekt Svobody 7  
vul. Halytska 9  
vul. Kościushka 5 (entrance  
from Sichovykh Striltsiv 17)

**IVANO-FRANKIVSK**  
vul. Nezalezhnosti 31

**KYIV**  
vul. Lysenka 3  
vul. Spaska 5  
Povitroflotskiy prospekt 33/2  
vul. Lva Tolstoho 1  
vul. Velyka Vasylkivska 63-A  
Boulevard Lesi Ukrayinky 24  
Prospekt Mykoly Bazhana 16D  
vul. Vadyma Hetmana 1

**DNIPRO**  
vul. Hlinky 15  
vul. Volodymyra Monomakha 7  
Prospekt Haharina 12

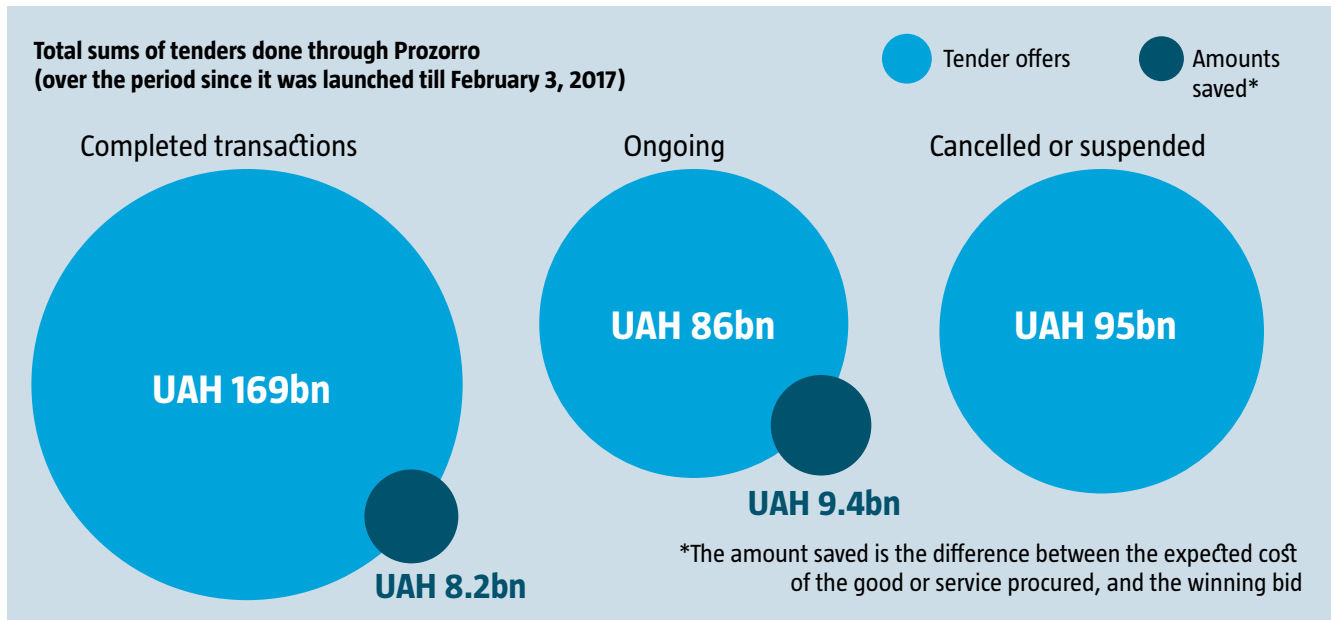
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# From transparency to control

Andriy Holub

The benefits and flaws of Prozorro public procurement system in action



In December 2015, the Verkhovna Rada adopted the Law On Public Procurement. The bill made the use of Prozorro system mandatory for purchases by government entities. The connection to the system was implemented in two stages: central executive bodies and large state-owned enterprises were integrated starting April 1, 2016, and all government buyers starting August 1.

These rules apply to the contracts that exceed a certain threshold: UAH 200,000 (ar. USD 7,300) for goods and services, or UAH 1.5mn (ar. USD 55,000) for works. Contracts that are below these amounts can be taken through Prozorro on a voluntary basis.

The data disclosed by Prozorro is virtually unlimited. In fact, making the public procurement data available to each and every citizen of Ukraine was the goal of developing the system.

Technically, Prozorro is a centralized database connected to electronic trading platforms. Businesses that intend to bid in tenders can register with any of the authorized e-procurement services. By now, authorization agreements have been made with 18 such platforms. Any information provided by these platforms

on tenders, procurement procedures and contracts awarded is also recorded and stored in Prozorro. This allows everyone to see it free of charge and without authorization. The design of the system did not cost anything for the state: web hosting and IT development were financed by international donors. Besides, Prozorro State Enterprise claims that the company is now self-financing, and promises to publish financial statements in February.

Absolutely accurate information on how much various government agencies, enterprises and institutions spend on goods, services and works is not available. It is equally difficult to estimate the ratio of contracts that are below and above the Prozorro-determined threshold. What is known is that the public sector is the largest buyer in Ukraine. According to the data provided on the Ministry of Economy website, annual public procurements amounted to UAH 250bn (ar. USD 9mn) in 2014 and 2015. The contracts that exceeded the threshold amounted to UAH 192bn.

However, the data provided by the Prozorro system suggest that these figures are lower than the actual contract amounts. In the period since August 2016, when the system be-



came mandatory for all government buyers, it features bids for the total declared value of UAH 278,38bn. The contracts worth UAH 78bn were declared unsuccessful. This means that the suppliers or contractors that qualified could not be found.

Prozorro's information is valuable in non-monetary terms, as well. According to the Ministry of Economy, there were 15,000 public procurers in Ukraine as of 2015. At the same time, the number of trade organizations (legal entities) registered in the system that completed at least one procurement procedure as of the end of January 2017 is over 22,000.

"People pay a lot of attention to Prozorro, to the electronic system itself, and believe that

only criterion for a qualified choice of a supplier or a subcontractor. The lower the price, the poorer the quality, the reasoning behind this goes.

More compelling criticism can be heard from the business. In December 2016, experts of Deloitte Ukraine, an auditor, presented the results of their study of corruption in the field of infrastructure based on anonymous interviews with the players of the transportation market. The most common complaints of the businessmen were compiled into 18 sections. Four referred specifically to the operation of Prozorro. These include: corrupt schemes in the selection of suppliers; manipulations with contract conditions; problems in the monitoring of tender implementation; and conspiracy of the bidders.

In addition to corruption in the field of public procurement, there is another problem that is typical for Ukraine: the competence of government employees. There are about 25,000 tender committees in Ukraine, employing up to 200,000 people. At large state-owned enterprises, professionals deal with the tender processes. Meanwhile, committees at a lower level might include people who are not experts in the field. Often, such employees just do not know how to write a specification for a product they seek to purchase. Unscrupulous suppliers take advantage of this to sell goods of poor quality.

Public procurement reformers speak openly about these problems too. To address the issue, Prozorro team has set up a library of standard specifications for the most popular products. It is being constantly updated. Most purchases in Ukraine are fuel and lubricants, foodstuffs and various household goods. If potatoes need to be purchased for a school cafeteria, the buyer has to simply copy a detailed description of the product from the library and paste it into his or her post. According to the developers of the system, standard specifications will help reduce the risk of such cafeteria getting rotten potatoes at a lower price.

It is more difficult to resolve the issues related to situations where various players conspire to get the outcome one of them seeks. It is impossible to fully automate the procurement process. For example, an unscrupulous buyer needs paperclips and plans to buy them from a particular supplier through a non-competitive procedure. He will know in advance that only this specific provider has pink paperclips, and will accordingly specify in tender documents that he needs only "pink paperclips."

"This approach sets a precedent. Today this may be "pink" paperclips, tomorrow it will be paperclips "with three bends", and the next day paperclips made of "superhard metals." There are thousands ways to specify it in the documentation," explains Prozorro's project management consultant Serhiy Potapov. ■

**THE MOST COMMON COMPLAINTS OF THE BUSINESSES ABOUT PUBLIC PROCUREMENTS UNDER THE NEW SYSTEM INCLUDE CORRUPT SCHEMES IN THE SELECTION OF SUPPLIERS, MANIPULATIONS WITH CONTRACT CONDITIONS, PROBLEMS IN THE MONITORING OF TENDER IMPLEMENTATION, AND CONSPIRACY OF THE BIDDERS**

this is the only and the main reform component. Yes, this is important. However, they often overlook the other components of the reform, which are as many as fourteen. Prozorro is just one of them, but all these components work as a whole. This is not a magical solution that can turn a corrupt official into an angel," Maksym Nefyodov, Deputy Minister of Economy and one of the masterminds behind the public procurement reform, said in January 2017.

The operation of Prozorro indeed does not lack spotlight. Media provided the coverage of all stages of the system's launch, quoting it as a model of successful reforms in Ukraine. However, media support also had another side: the society at large perceived the launch of Prozorro as the final solution to the problem of corruption in public procurement. When the long awaited victory over corruption did not happen, the system faced criticism on many levels.

Some critics of Prozorro claim that it has not changed anything. At the end of January, an event dedicated to Prozorro's operation and development was held in Kyiv. After a short presentation, the audience was given the opportunity to ask questions to the invited representatives of the team that created and launched the system. The first remark from the audience was the following: "I come from a village near Kyiv. We have always known that the head of the village council makes deals with his crony. Now everything is as it was before, he keeps working with the same company. The system itself is complex and obscure." Another popular thesis is that price cannot be the

"There was a case with the purchase of salt. The word "salt" was misspelt in the specifications. It is clear that only a specific vendor could find this tender using the search function," adds Oleksiy Mykhaylychenko, Head of Export Promotion at the Ministry of Economy.

In such circumstances, public control and the development of a competitive environment are of major importance. Market participants can challenge a purchase that has elements of corruption. The authority to appeal procurement procedures is the Antimonopoly Committee (AMC). But that one has a catch as well. While appealing against purchases below the threshold is free of charge, complaining about those above the threshold costs UAH 5,000 (ar. USD 180) for goods and services, and UAH 15,000 (ar. USD 550) for works.



## **IN ADDITION TO CORRUPTION IN THE FIELD OF PUBLIC PROCUREMENT, THERE IS ANOTHER PROBLEM THAT IS TYPICAL FOR UKRAINE: THE COMPETENCE OF GOVERNMENT EMPLOYEES**

The appeal fee was introduced by the Law On Public Procurement. Proponents of the idea argue that since the procurement procedure is suspended pending the AMC decision, a fee is required to make sure that complaints are not used massively and arbitrarily to block the procedure. The critics of fees argue that this squeezes SMEs which have limited financial resources and leaves them out of the system.

"Prozorro's goal is to provide anyone willing to buy something, as well as anyone else, with access to information, and to make the process of public procurement transparent. However, all of this makes no sense without civil society. Any reform in general makes no sense without it," says Potapov when he talks about the next steps of the reformers.

To engage large numbers of citizens in controlling the procurement process, dozorro.org.ua website, or just Dozorro, was created.

"In the long term, the project's goal is to gather regional activists and NGOs that already work in the area of procurement monitoring, and give them a convenient tool directly integrated with the Prozorro procurement database. In other words, it's about automating the monitoring process," says Viktor Nestulya, Program Director for Innovative Projects at Transparency International Ukraine, which created and administers Dozorro.

"We have now launched a MVP (Minimal Viable Product for testing ideas – Ed.) that can collect complaints directly through the portal. We're working on developing and expanding separate functionality for customers and community activists," Nestulya adds.

The portal provides detailed information on submitting appeals and complaints to various law enforcement and regulatory authorities, as well as appeal templates. Besides, a user can just leave a notification of a tender with possible violations which lawyers who work for Transparency International will check. According to Nestulya, extended functionality for customers will be available already at the end of February, and functionality for community activists in March.

The new features will allow a public entity that places a tender to respond to complaints filed through Dozorro directly via the portal or the platform used to access Prozorro. At the same time, activists or NGOs will be able to post information about specific tenders and typical violations, as well as upload the data or copies of letters sent to regulatory authorities and the replies received.

"It will be structured. If an activist finds a violation, such as an ungrounded disqualification or overpricing, there will be a special field that he can check, and later this information can be analyzed by a computer," Nestulya comments.

As of the beginning of February, 429 suspicious tenders with the declared worth of over UAH 4bn (ar. USD 146mn) have been reported through Dozorro. The purchases monitored through the portal include rather infamous ones, such as the purchase of Mitsubishi electric cars for the National Police and the tender to supply GPS systems for electric transport in Lutsk. The latter has been announced several times.

"After we sent the complaints, the purchase was canceled, the contract had not been awarded yet. However, the customer announced a similar purchase again. This particular purchase undergoes a separate check every time," Nestulya said.

Transparency International recommends users to rely on own resources to the maximum and to learn to use tools available for appealing independently. They explain that when Dozorro is integrated with e-commerce platforms, the number of responses will increase dramatically, and lawyers will not be able to check all complaints. In the long run, the information collected through the portal will allow the operators to rank customers and suppliers, as well as develop a set of risk indicators for easier monitoring of potentially corrupt procedures.

Prozorro projects are based on the culture of measuring and informing. Ever since the system was launched, the state has managed to save about UAH 17bn on public procurements. The other side of the reform success, i.e. the change in attitudes of all stakeholders (including citizens, businesses and customers) to the procurement procedure, will be harder to measure. ■



# Progress against the punters

Oleksandr Kramar

Why banking and lending don't go together with populism

**T**he large number of domestic banks that have been taken off the market by the National Bank of Ukraine in the last few years is creeping up to 100: 33 financial institutions were declared insolvent in 2014, another 33 in 2015, and 21 in 2016, and the process continues. As of January 1, 2017, the Deposit Guarantee Fund had already paid out a total of UAH 80.87 billion in cash to depositors from

these bankrupted banks, more than 80% of it out of the public purse.

The other source for infusing the banking system with cash to mitigate the impact of this crisis was a major refinancing campaign by the regulator. In 2014, the NBU gave out over UAH 222bn in credits. Although most of them were paid back, as of November 1, 2016, outstanding unpaid loans to 24 insolvent banks added up to



**Who's the victim?** The populism that fuels or props up public demands for state compensation of the deposits lost at risky banks, or a cheaper euro or dollar at any price, in fact worsens the overall economic situation in the entire country

PHOTO: UNIAN

a hefty UAH 55.9bn. Among solvent institutions, the nationalization of PrivatBank means that 90% of the extinguished refinancing now also falls to the public purse.

In addition to the refinancing in 2014, support for banks was provided through government bonds issued by the Finance Ministry to increase the statutory capital of Oschadny Bank by UAH 11.6bn and the State ExIm Bank by UAH 5.0bn. These were issued at the average annual exchange rate at the time of UAH 11.80/USD. In 2015, UAH 3.8bn was allocated to increase the statutory capital of UkrGazBank. The recent nationalization of PrivatBank will cost the state an additional UAH 148bn according to MinFin.

Overall public spending for the not-yet-paid refinancing, support for the Deposit Guarantee Fund, and capital infusions into state and nationalized banks has amounted to at least UAH 300bn in taxpayer money over the last few years. This figure includes planned spending on PrivatBank that has not yet taken place. Just for comparison, this figure is comparable to the amount on personal deposits at all Ukrainian banks, which is currently a bit more than UAH 400bn.

However, in fact the scale is considerably larger because a large chunk of this money was spent at an exchange rate that was severalfold lower. Similarly, the already paid off refinancing was issued at a cheaper dollar rate but was repaid at a higher rate, one of the factors that has caused the depreciation of the hryvnia. Once again, the burden falls on Ukrainian taxpayers, regardless of whether they had money on deposit or a loan from a bank and what amount that was.

### POPULISTS AND PLAYERS, PUNTERS ALL

For many years, the banking and financing sector was a playing field for no-holds-barred operators and competing populist politicians. Of course, it should really be an environment where resources are accumulated to be used the most effectively based on responsibility both among lenders and borrowers. Only in this way can it change from being a slowly ticking time bomb and a national catastrophe-in-the-making into an instrument for sustainable economic growth.

The main participants in the political games steadily promoted mutually exclusive conditions: from limiting liability for lenders for not making payments to service their loans to returning deposits even to those depositors who expected high returns on their investments but categorically refused to take responsibility for their own high-risk actions.

In the end, Ukrainians, most of whom had nothing to do with any of this, ended up being engaged in the campaign of the state's unjustifiable generosity, which was the price for the speculative ratings of the populists. Moreover, most ordinary Ukrainians do not understand the direct link between their worsening standard of living—whether it's a falling hryvnia or ris-

ing prices—and widespread public and populist demands to limit the sale of property someone acquired on loans that have gone bad. Nor do many people understand the link between their worsening economic position and the rallies of “robbed depositors” in front of the NBU, demanding the Government to compensate for the loss of their deposits despite the fact that the money was often deposited with the banks offering high interest rates with little care for the security of such banks.

No less dangerous and popular propositions are making the rounds more recently, talking about a mechanism for expanding the volume of loans. This can be heard more and more frequently in political circles, supposedly as a panacea for jump-starting the economy. Experts, by contrast, point out that while commercial banks may have a surplus of cash on hand that could be used for lending, they lack creditworthy borrowers whom they can trust with their money. In addition, the legal guarantees protecting the rights of lenders are far from adequate, so there



**UNTIL RECENTLY, THE ENTIRE SYSTEM WAS OPERATING UPSIDE-DOWN. IN ITS CHASE FOR THE MIDDLEMAN'S PROFITS, BANK WORKERS AND MANAGERS TRIED AT ALL COSTS TO PERSUADE PEOPLE TO BORROW, OFTEN CLOSING THEIR EYES TO THEIR OBVIOUS UNRELIABILITY**

is a risk that during the next crisis the problem will once again fall on the backs of taxpayers or ordinary folks, but in geometrically larger volumes.

The opinion that the domestic economy is being held back, among others, by the lack of substantial cheap credit in the real sector is quite valid. But what no one talks about is that their source can only be a generous emission of hryvnia by the central bank—which carries a heavy price, such as further devaluation—or savings based on the real earnings of ordinary Ukrainians. External borrowings are important and useful, but only as an added factor. Otherwise, the country once more becomes hostage to factors it has no control over and forex risks.

### SAVINGS AS THE SOURCE

So the most important non-inflationary resource for expanding credits is domestic savings. For loans to be issued at the lowest possible interest rate, there needs to be as much credit capital as possible. Unfortunately, the share of gross savings in Ukraine, and consequently of investments, is very low compared to countries that are developing rapidly. By contrast, in most of the eastern “tigers,” the high share of domestic savings provided an investment resource that spurred their growth.

A banking system is not simply a cheap resource for anyone who wants it. It has to first-



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ly be an instrument to motivate individuals to increase their savings and to be responsible about the way it invests them. Only then can it become a source of credit to support economic growth, with the side effect that financial institutions earn income as intermediaries. For this, the heart of the banking system has to be the individual who is accumulating investment resources.

Until recently, the entire system was operating upside-down. In its chase for the middleman's profits, bank workers and managers tried at all costs to persuade people to borrow, often closing their eyes to their obvious unreliability. What's more, they developed a dependence on injections of external credits to support this destructive habit. Meanwhile, the question of guaranteeing depositors their savings was completely shifted to the Deposit Guarantee Fund, whose own resources weren't close to being enough, and the state ended up paying for everything... meaning all the country's taxpayers.

Based on the interests of the society, expanding credit portfolios as a general rule makes sense only when the risks arising out of actions taken in the banking sector will be completely laid at the feet of those who were part of the process of issuing and getting loans. After all, they are the ones who stood to gain from this transaction. In short, these risks cannot be transferred for political reasons or because of protest rallies to those who had no relation to the loans or any benefit from them but will later be forced to compensate someone else's miscalculations. Until this basic condition is in place, trying to expand credit portfolios will only prove damaging and dangerous.

The system of state guarantees for deposits, which is intended to protect depositors when an insolvent bank is removed from the market and prevent a panic, works very idiosyncratically. For it to function properly, the key source of capital for the Deposit Guarantee Fund should be contributions from working financial institutions and resources from the sale of the assets of failed banks. In Ukraine, it's just the opposite: the lion's share is compensated by the state with taxpayer money, while the resources accumulated by the Deposit Guarantee Fund amount to only 10-20%.

## CHANGING, SLOWLY BUT SURELY

Given the critical situation that has taken over the country's banking sector in recent years, it's not the case that the state and the NBU haven't done anything to prevent future recurrences of the most extreme problems that made themselves felt during this last crisis. True, reactions were often post-factum and not preventive, which ended up costing Ukraine very dearly, but a slew of changes took place in recent years in the way that the financial sector was regulated and supervised. More detailed information about financial stability can be found in a num-

ber of NBU reports that are available on its official website. Only a few of the most important measures that have been initiated or carried out at this point will be mentioned here.

Among others, new rules were instituted to increase the transparency of the sector and to improve the regulation of solvent institutions. As of December 1, 2015, the National Bank of Ukraine required all banks to switch to international financial reporting standards (IFRS). The criteria for declaring a bank insolvent have been increased, especially if any evidence is found that they were drawing up or renewing contracts that could increase losses for the Deposit Guarantee Fund.

Overall public spending for the not-yet-paid refinancing, support for the Deposit Guarantee Fund, and capital infusions into state and nationalized banks has amounted to at least **UAH 300bn** in taxpayer money over the last few years

The NBU completed its diagnostic examination of most solvent banks that continue to operate on the domestic market. Only 39 of the smallest financial institutions remain to be reviewed, but they represent less than 2% of the system's assets. The list of parties related to banks has been expanded and a requirement set that such parties need to provide updated information about themselves on a regular basis. The investigation into loans issued to related parties is almost concluded.

This was one of the biggest problems in Ukraine's banking system: money that was collected from individuals in the form of deposits was then lent to entities related to the owners of the bank. According to the regulator, 28 of the 58 banks reviewed had violated restrictions on lending to related parties. What's more, they generally received preferential interest rates, often with no intention, and therefore little chance, of actually returning the funds. The NBU now requires banks to substantially reduce crediting to related parties, but only for the next five years. Meanwhile, it continues to monitor the clients of financial institutions to identify new related parties.

The requirements to reveal the ownership of a bank have also been increased: banks are obligated to disclose information about physical persons who directly, or indirectly through other legal entities, have ownership rights. For instance, on January 19, the NBU declared PAT Narodniy Kapital Bank insolvent precisely because its ownership structure did not meet the requirements for transparency.

Meanwhile, legislation has been amended to increase the liability of related parties who have driven a bank to bankruptcy. Such actions will be punishable by being restricted or imprisoned for a period of up to five years. Of course, this will also require proof of malice. ■



# Almost different

Lyubomyr Shavalyuk

## How reforms change the banking system

**C**hanges, even the superficial ones, always create inconveniences not only to those who lose something as a result, but also to those who just abhor them or are not mentally ready to face them. Such citizens often make up the majority of the electorate and cannot be ignored. Any reform can be justified only by the result that it is bound to eventually ensure a change of life for the better. This is something that politicians and advocates of changes understand too well: there must be a reason for a reform.

However, if we trust what the TV tells us, we can get the impression that reforms in Ukraine's banking system boils down to superficial changes, negative without exception. Closed banks, lost deposits, unaccountable bankers, unpaid refinancing and a lot more have become buzzwords for most Ukrainian, as well as populist politicians that try to improve their rankings by echoing negative news. At that, the essence of the ongoing reform remains in the shadows.

The best known change so far has been the transparency introduced not only to the work of the National Bank of Ukraine (NBU), but to the entire banking system. The amount of information published by the NBU in the past three years has probably doubled. The NBU itself reports on its actions in monetary and exchange rate policy. The NBU website provides information on bank owners, refinancing provided to banks, and much more. Transparency is gradually increasing. One could wonder how transparency is linked to the living standards of Ukrainians. In the developed countries, this relationship is paramount. More transparency means more trust, fewer market fluctuations means fewer risks, and all that leads to cheaper loans, more stable financial system, fewer and less severe crises.

Transparency matters for Ukrainians for a different reason as well. For example, when society did not know the identity of bank owners, it was easier for them to engage in fraud and avoid accountability. They didn't risk losing their property that could be used to cover the claims of depositors of a bankrupt bank. Now, the situation is different. The bankers will have to think twice before committing a crime, and this is bound to reduce the risks of both specific banks and the system as a whole. That is, even this visible change has its impact on the quality of the system even if the impact is not really obvious yet.

This reform brought about another one that will radically change the banking system. When the NBU knows final beneficiaries of all banks, it can track their related companies. This creates the



**Defense in parliament.** Reforms in the banking system implemented by the NBU and its Chair Valeria Hontareva have been accompanied by big scandals in the Verkhovna Rada. But the NBU's team has proven resilient

prerequisites for eliminating the scheme whereby most Ukrainian banks used deposit money to give loans to the companies of their owners. As soon as the banks faced problems, the owners fled abroad, the money remained in the accounts of their companies, usually offshore ones, and the bank together with the cheated investors was put at the mercy of the state, that is, the taxpayers. This will no longer be possible. The NBU now tracks related companies and forbids lending to them (more precisely, it only allows loans that make up a small portion of the bank's assets). So, the number of spontaneous bankruptcies, as well as the number of cheated investors, is bound to decrease. At the same time, the risk in the banking system in general will decrease, and the state will not have to intervene so frequently throwing taxpayers' money down the drain. This in itself is a huge change that will have an invisible but significant positive impact on the citizens' wallets.

Reduced lending to related entities will completely redraw huge cash flows in the economy and the financial sector. Previously, the oligarchs had to open a bank and use it as their own pocket in order to have enough funding for their businesses. This is no longer possible. Oligarchs still have their funding needs, and will have to compete for money resources. This will push them to be more transparent, structure their businesses properly, and so on. In short, they will have to become civilized players.

Second, the banks will have huge amounts of liquidity that they will no longer be able to pump off-

shore. Once the demand of big business for loans is satisfied, they will be able to lend to small and medium businesses at rather affordable rates. The structure of the economy will turn upside down, because the loans issued now will not be large, inert, inefficient and non-transparent, but small and lucrative. At the same time, the economy might undergo structural changes.

Third, deposit and loan interest rates will drop. Earlier, the oligarchs attracted depositors' savings at any rates because they could not find other funding. They also know that they could shut the bank down (along with the money of the depositors) as soon as this became unprofitable. Current changes in the banking system have closed the space for such scams. Given the excess of liquidity, financial institutions will try to limit the inflow of deposits by reducing deposit interest rates. At the first glance, this will impact depositors negatively. At a closer look, their savings will be protected. The real value of the savings will grow at a pace not slower than before if the NBU manages to reach its inflation targets. The obvious winners will be the borrowers: low deposit rates mean cheaper loans.

Another large-scale and complex problem of all banks without exception until recently was the quality of the collateral. Bankers can quote many cases, when a pledged vehicle was sold without the bank's knowledge and the respective loan was never repaid, when a number of residents was registered in a pledged apartment so that the bank could not seize it, and mortgage was not repaid, or when corrupt courts awarded obviously unfair decisions in cases related to the seizure of pledged assets from businesses or individuals. Ukrainians may experience *schadenfreude* at the misfortunes of the voracious banks. However, the consequences are reaped by everyone, since financial institutions would factor these risks in their lending rates (making them unaffordable), refused to lend to honest borrowers. In the end, this factor could be the last straw that would lead some banks to a collapse. This is an incredibly complex problem, and the government is trying to solve it. During the past year, two bills were enacted that ensure quick seizure of pledged assets. The Cabinet has passed a resolution that reduces the risk of pledged vehicles being sold without the knowledge of the bank, while some Supreme Court rulings have also stepped up legal protection for creditors. The current situation is far from being ideal, and this inhibits lending. The reformers have a vision of how to overcome the existing problems: it is presented in bills that are now gathering dust in Parliament. This is exactly the case when a reform requires consolidated efforts of basically all key government agencies. So far, there are no such efforts and, therefore, no results.

Another problem is as follows: when a borrower in a down economy gets into a difficult financial situation, the case remains frozen for years. Trials on it can last forever and neither party is able to win. The borrower has to carry an overwhelming debt burden, not being able to ever repay the loan, while the bank keeps trash on its balance sheet and is not able to get rid of it. International expe-

rience indicates that the problem is quite serious: it took the US a year to clean out balance sheets of its banks through special laws. After this, the American banking system has come a long way forward. The EU was unable to accept the new reality and kept fighting the debt crisis and its impact on the banking sector for about five years. In some member-states, such as Italy, some banks have not recovered still, and are on the verge of bankruptcy. There was an attempt at solving this problem by passing the law on "financial restructuring". It enables an out-of-court resolution of a dispute between the bank and the borrower through voluntary writing off of part of the debt, while the borrower still repays what he or she can and the bank does not have to write off the entire loan. In theory, such schemes benefit both parties. In practice, there may be barriers to their implementation in an environment where nobody trusts anybody.

**PREVIOUSLY, THE OLIGARCHS HAD TO OPEN A BANK AND USE IT AS THEIR OWN POCKET IN ORDER TO HAVE ENOUGH FUNDING FOR THEIR BUSINESSES. THIS IS NO LONGER POSSIBLE.**

There is also the problem of laundromat banks engaged in money laundering, conversion into cash, siphoning abroad, and similar schemes. It would seem that it is not the business of an average Ukrainian if someone takes their money out of Ukraine or converts the earnings in cash in order to pay salary in envelopes. The answer is simple: if a bank owner is ready to commit systematic criminal acts, then he is not ready to guarantee investment security. In the end, average Ukrainians, depositors of such banks, had to pay for questionable operations of their bankers. The NBU has been trying to deal with the problem since the beginning of the reform. As it turned out, the law overlooked some shady schemes previously used by the banks, and therefore such schemes did not exactly qualify as illegal. This problem has been identified and resolved, and the general requirements to banks have become much stricter. This gives us reason to hope that money laundering at the previous scale is over.

Last but not least is the issue of national security. While dozens of banks with Ukrainian capital have gone bankrupt, Russian banks were diligently pouring additional capital into their Ukrainian subsidiaries. This expansion continues. This issue is not necessarily within the competence of the NBU, but it definitely needs to be resolved.

Overall, Ukraine's banking system has undergone dozens of changes. Not all of them were successful since they require coordinated efforts of many government agencies, and some of those act as if they missed the Maidan. Yet, a lot has been done. The changes brought about by the banking reform justify the losses suffered by the country in the process of implementing it, even though they are not yet reflected in the statistics or discussed on TV. ■

# Dmytro Solohub:

"2017 is the key year to implement vital and often unpopular reforms"

**C**riticism of the National Bank of Ukraine (NBU) has become a trend in the past three years. However, it remains the state agency that has implemented the most changes so far. *The Ukrainian Week* spoke about the quality of those changes and the new prospects they open for the country's banking system with NBU Deputy Chairman Dmytro Solohub.

**In the eyes of many Ukrainians, the banking reform boils down to the closing of over 80 private banks and significant losses suffered by hundreds of thousands of depositors. What will the country get in return?**

The NBU's policy in the financial sector can be compared to a surgeon's work. Patients may well be unaware of their chronic diseases. When a doctor says that immediate surgery is necessary, before it is too late, patients often refuse and say that they feel fine. The situation with our banking system is similar. On the surface, everything looked relatively good: there were banks, they had branches, customers opened deposit accounts and could even receive interest on them. However, withdrawing a deposit was a different story, since financial institutions either delayed repayment or returned them using the money deposited by other customers, and so on.

At the same time, the banks' problems remained unsolved, accumulated and aggravated. Inside, they were virtually insolvent. There was only an external appearance of stability and normal business activity. This was just another simulacrum, a term that well defines many Ukrainian institutions. Take, for example, the army: it seemed to exist with its generals and soldiers, but as soon as the war broke out, it turned out that that in fact there was virtually no army. It is very much the same with the Ukrainian banking system. If we look back at its history, over the past 25 years the problems only accumulated and were never solved systematically. However, the examples of other countries

Interviewed  
by **Lyubomyr  
Shavalyuk**

and banking crises that happened in underdeveloped economies, as well as countries like Sweden in the early 1990s or the US in 2008-2009, show that comprehensive approach to problems and the cleanup of the banking system can lay the foundation for a long-term healthy development of both the sector and the economy in general.

**Can we expect lower loan interest rates and what would be the underlying factors enabling them?**

What are the loan rates made of? They can be broken down into several components. First of all, it is the price of resources. The bank is a mediator, which does not print the money, but takes it from one source and gives it to another. This comprises the cost of deposits. Secondly, the margin enables

**IF MACROECONOMIC STABILITY CONTINUES, THIS WILL CREATE THE POTENTIAL FOR EASING NBU'S MONETARY POLICY.**

**INTEREST RATES WILL GRADUALLY DECREASE**

the bank to operate, take on risks and so on.

What determines the cost of deposits? It depends on the interest rate at which people, companies, and institutional investors are willing to invest money in a bank. Customers expect the interest rate to insure them against inflation or any macroeconomic imbalances. Besides, of course, the rate is affected by the confidence in the banking system and the economy in general.

We often hear today that loans should be issued at 3% per annum. Yet, no one wants to deposit money at 1%. It is important therefore to understand that the cost of financial resources is based on objective macroeconomic parameters, primarily, on the overall macroeconomic and financial stability in the country. That, in turn, is determined by the rate of inflation, the situation on the foreign exchange market, and the overall consumer confidence index. If you look at inflation levels in Ukraine in the past compared to other countries in





the region, they were on average the highest and the most volatile. The same goes for the exchange rate: in theory, it was fixed, but in fact, there were always some problems around it. This explains the need for the inflation targeting policy introduced by the NBU. If we set the medium term inflation target at 5% and people see that we can achieve this level, they will trust our results and deposit rates will go down.

What determines the margin of the banking system? It is the risks associated with the operation of a financial institution. Even if a bank can attract assets at 3% but is not confident that the loan receiver will repay the sum, it will try to inflate the loan price to set off its own risks.

What determines credit risk? On the one hand, it is the general state of the economy. On the other, it is the system of courts and law enforcement, protection of property rights, political stability, and so on. For the past 10 years, bankers have been talking about these problems. But little has changed, and risks remain high. Getting a loan at 2% in an economy that is imbalanced, has an unstable political system and an ineffective judicial one, is unrealistic.

The experience of other countries shows that all these risks can be eliminated through relevant reforms. Just have a look at our neighbors in Eastern Europe: they didn't always had low interest rates. Loan interest rates in Poland exceeded 20% until the early 2000's, and dropped to the current lows only after inflation was sustainably curbed.

Miracles do not happen. It takes long hard work to achieve the result of low loan rates. Let's compare today's interest rates with the ones we had 3–4 years ago. We often hear today that the economy can't work because it is impossible to get a loan due to high interest rates. But have there ever been lower rates? For hryvnia-denominated loans, at the NBU rate of 14%, loan rates range from 14% for large companies to 20% for small businesses, but usually do not exceed 20%. This is not a big difference from what we had before. Even at zero inflation in 2012–2013, both deposit and loan rates were high. Interest rates on short-term deposits in local currency never went below 10%. The same applies to loan interest rates, which never went below 15% for corporate clients.

This is changing gradually. The NBU sets inflation targets and, as 2016 has shown, can achieve them. We have repeatedly said that curbing inflation would result in a reduced discount rate, which, as we saw last year, affects all other rates in the economy.

**The banking system reform depends not only on the NBU, and the economic growth does not depend on loans alone. What bottlenecks independent of its activities does the NBU see in both processes?**

It is a very important and a somewhat philosophical question. What changes does the country need? Should they be implemented immediately or gradually? From my personal experience, I know that if you are invited to do something, just do it rather than sitting around and waiting. Reforms are a two-way street. Sometimes we hear allega-

tions that the NBU went too fast. However, if we look at the situation practically, what did we have to do? Sit and wait, or try to encourage others with our activities to implement some reforms, despite the criticism?

As for the bottlenecks, here we should go back to the first question. Why were the reforms of the banking sector unpopular? An important reason is that they were not followed to the logical end, namely, the punishment of those who have done all this damage to the banking system. If all the moves by the National Bank of Ukraine and the Deposit Insurance Fund related to criminal investigations were carried through by the law enforcement agencies, this would have meant that besides some existential punishment, former owners of banks that still have plenty of assets would have to kiss them goodbye, making it possible to compensate people for savings lost in failed financial institutions. However, the budget only covered losses not exceeding UAH200,000, while the claimholders of the third and fourth priority and others were often left with nothing.

Getting a loan at 2% in an economy that is imbalanced, has an unstable political system and an ineffective judicial one, is unrealistic

Therefore, I believe that the reform of the judiciary remains the major bottleneck. It can also be seen in the overall context of the anti-corruption fight, which is the country's biggest problem that, unfortunately, hampers everything else and prevents from restoring confidence in the banking system, among other things.

Today a lot is being said about the need to revive the economy in order to achieve the 8% annual growth, and so on. But here, again, miracles do not happen. It requires long and hard work. For example, all reforms that are being discussed today (land, pension, etc.) lay the foundation for a more stable and more dynamic economy in the long run. We are not the first to go through this. Therefore, saying that we would invite local or foreign investors or start supporting some machine-building assets so that they generate GDP is impossible, because the basic prerequisites have not been quite met. We should continue moving in that direction, that is, reforming those systems that everyone complains about, such as tax, customs, etc. These are the bottlenecks that persist and hinder the growth.

Changes to the Ukrainian economy are taking place. They also deserve a mention. They include the banking system, public procurement, energy sector, police, and even some smaller things, such as the report prepared by the Ministry of Economy and showing the problems that exist in the national property sector. That is, certain steps have already been taken. However, we are not forcing changes. In many sectors, we pledge and then hedge.

**What can the banking system and its customers expect in 2017?**

»

**Dmytro Solohub** was born in Minsk in 1978. In 2000, he graduated from the Belarusian State University majoring in Economics. In 2002, he received his Masters of Economics from The Economics Education and Research Consortium (now Kyiv School of Economics) and the Kyiv-Mohyla Academy. He has worked for the International Monetary Fund Resident Representative Office in Ukraine and for Raiffeisen Bank Aval. Since March 2015, he has held the position of Deputy Chairman of the National Bank of Ukraine.

If we want to have a comprehensive view, let's start with the economic overview. Our forecasts are based on the assumption that the economic situation will gradually go back to normal. Ukraine still depends on foreign markets. Therefore, it is impossible to create a lot of domestic growth drivers in the short term. The only hypothetical hope for the rapid growth of the Ukrainian economy are positive dynamics of foreign markets. However, no one expects this, because today everyone thinks that the things can only get worse, since our export-led economy has no potential for rapid growth.

As for the internal growth points, they depend on the reforms that we have already discussed, and will not emerge fast. At the same time, the macroeconomic picture could be slightly better than it would have been under the normal economic state policy and continued cooperation with international donors: IMF, EU, and the World Bank. The latter is the matter of not just money, but also the confidence in our country. Quick growth usually requires investment, which is especially true for the developing countries. Investment volumes depend on the investment climate, structural reforms, etc. Therefore, donors such as the IMF send a strong message. Their support and the implementation of the reforms are the keys to gradually improving the investment climate in the country. It is difficult to expect that a large international investor, such as Hyundai or Siemens, would come to us and open a factory, creating 10,000 jobs. However, there are also positive examples, including companies operating in Western Ukraine and producing motor vehicle parts. Other investors have also increased their presence.

I think that the banking system development will follow the country's economic recovery. We can expect the gradual growth of the deposit base and the renewal of lending activities, and there is a high probability of banks restoring their profitability. Last year a number of financial institutions that were the first to cleanup their portfolios already showed a profit, and this year the process will gain momentum. After all, there aren't that many "sick" banks left in the banking system.

If macroeconomic stability continues, this will create the potential for easing NBU's monetary policy, that is, interest rates will gradually decrease. However, the risks remain high, since our economy depends on the fluctuations in external markets, as well as on seasonal fluctuations. Un-

fortunately, temporary factors (such as massive budget spending before the New Year) can affect the situation on the currency market. This creates short-lived fluctuations, but we are used to them and know what to do.

I would like to draw your attention to another important detail. We should not reassure ourselves, thinking that the economy is recovering and that all is well. If we look at a longer time horizon, we can see that in a few years the country's foreign debt repayments will increase significantly, when the grace period of the restructuring deal will end. Besides, social tensions are growing. The state is trying to soothe them with subsidies and increased minimum wages. However, all these mitigation measures create pressure on the fiscal performance when there is no pension reform. Unless economic growth and structural reforms, such as the pension reform, accelerate, this might affect Ukraine in a rather negative way after two or four years.



## **UKRAINE STILL DEPENDS ON FOREIGN MARKETS. THEREFORE, IT IS IMPOSSIBLE TO CREATE A LOT OF DOMESTIC GROWTH DRIVERS IN THE SHORT TERM**

In addition to that, you have a political cycle: elections are due in 2019. In view of the above, 2017 is the key year to implement vital and often unpopular reforms. There is no other way.

### **How can you make people duly appreciate transformations in the banking system?**

Central bankers are in many ways similar to surgeons or dentists: they hurt people now so that they feel better after. This applies not only to Ukraine. There are many examples even in the developed countries, where politicians and the society always have many questions to their central banks. I am not saying that we take this for granted and do nothing. Our policy of communicating and enhancing financial literacy of the population that we have pursued in the recent years is aimed, among other things, at addressing this problem.

At the same time, we understand the limits of our capabilities. Fighting with political populists in their field is rather difficult. Our answer, therefore, is: active communication, transparency and, most importantly, results achieved. Unfortunately, in our country any achievement is often perceived as a "treason." However, central banks were established as technocratic, non-political bodies. As Jean-Claude Juncker put it, "We all know what to do, we just don't know how to get re-elected after we've done it." Central bankers don't have such problems. As I once said, technocratic bodies, such as financial regulators, exist to save politicians from themselves. After all, a public figure will always be tempted to go into populism, but they can't cross the line and influence an independent body, which ultimately helps the economy and the society in the long term. ■

# Volodymyr Lavrenchuk:

“If property rights reform is successful, it will pave the way to lending”

In public discourse over bank reforms, what often gets left out is the voice of bankers themselves, although they are the ones who can offer the most professional assessment of the changes being carried out. One of them is Chairman of the Board of Raiffeisen Bank Aval (RBA) Volodymyr Lavrenchuk. *The Ukrainian Week* talked to him about what's been done and what Ukrainian banks can expect in the future.

Interviewed by  
**Lyubomyr Shavalyuk**

## What are your thoughts about the reforms of the banking system that have been going on the last three years?

My opinion is probably not unique among those of us working in the banking sector. Most of us agree that reforms have been large-scale and effective. Some even refer to it as a cleaning up of the sector: more than 80 banks were shut down and each one of them was a separate story. The experts I've been talking to say that this has been one of the most difficult tasks facing or potentially facing the country in the last 25 years. It was handled professionally, and thanks to that, the banking sector has become more reliable and has better prospects for financing the country, preserving people's deposits, and so on. This last year has seen a tectonic shift in a much better direction.

In fact, there were many substantive changes that most people who don't deal with banks regularly would barely notice. First of all, inflation was 43% and has fallen to 12%—in just one year. This is a heroic result that's barely believable.

Secondly, relations between the NBU and the country's banks are no longer based on hand-management and preferential treatment. The market has begun to self-regulate. We can predict how things will evolve, we can trust forecasts, and we can pay less attention to the influence of the NBU Governor, the President or the PM. Before, a call from any of them could have affected the exchange rate or interest rates to stay put or to move in a particular direction. The market now determines the value of money and that's an enormous shift over the last 12 months. We have become stronger institutionally and Ukraine now truly has a market economy in the financial sector.

So, everything's hunky-dory? Not at all. What was the price Ukraine paid

for this? How many companies suffered from having their banks shut down? How many companies and banks suffered a major blow because of the devaluation of the hryvnia? How many Ukrainians lost sleep watching their deposits shrink? How many Ukrainians and how much Ukrainian capital left the country because of the cataclysms in the financial sector? Clearly, the price was extremely high. But we don't see an alternative and don't believe that the financial sector could grow in any other way. The move was justified and unavoidable, so we have nothing but support for this reform policy and have been offering practical assistance in carrying it out, wherever necessary.

So, although the way the banking sector was reformed was very painful, but the path was the right one and the results speak for themselves.

## How does the scale of reforms in the Ukrainian banking sector compare with similar reforms in other countries where Raiffeisen operates?

The Raiffeisen Group operates in 14 countries in Central and Eastern Europe and the Balkans. In terms of how complicated such reforms can be, I doubt that any of these countries will beat Ukraine.

You can say that the Ukrainian economy is very small, very poor relative to the size of the country. Political instability has had a huge impact on Ukraine's growth: The Revolution of Dignity roused considerable sympathy, but in the eyes of investors, its consequences—aggression in the country's east, Crimea and Donbas—have been unprecedented. You won't find any territories like that anywhere in Europe today. And so there are no inflows of capital. At the same time, domestic investment has been fleeing because of the harsh socio-political battle. All told, this makes the reform process that much more difficult.

Today, Ukraine is an agglomeration of the most difficult objectives, although we aren't necessarily very aware of that. I remember the first few weeks after the Revolution ended. Many

people were communicating open-heartedly about how to form a new government.

I personally know all, or nearly all of those who joined the first post-revolutionary Cabinet—they were among some of the best professionals. And now people say that there aren't any reforms?

I think our complaints are unfair. If distant and enormously powerful countries are interested in us, even though they have



**Volodymyr Lavrenchuk** is chairman of the board of Raiffeisen Bank Aval, one of the best-known of Ukraine's bankers. Born in 1957 in Kyiv, he graduated from the Kyiv Institute of National Economy as an economist. He has worked in the banking sector since 1982 and held managerial positions at Oschadny Bank and UkrInBank. Since 2005, he has been chairman of the board of Raiffeisen Bank Aval.

more than enough of their own problems to deal with, this suggests that our problems matter. The concentration, scale and complexity simply don't allow for easy solutions and short timeframes.

So I personally am very impressed by what's been done and what's being done today. This is not just about the NBU but in the rest of the country as well. The existing problems require highly qualified, experienced and skilled professionals with character and endurance who are able to go the distance. Because the tasks aren't getting any fewer.

**So, given the scale of the problems that faced Ukraine, you would say that the professionals available here to tackle these problems have done their utmost.**

That's hard to measure. I think that a lot is going on and the people doing it are solid specialists. Of course, you can always find something to complain about, that everything's not done or that it's not being done right. OK, so how should it be done?

Populism is on the rise again today. The media, especially television, keep broadcasting talking heads who make categorical statements about how it's all very simple and what needs to be done, one, two and that's that. OK, then go ahead and do it yourselves! In reality, everything isn't that simple. Complaining about how professionals are doing their job tend to encourage populism. Its level in Ukraine and the number of statements about what should be done different and how much simpler everything really is, is still at a relatively safe level. This process is fortunately not dominating so far and there are plenty of constructive forces around: teams, associations and clubs, both formal and informal, with or without programs, who are developing their own positions and promoting reform in the country. I think that the steps taken and the direction of the changes are right. Everything is going forward as planned. That the price is high and the changes are not easy is a different issue.

**What is still lacking for banking reforms to do their job? What still needs to be done?**

Of course, it would be nice to be able to propose something different that isn't being done now. I'm familiar with the program for Ukraine developed together with the IMF. Given how complex the objectives in it are, it's hard to add anything. If we carry it out as planned, this will be a huge step forward for the entire banking system and for the country.

If the focus is shifted from basic macroeconomic theories to the day-to-day life of an organization or institution, the key item on the agenda has to be introducing digital technology. As someone from the banking sector, I can say that this is ongoing, the results will be in soon, and this will have a very big impact.

I'm not just talking about electronic payments from a smartphone or tablet, but registering contracts, receiving documents and registers, electronic receipts at parking lots—in short, the e-society. When we can access documents and data and reports, and have the option of signing a contract through the right apps on our mobile phones. The digital world is very timely for us.

I know how it's happened in other countries, and their e-society systems, and can say that financial institutions are already establishing the lion's share of infrastructure needed for this. Right now, banks are concentrating on developing their payments systems so that customers can make payments, deposits and loans as quickly as possible. And Raiffeisen is no exception. I think that everyone will soon be competing in this segment. Every financial institution—at least it's true of Raiffeisen Bank Aval—is already going through the digital transformation. We've been working on it for some time, but right now, expectations and the need for this transformation are growing considerably.

**It's a little like switching from a carriage to a Ferrari?**

That's a good comparison. I think that one of the qualitative changes that have taken place lately is that conspicuous consumption has become unfashionable and unpopular. Instead, smart spending is a sign of style—certainly in the business world. The person who knows how to spend economically is liked by others, both as an individual and professionally. So our society doesn't need to get into a Ferrari but on a quality western car at a reasonable price. We need to become more mature in our spending habits.

**Given their high rate of liquidity, why is it Ukraine's banks aren't lending but are putting their spare cash into CDs or government bonds?**

That's a long topic, because there are many reasons for this. But I'll just emphasize a few of them, using Raiffeisen Bank Aval as an example. Our bank has a surplus of liquidity that amounts to a few billion hryvnia. We're interested in placing this cash, to earn on it, to pay out our depositors, and grow the bank. But we're currently putting most of this surplus into government or NBU bonds. Why not lend it out? First of all, because there's a shortage of capital. Many companies lost capital severalfold as the hryvnia devalued, as they lost assets in Crimea or Donbas, and as shrinking household cash cut into demand for goods and services. Right now, the risks aren't worth it for business owners.

How can we incentivize owners to invest capital? This is both a macroeconomic issue and a political one. And it's affected by the investment climate. For investors to want to sell a building in Greece or Spain and put that money into their noodle factory, they need to have some guarantee that political stability rules the day where that factory is located. That no one will be prosecuted or anything.

Are we seeing any capital inflows? Yes, especially in the farm sector. We're lending a lot there. And because capitalization is growing, investments are coming in: direct, via offshore zones and from within Ukraine. Investors bring in capital and then we offer them loans, not the other way around. A capital short-

age can't be substituted with loans. So the Government needs to think about how they might improve the investment climate, because that's closely linked to lending.

Secondly, mortgages have been unreliable. The crisis of 2008-2009 showed the extent to which documents were deficient. When banks started going to court—our bank had 12,000 court cases involving collateral at the peak of the crisis—they saw enormous resistance and their own vulnerability. Documents were bad, registers were copied, and all kinds of phony and even criminal steps were taken that caused the mortgages to become worthless.

If property rights reforms are successful—e-registers are introduced and so on—, this paves the way to lending. Right now, they are only underway. We have to be convinced that a security on land, an office or something else is protected.

Thirdly, banks need to know their clients. Financial monitoring of the sources of money, not even in the case of borrowers but of any customer, is the highest it's ever been, not only in Ukraine, but all over the world. According to these requirements, if the source of the money is not explained, no loan will be issued. Otherwise, the bank has to have 100% of the loan available in its reserves from Day One, which automatically cuts into its profits. Understandably, no financial institution can afford to do that. The path to lending lies through doing business openly and transparently.

I'm confident that orienting towards a transparent economy, secured documents and an open business will bring us profits a lot sooner than staying the way things are now. And if our agenda is a little more complicated here than in other countries, that's just the historical place we're at today. Maybe one day we'll be able to tell our grandkids what heroes we were in our time...

#### **Having nationalized PrivatBank, the government is now the owner of nearly half the country's commercial banking system. How good is this for private banks?**

Most experts will probably say that state management is a bad thing, and private is good, so extending the state segment is bad for the country. I don't share that opinion. After all, all the banks that were closed down were privately owned and many of them were dirty.

At the same time, if the state's influence is unchecked, then state-owned banks could pose a threat for the society and the financial system. From what I know about the reorganization of Oschadny Bank, UkrExImBank and now PrivatBank, new supervisory councils have been formed that are dominated by experienced, well-reputed individuals with international experience from solid institutions. I'm confident that this is the barrier that will make it possible to reduce the impact of direct interventions by Government officials in the day-to-day operations of those banks. And I think we'll see that very soon, in about 18 months. So, the future competition should be interesting.

We're seeing customer migrations before our very eyes. In my opinion, the nationalization of PrivatBank took place under the best possible scenario and they were able to avoid any kind of cataclysm. Right now, PrivatBank enjoys state guarantees, but it's not clear how long that will continue.

I believe that competition will very soon affect banking services and the result of that will depend on how much the customer is at the heart of operations, how reliable the bank is, and how easily its prospects can be predicted from the technological, financial and pricing points-of-view.

#### **How do you see 2017 going for the banking sector?**

First of all, the number of banks will be almost stable by the end of the year and that's what we will live with for some time to come. Whether they are 40, 60 or 70 will depend more on the behavior of their investors. All the owners who are willing to take money out of their own pockets and reinvest will hang on to their banks. But it's not likely that all will. At the end of the year, we will be in a position to turn that page and say, "Mission accomplished."

Secondly, the current monetary policy has already significantly reduced the cost of borrowing. We will eventually get to the point where the cost of hryvnia-based loans will be interesting to most counterparties. We predict that it will be 13-15% in hryvnias by the end of the year. This opens the gates to long-term financing and even to renewing mortgages.

Thirdly, the digital transformation is coming. It will be not only tied to payments but to documentation as well. I'm really counting on this being harmonized by the end of the year and changing our day-to-day operations dramatically.



**ONE OF THE QUALITATIVE CHANGES THAT HAVE TAKEN PLACE LATELY IS THAT CONSPICUOUS CONSUMPTION HAS BECOME UNFASHIONABLE AND UNPOPULAR. INSTEAD, SMART SPENDING IS A SIGN OF STYLE—CERTAINLY IN THE BUSINESS WORLD**

Interestingly, you haven't asked about the exchange rate. Well, we've changed our approach to using financial services considerably. This is not the first interview I've given this year and not one interviewer has asked about what's going to happen to the exchange rate. This suggests that the hryvnia's dependence on the dollar has gone down because when people depend on the exchange rate, then they only talk about that. Now that's not the case. Why? Because NBU forecasts for the end of 2016 proved correct. It promised to reduce inflation, and did. It promised the hryvnia would fluctuate between 10 and 15%, and that's what happened. This is a major qualitative change! We can now afford to make other forecasts as well.

If we look at the current situation from this angle, then we are overly critical of ourselves. Look at our farmers; 18 months ago, the main export market was Russia. Then the embargo was introduced and everything was shut down. Devaluation ate up 40% of their capital and many companies went into the red. Yet today, these same companies are making nice profits—in many cases, over 30%, which is terrific. Russia has been replaced by North Africa, Arab countries, and Latin America. Part even went to Europe, where the quotas may be small but they are completely filled. They're opening plants abroad. And all this in only 18 months! ■■

# You can't buy us off!

Sorin Ioniță, Bucharest

Romanian Social Democrats won elections by a landslide but face stiff resistance from society when trying to stop the anti-corruption drive



**Anti-corruption campaign as ideology.** In the past 10-15 years, the conflict over the anti-corruption policy has become the most important topic in Romanian politics and the line of fracture replacing left vs right as the main axis of the party system

Nobody expected that, less than two months after winning hands down the elections in Dec 2016 and forming a solid 58% majority in the Parliament with their allies, the Romanian Social Democrats would be confronted with the largest street protests since the fall of the Communist regime. It was all the more unlikely as their newly installed cabinet hit the ground running in the first days of 2017, implementing a pro-business, pro-consumer package widely advertised during the campaign: a hundred taxes and fees were slashed; the minimum salary was increased by 16%; small state pensions were raised and the student allowance was doubled. Some analysts expressed doubts about the sustainability of such spending plans, extravagant even for an economy growing strongly at a yearly pace of 4-5%, but the mood in society was largely apathetic. After all, this was the left winning elections and it was their legitimate turn to try their hand on the economy.

All hell broke loose on February 18, however, when the cabinet did something that was never mentioned in the campaign but was the hidden top priority of the Socialists all along. Namely, they proposed two “emer-

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gency ordinances” (acts of government becoming effective immediately): one to grant a collective pardon to some people in detention, allegedly because jails were overcrowded and a EUR 80mn fine from the European Court of Human Rights (ECHR) was imminent; the other, to amend the Criminal Code and cut some investigative instruments used with increasing success by the DNA (the highly praised anti-corruption procuratura).

It didn't take long for the public to realize that the motivations were just a pretext. The ECHR fine was not at all imminent; the Romanian jails are indeed in poor condition, but overcrowding is actually diminishing on a yearly basis; and the collective pardon covered, among others, sentences with suspension, i.e. it benefited people who were never in jail.

This last point happens to be convenient for nobody other than the current president of the Socialists, Liviu Dragnea, the strongman who masterminded the electoral success and would be prime minister now, had this not been blocked by his criminal record: he has a sentence of two years with suspension(!) for electoral fraud, is now on probation and so, by law, he cannot be a minister, having



to consume his frustration as speaker of the Chamber of Deputies. But if his sentence is pardoned by a quick decision of a pliant cabinet, the interdiction disappears and he can come out of the shadows, taking the reins officially.

Of course, it was not just about him. The anti-corruption campaign has been the main success story of the past decade in Romania, materialized in a more independent judiciary and solid results by flagship anti-corruption institutions (DNA and ANI), which are portrayed in EU reports as the best practice in the region. Dozens of ministers and ex-ministers were investigated, some already serving time in jail (including two prime-ministers). The same happened to hundreds of city and county mayors and councilors, business or mass media owners, plus, for a good measure, virtually all football club owners. Important people from all parties and government levels, as well as from the judiciary itself, were brought to trial and convicted for corruption-related offences, which dispelled to a large extent the impression that certain people are above the law, in place since times immemorial. As some apt observers noted, the anti-corruption drive is a complete historical novelty not only for recent periods, but ever: since the creation of the modern Romanian state in the mid-19<sup>th</sup> century, no minister had served time in jail for corruption. Only the reforms of judiciary launched in 2005 made this possible.

As a result, in the past 10-15 years the conflict over the anti-corruption policy has become the most important topic in Romanian politics and the line of fracture replacing left vs right as the main axis of the party system. Parties used anti-corruption as a reference in positioning themselves in elections, or as a strategy to get rid of political opponents. The anti-corruption drive has shaped the relationship between governments and successive presidents of the country, the latter being by and large supporters of these policies while in office, while a large majority in the Parliament, hidden under the umbrella of collective (ir)responsibility, was opposing them.

Supporting or opposing the DNA and its investigations is the real subject of negotiations between politicians behind the closed doors, over which ruling coalitions form or break down. In office, minister and parliamentarians spend a lot of time, formally and informally, defending themselves against the increasingly assertive anti-corruption prosecutors, by re-writing laws, manipulating institutions or launching vicious campaigns against magistrates in the mass media channels they control. The only obstacles which stopped so far the parties from killing the DNA and the purging of the political class are, on the one hand, the strong support for the anti-corruption drive expressed by Brussels, Washington and the main European capitals; and on the other hand, the popularity of the offensive with the Romanian public.

It is therefore easy to understand the furor of the masses when the new Socialist cabinet came out of the blue with the two emergency ordinances which were anything but urgent, were never discussed before, were adopted during a night meeting of ministers and provided for a hidden amnesty for light and corruption-related crimes. The urban public exploded in a series of protests which lasted two weeks and cul-

minated with an estimated half a million people taking the streets on February 5, in more than sixty cities across Romania. About 200,000 of them were in Victoria Square in Bucharest, in front of the government building, for an anti-corruption evening show of light and lasers projections.

This unexpected social resistance made the government relent: after procrastinating, threatening with implausible counter-demonstrations and serving “alternative realities” on subservient TVs which only increased the public anger, the two emergency ordinances were eventually repealed. Laws are to be initiated instead, after consultations, and sent to Parliament on normal procedure. President Klaus Iohannis, who by any analysis was a half-loser during the electoral year 2016, suddenly emerged as a hero for his stern opposition to the ordinances: a typical example of winning a match by the own goals of the opposing team. Resignations from the cabinet will probably follow this week: at least the Minister of Justice Iordache, the drafter of the ordinances, will have to go, but the street is demanding the head of Prime-Minister Grindeanu too.

Protests continue, though in reduced numbers, lest the government tries some dubious moves again. The mess in the legal system has increased after this failed coup against the rule of law: the Constitutional Court will have to decide on the constitutionality of the proposed acts, retrospectively, in spite of them being repealed by the initiator, because it had been petitioned last week by the president and the Ombudsman. Marginal corrections to the harsh Penal Code of 2011 will have to be made, following past decisions of the same Constitutional Court, to better clarify some corruption-related offences.

Stronger civilian supervision of the intelligence services must be put in place, as the current one through parliamentary committees is visibly deficient. Intelligence services were instrumental in the early stages of the anti-corruption offensive and acted as a trusted partner of DNA, but there are legitimate concerns in society that they have no business in providing “technical assistance” in normal penal investigations. In fact, a decision of the Constitutional Court from 2016 already curtailed their attributions and ordered the transfer of wiretapping equipment to the civilian police supervised by prosecutors. Not everybody, including in the DNA, was happy with it, but it was nevertheless implemented and no major case failed in court subsequently.

The fine-tuning of the anti-corruption instruments, by better balancing the effectiveness of the prosecution with the proper protection of the rights of the defenders, in light of 15 years of practical experience, is necessary, welcome and must continue. The problem is that nobody in Romania trusts this government anymore with such sensitive and important tasks, after the attempt to pass overnight self-serving legislation, using real problems merely as window-dressing for getting top politicians off the hook. In process, they only managed to educate a whole new urban generation into civism and resistance. By one internal survey of the Socialists, in two weeks the party has dropped by 23% in Iași, the capital of north-eastern region of Romania, one of their strongholds. Not bad, for less than two months in office. ■

# Luc Jacobs:

“I don’t see any reason for feeling shame over what the EU achieved so far”



PHOTO: ANDRZY LOMANN

Interviewed  
by Anna  
Korbut

The office of the Ambassador of Belgium to Ukraine features old photographs of the workers and engineers at Belgian plants built in the Donbas in the early 20<sup>th</sup> century. Next to them are weathered copies of bonds and shares that served as a channel for European investment to the industry. These images have two things in common: first, they were about business cooperation; second, none featured the title “Ukraine”. Over a century since then, the themes of business cooperation and investment flow between Ukraine and Belgium remain similarly important. Meanwhile, Ukrainian politicians regularly travel to Brussels to meet with their European counterparts. December 2016 marked the 25<sup>th</sup> anniversary of diplomatic relations between the independent Ukraine and Belgium. *The Ukrainian Week* spoke to Ambassador Luc Jacobs about what happened over the period between the early 20<sup>th</sup> century and today: the foundations and philosophy of the European Union, the way it is perceived in Belgium, the concept of European solidarity, and the place of Ukraine in Europe.

**Amidst the challenges faced by the EU, how does Belgium feel about it? Is it optimistic or pessimistic?**

Belgium was among the founders of what began as the European Coal and Steel Community (ECSC) and eventually became the European Union (EU). So, we stood at the cradle of the European project. The EU is indeed more than a static organization: it is a political project that is about peace and prosperity. Since prosperity is impossible without peace, the latter is the

underlying factor of the EU. That was the basis of the Schuman Declaration: “World peace cannot be safeguarded without the making of creative efforts proportionate to the dangers which threaten it.” When these words were spoken, we were five years after the end of WWII. Its tragic legacy was still very much present in political minds – especially in France and Germany, the two countries that had been entangled in three major wars since 1870.

Eventually, the EU and the European project was able to achieve just that, during more than 70 years already: peace. That is a feat that should make us optimistic about the visionary choices that were made at that time.

Another aspect is how the EU – as we know it now – has been growing organically from its initial version, the ECSC. Every new development and achievement in the European construction has triggered new steps. Here is an example: you have a Customs Union. But what is its full benefit to the economy when you do not create a single market which allows goods, services, people and capital to circulate freely across internal borders? Thus, every new step created new challenges, then new solutions were found, and further steps forward were made. This logical deepening of the EU can also be considered a success.

Or, take the Eurozone. It is often said that, given its shortcomings (accentuated by the Greek financial crisis), the Eurozone is on the brink of collapse. Every new economic or financial hiccup in a Eurozone country immediately incites a choir of voices saying that the euro isn’t working. But we are still there. By now, 19 countries, some very recently, have made the bold political decision to share a single currency. We’ve been able to put in place an architecture that makes the economic and monetary union much more resilient to various challenges, and this in a record time, considering that we have to agree steps between 19, or, in some cases, 28 member-states). The project is not finished yet, nor is it perfect. But this is not a reason to say that it doesn’t work, nor that the political response to the challenges was completely inappropriate.

The same thing is with the migration crisis. We’ve seen a constant flow of migration through the Mediterranean for many years. This movement has swelled to a much bigger scale and has become harder to manage. But does it mean that we completely fail in coping with the phenomenon? At the European level, we are devising solutions. There can’t be a magic one; it takes time. Yet, decisions are being made in order to tackle this challenge.

Meanwhile, whenever EU citizens are asked about what the EU really means to them, they say “no border queues”. Think of your own aspiration for a visa-free regime. And, wherever we go, we can spend the same

currency. Those are very tangible achievements of the European project in daily life.

The reason I give these examples is because one could ask: do European leaders make wrong decisions? Do they devise and launch wrong projects, the consequences of which they can't imagine, let alone control? I've been reflecting on this, and here is my conclusion. While it is often said that the EU is a 'bastion of bureaucracy', I would argue instead that the EU does not thrive on bureaucracy, but on a political vision. Again, it was absolutely visionary to take the bold decision, underpinned by certain economic fundamentals, to adopt a single currency. Could the political leaders foresee all the consequences? No. But the political drive was such that this project could come about. This is success. Of course, there are problems now. But our actions within the EU should stay in line with the political ambitions that we have set ourselves. This is a question of consistent leadership in Europe.

Look at the borderless Europe. It started with a handful of countries. Then, the formula became so attractive to others that they've joined gradually. Now the Schengen area is nearly identical to the EU and even reaches beyond. Why did national leaders, democratically elected and controlled by Parliaments, take such bold steps if they didn't see the benefit for their countries and citizens? And it is another manifestation of how the EU develops organically, step by step, often lead by a vanguard of ambitious members.

I still believe that these decisions are being made consciously and because of a vision, the ambition to make economies and societies progress. I don't see any reason for feeling shame over what the EU achieved so far. And we can be optimistic about the future of the EU because we know: when challenges present themselves, solutions are found. Maybe, not immediately. They may be unpopular and contested, but they are gradually devised and implemented. I'm not alone in this. This is a feeling of optimism, of European voluntarism that is still very present in Belgium – among the political leadership, and among the population.

**And yet, forces are rising to contest that vision; their influence on decision-making is growing so far. Will the vision survive this surge?**

We may have reached a certain point where the historic reality that lay at the basis of this political project is somehow forgotten. I belong to a generation that has had the luxury not to know any armed conflict or war in their countries. Our parents spoke about the war, so we could have some idea of their experience. But not the generation of our children. They feel somewhat too comfortable, too detached from that reality. We may be losing touch with the historic premises of the European project.

When it comes to migration and asylum, we may have forgotten that our great-grandparents, too, migrated to Canada, the US... that our grandparents fled to Britain and France in WWI and WWII. We received migrants from Central and Eastern Europe in the 1920s and in 1945, then from Hungary in 1956. We should not forget this.

It would be illusory to think that we can devise some magic immediate solutions to the current challenges. Nor can a single state answer them. I should remind another keyword in the Schuman Declaration that is a cornerstone

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of the European construction: solidarity. This principle is absolutely essential for the EU to function and succeed, to implement the vision that it has projected for itself.

Take the Greek case: with all the criticism of the flaws in the policy developed towards the country, Greece has been the beneficiary of a very substantial amount of European and international financial assistance to help it meet its basic obligations – not only towards its international creditors, but also towards its own citizens. The new financial architecture put in place in the EMU is about more responsible economic governance, but also about more solidarity in sharing risks and tackling crises.

Likewise, we can't expect Greece, Italy or Malta to be solely responsible for managing the influx of refugees. Solidarity means, among other things, that when countries get into a difficult situation for reasons that don't necessarily depend on them, there is a fair burden sharing. That's the answer we have to give – more coordinated policy and solidarity among member-states. In the longer run, closing borders and building safe nests just for ourselves is not workable.

**When talking about a strong Europe – where is its strength? What does a "strong Europe" mean?**

Speaking with one voice. And realizing that you can't influence the world around you on your own. In terms of the global population, the European component is becoming smaller and less influential, proportionately. We have to be conscious of this and decide how best in our capability we can influence today's global developments. It is important that the EU speaks with one voice in international organizations: the UN, OSCE, WTO, G7. And it should be where it matters globally. Because a country the size of an average, or even a large European state, can hardly negotiate trade agreements with China or the US, do anything about climate change or alleviate world poverty alone.

Belgium has consistently advocated the development of a strong external dimension of the EU. Because we see the logic and necessity of it. In order to weigh on decision-making and have a grip on what's happening globally, we need a more united, not a fragmented EU.

**It can be assumed that one of the ultimate goals of the European project was to arrive at some sort of a European identity, a European citizen. While many young people in the EU do feel that way, the overall dynamics on national levels in many countries seem to move back inward. Is it possible to accomplish this unity and solidarity with the diversity between various EU member-states?**

I'm sure it is possible. The way we've seen the EU integrate proves it. The motto of the EU is being "united" »



in diversity". It's also a motto for the multicultural and multilingual country that is Belgium. In my view, there is no contradiction between this unity and one's sense of belonging to a particular country, nation or region. Within Europe, we respect the fact that there can be national and even regional identities. This is very important for Belgium as well: we are a federal state with regions and communities that have vast autonomy.

The European Committee of the Regions' mission is to involve regional and local authorities in the European decision-making process. The European cohesion policy, one of the oldest policy areas of the EU, is promoting more cohesion and solidarity between the various regions, reducing economic disparities.



**BELGIUM HAS CONSISTENTLY ADVOCATED THE DEVELOPMENT OF A STRONG EXTERNAL DIMENSION OF THE EU. IN ORDER TO WEIGH ON DECISION-MAKING AND HAVE A GRIP ON WHAT'S HAPPENING GLOBALLY, WE NEED A MORE UNITED, NOT A FRAGMENTED EU**

This identity dimension within the EU is not based on some kind of a gentlemen's agreement among the leaders, but based on the EU treaties. The concept is called subsidiarity. It means that the EU should not take any action if local, regional or national authorities can take a more effective action. This principle always played an important role in the development of the EU. It is also not a static one, but evolves along new realities and needs.

One big and tangible achievement I see in promoting a European identity is the Erasmus programme, the mechanism that gives vast access to students and allows for their mobility. Its role in exchange and interchange of knowledge, respect about each others' cultures cannot be underestimated.

There is no deliberate attempt from so called "faceless European bureaucrats" to kill diversity. Diversity is part and parcel of the European project.

**How do you see the role of Germany in the EU as its most powerful economic clout?**

This question would also include France in a way, as French-German cooperation traditionally constitutes the twin-engine of European integration. Belgium has always kept very close relations with Germany in the European context – as a crucial engine for the economy and policy making. This is not out of fear for its influence or because of the unhealthy thinking that following the big ones will keep us safe, but out of the experience of Germany's staunch and solid commitment to European integration.

Thanks to its sheer size and economic clout, Germany is a big and decisive factor within the European reality. But the interesting thing about the European construction is that every member-state, however small, has a say. Luckily enough, this does not mean that everything has to be decided by consensus and would thus depend the member state not using a de facto veto. But the institutional model that has been shaped by the EU allows for this unique type of interaction between states, based on mutual respect and dialogue. There can be very heated debates, but the common sense of belonging to the same

project is the overriding one. It is not that smaller member-states can be silenced because of power politics. The European project is not about power politics.

**Apart from the European project, Belgium was a co-founder in NATO as well. How do you see the present and the future of the Alliance today?**

For us, NATO is absolutely crucial in terms of its role in providing security and collective defense. In a less predictable security environment, challenges are changing and NATO is adapting accordingly. The NATO Summit in Warsaw last year set important new goals by identifying new challenges: terrorist attacks, Russia's aggression and deliberate destabilization of Ukraine, hybrid threats, cyber attacks, just to name those. The Warsaw Summit is an important milestone in shaping NATO's response to these and other new challenges. The next rendezvous will be in NATO's new HQ in Brussels in March. Belgium actively participates both in the policy-making, and in the practical implementation. For instance Belgian F-16 fighter planes take part in NATO's Baltic Air Policing mission and a contingent of the Belgian Armed Forces has recently arrived in Lithuania as part of NATO's Enhanced Forward Presence in the Baltic region.

Another important thing is that European defense and NATO are not regarded in terms of competition, but in terms of synergy; that the EU can develop a strong European pillar within NATO. The EU-NATO cooperation is a fundamental aspect of the EU's Common Security and Defense Policy.

Also in this area we see how EU policies develop organically: some member-states start to work together and develop best practices, those become attractive to others and they want to join. For instance, Belgium and the Netherlands develop a unique cooperation in the sphere of naval defense by pooling training, maintenance and military procurement. That's how complementarities form between the armed forces of member states that can set examples for others to join.

**Historically, Ukraine and Belgium had links through capital and migration flows. There were several generations of Ukrainian diaspora in Belgium throughout the past century. How have these links affected the relations between the two countries – in the past and present?**

History helps to put into context what I see happening around me as far as Ukraine is concerned, as well as the relations between Ukraine and Belgium, Ukraine and the EU. History helps understand, compare and draw lessons.

I have the intuitive feeling that a lot of the common history between what is now Ukraine and what is now Belgium is under-researched. Or if it is, the results are not known enough. Both me, and the embassy team are fascinated by this shared history and we see the potential of it for our public and cultural diplomacy. In 2016, we worked on two such projects. Both lead us back to the turn of the 19th and 20<sup>th</sup> centuries.

One theme focuses on massive capital investment in Ukraine at that time. It was triggered by the following factors: Belgium was the first industrialized nation on the European continent. Industrialization started in Great-Britain but was then exported to Belgium as we had coal, iron ore and other resources, as well as water- and railways. The other factor was that we had favorable

financial environment, regulations and thus a thriving stock exchange. Already then Brussels was an important financial center of Europe. As industrialization kicked off in tsarist Russia, we had the technological advance over other European countries and the financial substratum to export it. So a lot of capital that was traded on the Brussels Stock Exchange found its way to the east and south of Ukraine. In addition to the capital invested, technologies were transferred, factories built, and engineers, workers and their families were moving with them. At the height of the period, around 1900, about 20,000 Belgians lived in tsarist Russia, most of them in the Donbas area. That's part of the shared history that we put in the limelight last year together with the Ukraine Crisis Media Center. They took up this theme and constructed a traveling exhibition based on research by the Dnipro National Historical Museum. We supported this exhibition.

Myself or my Deputy traveled most of the Donbas cities accessible to us but as close to the contact line as possible. The Belgian industrial heritage from that time is often still there. In Lysychansk, for instance, a chemical factory was founded by the multinational company Solvay. While it has gone bankrupt only recently and was dismantled for scrap, the main hospital and children's hospital, the church, the director's house, the accommodation for the workers and engineers are all still there. Importantly, this exhibition encourages the local communities, authorities and researchers to dig in the local archives and family memories and revive their past that had been hidden from them for far too long.

Since 2014, we commemorate the 100th anniversary of WWI which had a devastating effect on Belgium. It was the time of big powers and colonies, so the opposing armies also enlisted soldiers from their possessions in Africa and Asia, from New Zealand, Australia ... – they all fought in Flanders Fields. And we found an interesting page of shared history related to Ukraine: the fact that the Belgian Expeditionary Corps of Armoured Cars, an advanced division for its time, fought at the Galician front in two big offensives in 1916 and 1917. Later, after the Bolsheviks took power, this group of 400 soldiers was withdrawn to Kyiv for a short while and found refuge in the Saint-Michael's Monastery. One of them, the poet Marcel Thiry, wrote a novel titled *Passage à Kiew* based on that experience. It was translated in Ukrainian in the autumn of 2015.

Another fact: Belgian Redemptorists played a crucial role in the survival and continuity of the Ukrainian Greek Catholic Church during the Interbellum and under Soviet rule.

The Via Regia is also an interesting concept that I would like to develop further. Since more than 2000 years it was the kings' route that linked Kyiv to Belgium and France, down to Spain. It was used by political leadership of that time. This shows how much history we have in common that needs to be explored. Importantly, it needs to be matched with ways in which Ukrainians are now writing their history. Too often, your history has been written by others, not by yourselves and not as seen from your viewpoint. I'm not saying that we should all start to rewrite our history or artificially construct new narratives or myths. But it is obvious that you can shed your light on the facts as we have never read them before. And it is as important to compare and discuss these new insights with researchers elsewhere in Europe.

We see a lot of sincere interest from the Ukrainian public in these pages of shared history and feel encouraged to go further in this area.

**The interest of Ukrainians in their shared history with other European countries is easy to understand: it is largely driven by the search of identification and recognition. How is Ukraine's place seen in Europe, or Belgium in this case?**

Ukraine is not known enough as a country in Belgium. We have been separated artificially for too long, and brought up in that narrative which we haven't been able to control, nor challenge. This went unnoticed because you were part of the Soviet Union. Not much natural, spontaneous and unbiased exchange happened then. As a result, there is not much knowledge of what an independent Ukraine is about now, nor of its past. Instead, it all boils down to stereotypes like 'Chernobyl'. Also, you came into the news with violent clashes on the Maidan, the annexation of Crimea by these "little green men" – it was all over the media. Your image has been formed amidst the armed conflict in the East, the downing of MH17. But that is a very incomplete image. It's an enormous challenge for Ukraine to fill this gap in our knowledge. But efforts are done in that regard. There is a small but active Ukrainian diaspora in Belgium: members of this community have launched the Promote Ukraine campaign to help put Ukraine in a positive light. An interesting initiative also is the second edition of "Ukraine on Film" in BOZAR, one of the prestigious cultural venues in Brussels. These initiatives show Ukraine in a modern light. Plus, it should not be forgotten that Brussels hosts the biggest diplomatic and media community in the world. I think that Ukraine would make an excellent country as focus country of a next edition of Europalia, a multi-disciplinary biennial cultural festival in the heart of Europe.

But when you ask me now about how I see Ukraine and its aspirations to be seen as a European country, I say: Ukraine should not be overly fixated on just this question. There is no doubt that you are European. When we think about the recent past, Ukraine's independence, it is often forgotten that you have been a full member of the Council of Europe for 20 years already. One may say that the CoE is a toothless organization. But I do not agree, the CoE wields a lot of smart power and is about the essence of what Europe stands for in terms of shared democratic values, human rights and the rule of law. Ukraine works intensely with the CoE, and vice versa. So you are a committed member of this European family.

I know that your eventual aspiration is the EU. But you should not feel as incomplete Europeans at this stage. You should not doubt about your European destiny. It is firmly rooted in the past. History is so easily forgotten. Yet, whenever you would fear that you drag this image with you of a "dependent state" of Russia, remind us of how massively Ukrainians voted for independence in 1991, to re-register themselves into the family where they belonged, distancing themselves from the legacy of 70 years of Soviet rule. It was a major feat of Ukrainian nationhood. And it was part of a process to assert independence that had been brewing long before.

You have a lot for us to discover. That merits encouragement. And you have a story of your own – an appealing story. But you have to prepare the minds for that. ■

# Not turning out

Democracies are at risk if young people continue to shun the ballot box



**T**he life story of Alex Orlyuk does not seem destined to lead to political apathy. Born in the Soviet Union to a family scarred by the Holocaust, he moved at the age of six to Tel Aviv, where he finished school and military service. He follows politics and prizes democracy. He thinks his government should do more to make peace with Palestinians, separate religion and state, and cut inequality. And yet, now 28 and eligible to vote in the past four general elections, he has never cast a ballot.

His abstention, he says, is “a political statement” on the sorry state of Israel’s politics. He does not think any of its myriad parties is likely to bring about the change he wants. Many other young Israelis share his disaffection. Just 58% of under-35s, and just 41% of under-25s, voted in the general election of 2013, compared with 88% of over-55s. No other rich country has a bigger gap in turnout between under-25s and over-55s (**see Faith no more**).

Though Israeli politics is atypical—steeped in questions of war, peace, religious identity and the relationship with Palestinians—the voting behaviour of its young is nevertheless all of a pattern with the rest of the rich world. In Britain and Poland less than half of under-25s voted in their country’s most recent general election. Two-thirds of Swiss millennials stayed at home on election day in 2015, as did

four-fifths of American ones in the congressional election in 2014. Although turnout has been declining across the rich world, it has fallen fastest among the young. According to Martin Wattenberg of the University of California, Irvine, the gap in turnout between young and old in many places resembles the racial gap in the American South in the early 1960s, when state governments routinely suppressed the black vote.

**MILLENNIALS DO NOT SEE VOTING AS A DUTY. RATHER, THEY REGARD IT AS THE DUTY OF POLITICIANS TO WOO THEM. THEY SEE PARTIES NOT AS MOVEMENTS DESERVING OF LOYALTY, BUT AS BRANDS THEY CAN CHOOSE BETWEEN OR IGNORE**

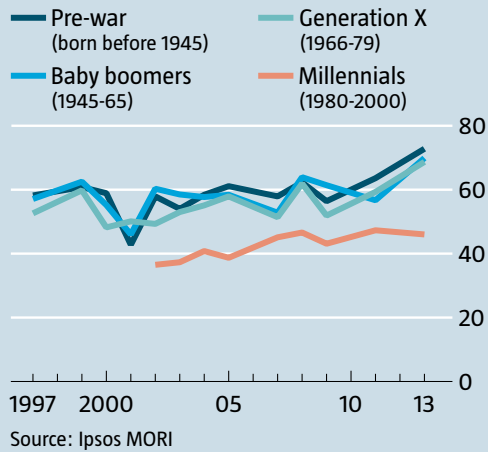
Demographic trends further weaken the political voice of the young. In America’s election in 1972, the first in which 18-year-olds could vote, around a fifth of adults were under 25. By 2010 that share was one in eight. Under-25s are on track to make up just a tenth of American adults by mid-century. The young will have dwindled from a pivotal voting bloc into a peripheral one.

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## Faith no more

Britain, respondents saying they trust the man/woman on the street to tell the truth  
By generation, % of total



That raises the worrying possibility that today's record-low youth turnout presages a permanent shift. Voting habits are formed surprisingly early—in a person's first two elections, says Michael Bruter of the London School of Economics. If future generations, discouraged by their fading influence, never adopt the voting habit, turnout will fall further, weakening the legitimacy of elected governments.

Millennials are not the first young generation to be accused of shirking their civic duty. And they are more interested in ideas and causes than they are given credit for. They are better educated than past generations, more likely to go on a protest or to become vegetarian, and less keen on drugs and alcohol. But they have lost many of the habits that inclined their parents to vote.

In Britain only three in five of under-25s watch the news on television, compared with nine in ten of over-55s. Young people are also less likely to read newspapers, or listen to the news on the radio. Each year around a third of British 19-year-olds move house; the average American moves four times between 18 and 30. People who have children and own a home feel more attached to their communities and more concerned about how they are run. But youngsters are settling down later than their parents did.

The biggest shift, however, is not in circumstances but in attitudes. Millennials do not see voting as a duty, and therefore do not feel morally obliged to do it, says Rob Ford of Manchester University. Rather, they regard it as the duty of politicians to woo them. They see parties not as movements deserving of loyalty, but as brands they can choose between or ignore. Millennials are accustomed to tailoring their world to their preferences, customising the music they listen to and the news they consume. A system that demands they vote for an all-or-nothing bundle of election promises looks uninviting by comparison. Although the number of young Americans espousing classic

liberal causes is growing, only a quarter of 18- to 33-year-olds describe themselves as "Democrats". Half say they are independent, compared with just a third of those aged 69 and over, according to the Pew Research Centre.

And millennials are also the group least likely to be swayed by political promises. They are far less likely than the baby-boom generation (born between 1946 and the mid-1960s) or Generation X (born in the mid-1960s to late 1970s) to trust others to tell the truth, says Bobby Duffy of IPSOS Mori, a pollster (**see Wasted on the young**). They take "authenticity" as a sign of virtue and trustworthiness, as illustrated by their enthusiasm for, say, Justin Trudeau, Canada's telegenic premier. But in the absence of personally appealing leaders, mistrust can shade into cynicism about democracy itself. Almost a quarter of young Australians recently told pollsters that "it doesn't matter what kind of government we have". A report last year found that 72% of Americans born before the second world war thought it "essential" to live in a country that was governed democratically. Less than a third of those born in the 1980s agreed.

The lack of trust accompanies a breakdown in communication between politicians and the young. In 1967 around a quarter of both young and old voters in America had previously made contact with a political official. For the elderly, the rate had almost doubled by 2004; for the young, it remained flat at 23%. Parties have responded accordingly: in 2012 they contacted three-fifths of older voters, but only 15% of younger ones. According to a poll weeks before last year's presidential election by the Centre for Information & Research on Civic Learning and Engagement at Tufts University (CIRCLE), despite the money sloshing around American politics only 30% of millennials reported having been contacted by one of the campaigns. And when parties do contact youngsters, it is often with a message crafted for voters in general, not tailored to them. Such efforts, says Mr. Bruter, can be counter-productive.

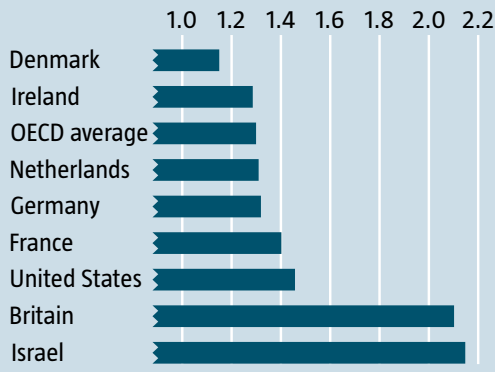
Many disillusioned youngsters regard refusing to vote as a way to express dissatisfaction with the choices on offer. But abstention traps them in



### Wasted on the young

Ratio of turnout, old\* registered voters over young†  
1=equal turnout

Latest election for legislature, 2011-13



Source: OECD \*Aged 55 and over †18- to 24-year-olds

a cycle of neglect and alienation. Politicians know that the elderly are more likely to vote, and tailor their policies accordingly. Young people, seeing a system that offers them little, are even more likely to tune out, which gives parties more reason to ignore them. Some parties disregard the young completely: in the Netherlands 50PLUS, which campaigns almost exclusively on pensioners' issues, is polling in double figures.

Even parties without any such overt focus on old people increasingly favour them when setting policies. Young workers pay taxes toward health-care and pension schemes that are unlikely to be equally generous by the time they retire. Australians aged over 65 pay no tax on income under A\$32,279 (\$24,508); younger workers start paying tax at A\$20,542. In Britain free bus passes, television licences and energy subsidies for pensioners have survived government cutbacks; housing assistance for the young has not. The young across western Europe are more likely to hold a favourable opinion of the European Union, but it is their elders, who look upon it with greater scepticism, who hold sway with governments. Britain's recent vote to leave the EU depended heavily on retired people's votes; youngsters voted overwhelmingly to stay.

### LESSONS FOR LIFE

Those fretting about the future of democracy have been searching for ways to get more young people to vote. The most obvious would be to make voting compulsory, as it is in Australia, Belgium, Brazil and many other countries. Barack Obama has said such a move would be "transformative" for America, boosting the voices of the young and the poor. But Mr. Bruter warns that such a move would artificially boost turnout without dealing with the underlying causes. The priority, he says, should be to inspire a feeling among young people "that the system listens to you and reacts to you", which in turn would strengthen political commitment.

One place to build such a belief is in school (see article). Teenagers who experience democracy first-

hand during their studies are more likely to vote afterwards. Student elections make young people feel they have the power to shape the institutions around them, says Jan Germen Janmaat of University College London. Civic-education curriculums which involve open discussions and debates are better at fostering political engagement in later life than classes dedicated to imparting facts about government institutions, he says. Yet schools and governments, wary of accusations of politicising the classroom, may shy away from such programmes.

Another option would be to allow people to vote even younger. In many countries, voting habits are formed during a particularly unsettled period of young people's lives: the few years after leaving school. Argentina, Austria and other countries are trying to ingrain voting habits earlier by lowering the minimum age to 16. This lets young people cast their first votes while still in school and living with their parents. In Austria, the only European country to let 16- and 17-year-olds vote nationwide, they have proved more likely than 18- to 20-year-olds to turn out in the first election for which they qualify to vote.

Yet another approach is to remove obstacles to voting that are most likely to trip up the young. America has many laws banning registration in the month before an election; these disproportionately affect young people, who tend to tune in late to campaigns, says Kei Kawashima-Ginsberg of CIRCLE. A solution used in some other countries, including Sweden and Chile, is to put people

### AS MILLENNIALS FIND FEWER REASONS TO VOTE, MOTIVATING THEM TO DO SO IS BECOMING DANGEROUSLY DEPENDENT ON INDIVIDUAL POLITICIANS AND SINGLE ISSUES

on the electoral roll automatically when they turn 18. Also important is to make sure that those who have moved and forgotten to update their details are not caught out on election day; since young people move more, they are more likely to be affected. Some American states are experimenting with "portable" voter registration, whereby a change of address with any government institution is transferred to the electoral register.

### WAITING FOR A HERO

As millennials find fewer reasons to vote, motivating them to do so is becoming dangerously dependent on individual politicians and single issues. In Canada just 37% of 18- to 24-year-olds voted in the parliamentary election in 2008, and 39% in 2011. In 2015 the "Trudeau effect" saw the youth vote rise sharply, to 57%. Mr. Orlyuk fondly recalls Yitzhak Rabin, a former Israeli prime minister who was assassinated when Mr. Orlyuk was seven—for "trying to make a change" by making peace with Palestinians. "I'm still waiting for another Rabin to come along. Then I'll vote," he says. In the meantime politicians will find his opinions and interests—and those of other young people—all too easy to ignore. ■

# How Ukrainians built Communism

Valeriy Prymost

When Nikita Khrushchev came to power, he brought a "Ukrainian clan" with him. It later removed their patron from the helm of the USSR



**A stifling embrace.** Anastas Mikoyan, Nikita Khrushchev, Leonid Brezhnev and Mykhail Suslov (from left to right). The Ukrainian cadres that Khrushchev brought along to Moscow orchestrated the 1964 coup

**F**lamboyant leaders in Soviet Russia dried up in 1929, when Lev Trotsky was exiled and Nikolai Bukharin arrested. From then on, grey, ruthless personalities, masters of hypocrisy and mimicry, fought for power. After Stalin, the most successful of them was Nikita Khrushchev. All the more as he found the courage to end the era of the inexorable Stalin.

Khrushchev joined the Moscow party elite again in December 1949 after a long break for work in Ukraine. He became the first secretary of the Moscow Party Committee and a secretary of the Central Committee, but had much less authority in higher political circles than Molotov, Kaganovich and Malenkov. Nevertheless, he had a powerful support structure – the Ukrainian party organisation, the largest in the USSR and highly influential. However, when Khrushchev went to Moscow, he was replaced in Kyiv by Leo-

nid Melnykov, a die-hard Russian chauvinist and opponent of everything Ukrainian.

## IMPOSSIBLE WITHOUT UKRAINIANS

Of course, Khrushchev did not immediately take Stalin's place: he first had to deal with his main competitors – Beria and Malenkov. In the struggle between them, Khrushchev turned out to be the most cunning and insidious. In June 1953, he secured the support of Marshal Zhukov (army men traditionally hated the law enforcement agencies and Zhukov also sought revenge against Beria for exposing his looting in Germany) and ousted Beria, to the horror to the entire Central Committee Presidium. Then he got rid of Malenkov equally skilfully: he won over the hearts of the nomenklatura by initiating the return of former privileges to officials and compensating party leaders for salary losses, and then became »



First Secretary of the Central Committee on September 7, 1953.

While the party elite was disorientated, Khrushchev pushed through a decision to replace Melnykov as second secretary of the Communist Party Central Committee with Oleksiy Kyrychenko, his old associate. This moment would come to play a key role in the future.

Kyrychenko by nature was almost a copy of Khrushchev – equally overbearing, ambitious, brutal and poorly educated, only in Ukrainian "packaging". Like Khrushchev, Kyrychenko was neither a chauvinist nor a national-communist – he sincerely wanted the best, but (like Khrushchev) often ruined everything due to his narrow-mindedness, excessive emotionality and petty tyranny. Kyrychenko was the first Ukrainian to head the Ukrainian Communist Party, and this organisation now supported Khrushchev to the hilt. It helped in overthrowing Beria, as Kyrychenko neutralised two Interior Ministry generals loyal to Beria, making it impossible for the siloviki to strike back. After defeating Beria, Kyrychenko became a candidate member of the Presidium of the Central Committee (the future Politburo), and in July 1955 – a member of the Presidium.



**AFTER THE FALL OF STALIN, THE RISE OF UKRAINIANS TO POWER IN THE SOVIET UNION WAS INEVITABLE. THE ONLY ALTERNATIVE WOULD HAVE ALMOST CERTAINLY BEEN NEW BLOODY REPRESSIONS**

In order to overcome Stalin's "old guard", Khrushchev opposed the "personality cult" of Stalin and presented Molotov, Kaganovich and Malenkov as accomplices in Stalinist crimes at the twentieth Party congress (February 1956). Of course, the Stalinists did not intend to take this lying down. Molotov, Kaganovich, and Malenkov truly took the fight to Khrushchev at the next Presidium meeting in June 1957. Molotov's proposal to remove Khrushchev from the post of First Secretary was passed by seven votes to four.

But Khrushchev was not going to give up so easily either. Saying something like "the Plenum chose me, it should dismiss me too", he secured a decision to convene the Plenum in four days' time and not did not waste this new-found opportunity. First, he won over Marshal Zhukov (Defence Minister) and Mikhail Suslov (a member of the Central Committee Presidium and main party ideologist): the former flew in Central Committee members who supported Khrushchev from all over the country in military aircraft, while the latter, a skilled manipulator, delivered such a carefully worded speech at the opening of the Plenum that it changed the mood of the audience in favour of Khrushchev. Secondly, the substantial influence of the Ukrainian Party tipped the

scales in favour of the First Secretary. Molotov, Kaganovich and Malenkov all left mainstream politics, branded "members of an anti-Party group".

So Khrushchev became the Boss. And he was quickly overcome by the eternal tyrants' disease – fear. Therefore, he tried to surround himself with people he could trust – those who owed everything to him personally. Since Khrushchev had very strong ties with Ukraine, he formed his entourage out of people from there.

This included Leonid Brezhnev, who Khrushchev had previously made First Secretary of the Zaporizhia and then Dnipropetrovsk Oblast Committee, before promoting him to First Secretary of the Party in Moldova. And he saved him after the scandalous "Pavlenko affair" (see **The roads of underground capitalism in the USSR at ukrainianweek.com**) making him the Second, then the First Secretary of the Communist Party of Kazakhstan, before bringing him to Moscow in 1956, where he became one of the secretaries of the Central Committee and a candidate member of the Presidium.

This included Volodymyr Semychastnyi, who Khrushchev made Personnel Secretary of the Ukrainian Komsomol, and then saved when it came out that Semychastnyi's brother had been sentenced to 25 years' prison for "cooperation with the Germans". Khrushchev wrote a letter to Stalin in which he personally (!) vouched for Semychastnyi.

This included Marshal Rodion Malynovskiy, who Khrushchev saved from Stalin's wrath in 1942 after defeat in the Battle of Kharkiv and the abandonment of Rostov.

This included Mykola Pidhornyi, Dmytro Polianskyi and Petro Shelest. They all owed their positions to Khrushchev.

After the June Plenum in 1957, Khrushchev made Brezhnev a member of the Presidium of the Central Committee (the future Politburo) and Chairman of the Presidium of the Supreme Soviet, Malynovskiy – Defence Minister, Semychastnyi – head of the KGB, Pidhornyi – First Secretary of the Ukrainian Communist Party and a secretary of the Central Committee, Polianskyi – a member of the Central Committee Presidium and Deputy Chairman of the Council of Ministers, Shelest – First Secretary of the Kyiv Regional Committee and then (when Pidhornyi moved to Moscow) – First Secretary of the Ukrainian Communist Party.

And, of course, Kyrychenko. Khrushchev took him to Moscow and made him the Second Secretary of the Central Committee (basically, the second man in the party). Kyrychenko gained huge influence and power. Never before had a Ukrainian climbed so high in the Soviet hierarchy – everyone believed that Kyrychenko would actually be the "successor".

The "main Ukrainians" were followed to Russia by others: Kyrylenkos, Dovhopols, Yermashes, Konotops, Demydenkos, Neporozhniys and Har-

buzovs. These "immigrants" held leading positions in regional Party organisations, ministries, departments, committees, the Central Committee and the Council of Ministers. In his book *The Roots of Stalinist Bolshevism*, Aleksandr Pyzhikov notes that there had not been such an invasion of Ukrainians into the Russian power hierarchy since the days of the famous "Ukrainian infestation" in the era of Peter the Great and Ivan Mazepa. What would have happened if "Khrushchev's" Ukrainians remembered that they were actually Ukrainian?

Khrushchev felt sympathetic towards "his Ukrainians" (and everything associated with Ukraine). He was ready to forgive them for many things that would have brought disgrace upon others. Ironically, the rapid rise of Kyrychenko, the first Ukrainian in the upper ranks of Soviet power, was brought to an end by a scandal in winter 1959, when the second secretary had a furious dispute with the first over whose bullet killed a boar while hunting in Zavidovo.

### IMPROVING LIFE TODAY

With the demise of the ideological component of the communist regime, the Soviet bureaucracy became ever stronger and wanted to protect its position as much as possible, in order to freely and consistently take advantage of the perks it was afforded. However, Khrushchev was too authoritarian and unpredictable – he almost unleashed World War III twice (the Berlin Crisis of

Having once spoken out against Stalin's "personality cult", Khrushchev set about creating his own, but without the horror of prison vans by night, it degenerated into "Nikita the Corn Man". The 1962 Novocherkassk massacre did not change anything either – one of the slogans of the unrest was "Make mincemeat out of Khrushchev!", which contained not only anger towards a half-starved existence, but also scorn for the leader. The people of Russia were not afraid of this dictator, so they did not love him. He was only popular as a character in jokes. Eventually, the highest Party echelons decided that "the Moor has done his duty..."

Aleksandr "Iron Shurik" Shelepin, a Central Committee secretary and the only non-Ukrainian among the main conspirators, considered Brezhnev and Pidhornyi to be the initiators of the coup (only they were capable of it according to their positions in the state and Party hierarchy). They were later joined by others – Semychastnyi, Polianskyi, Shelest and Malynovskyi. Then the majority of the Central Committee and even chief ideologist Suslov and chief economist Kosygin, 1st Deputy Chairman of the Council of Ministers, sided with them (the latter first asked, "Who is the KGB with?" and gave his consent when he learned that the KGB were on the conspirators' side)

The following were cited as motives for the overthrow of Khrushchev: economic decline, collapse of the agriculture sector and an authoritarian, brutal style of government. Brezhnev and Pidhornyi did a tremendous amount of groundwork. As Shelepin remembered: "Brezhnev and Pidhornyi talked to each member of the Central Committee Presidium and each Central Committee secretary. They also had conversations with the Central Committee secretaries of the union republics and other major organisations down to city committees."

Since the position of the Ukrainian Party organisation was particularly important, Brezhnev and Pidhornyi had repeated informal meetings with Shelest, the First Secretary of the local Communist Party. At one meeting, Brezhnev even burst out crying (he was generally a tearful person). Shelest agreed and, in turn, began talks with Ukrainian members of the Central Committee (and then there were no less than 36 of them!). Most agreed to oppose Khrushchev, even his friend Demyan Korotchenko, chairman of the Presidium of the Ukrainian Supreme Soviet. It became clear that nothing could save Nikita Sergeyevich anymore.

### A UKRAINIAN COUP

Khrushchev's 70th birthday was best remembered for torrents of praise. Brezhnev delivered the first salutatory speech at the banquet table (shedding a tear at the correct moment): "...Your vigorous political and public activity, enormous experience and wisdom, inexhaustible energy and revolutionary will, steadfastness and un-

## IT WAS ABSURD TO EXPECT DENATIONALISED "LITTLE RUSSIANS" TO SHOW AT LEAST SOME CONCERN FOR THE RUSSIAN EMPIRE

1961 and Cuban Missile Crisis of 1962), blew up Tsar Bomba (a massive hydrogen bomb) on Novaya Zemlya, and terrified the nomenklatura with his economic experiments (particularly in agriculture) and attacks on artists, all while behaving like a buffoon on the international stage. And worst of all: the First Secretary began to fight against the privileges of the party nomenklatura!

No one trembled before him as they did with Stalin, as they knew that there would be no mass incarcerations or executions. Without fear, there was no need to obey. Khrushchev had irked everyone. And "his Ukrainians" (who were privileged, which means that they felt entitled to be "irked" before anyone else) led the dissatisfaction.

And many were discontent: the army was annoyed by number reductions and budget cuts, urban residents by the deterioration of supplies and rising prices, rural residents by cuts to subsidiary farms and the ban on keeping cattle, and intellectuals by scandals like the "Bulldozer Exhibition".

wavering integrity have earned the deep respect and love of all Communists and all Soviet people. We are happy to work alongside you, and follow your example of a Leninist approach towards the issues of party life and state building, always being with the people, devoting all your strength to them and constantly moving forward towards the greater goal – building a communist society... We believe, our dear friend, that you have only lived half your life. We wish for you to live at least as much again, just as brilliantly and productively. We heartily embrace you on this momentous day."

For six months, the conspirators prepared their coup while keeping up appearances of complete obedience to the leader. However, in late September 1964, before leaving for a holiday in the Crimea, Khrushchev found out about the plot from Vasili Galyukov, an employee in the administration of the Presidium of the Russian Su-



## **BREZHNEV REPRESENTED THE ASSUMPTION OF POWER BY THE UKRAINIAN "DNIPROPETROVSK CLAN", WHICH HERALDED THE DECLINE OF THE EMPIRE**

preme Soviet, who overheard what he should not have and immediately blew the whistle. Khrushchev summoned Pidhornyi: "For some reason, Comrade Pidhornyi, rumours are going around that there is a certain group that wants to get rid of me and you are involved in it?" Pidhornyi thought (as he later told Shelest) that Brezhnev had spilt the beans and suggested giving the KGB the command to investigate. But just before his flight, Khrushchev told members of the Central Committee Presidium: "You're plotting something against me, my friends. Look, if anything crops up, I'll throw you out like puppies".

In Crimea, Shelest, as "master of the republic", accompanied Khrushchev. But the weather turned bad, and the First Secretary flew to Pitsunda, Abkhazia. On October 11, he called Polianskyi from there to say that he knew everything and would return in three or four days to "show everyone what's what". When Brezhnev, who was leading a delegation of the Supreme Soviet on an official visit to the GDR, found out about this, he got terribly scared and did not want to go home.

The conspirators did not know that Khrushchev had called Zhukov, who he sent into retirement himself, and arranged a meeting. But they knew that Khrushchev had scheduled a Plenum that was to proclaim a new economic policy and to some extent change the political system. There were persistent rumours that the First Secretary intended to use this Plenum to dramatically reshuffle the upper levels of government. The plotters realised that the time had come.

Semychastnyi called Brezhnev in the GDR (where the latter stubbornly remained, cata-

strophically violating diplomatic etiquette) and said that it was time, but nothing was possible without Brezhnev. But Leonid Ilyich got on the plane only when Marshal Malynovsky, Defence Minister, agreed to take part in the coup. Pidhornyi also urgently flew in from Moldova, where he was on a working visit.

On October 12, the conspirators called a meeting of the Central Committee Presidium in the Kremlin. They planned to hold a closed session of the Presidium the following day, which would only be attended by Presidium members and candidate members, as well as Central Committee secretaries. Then summon Khrushchev from Pitsunda and force him to resign.

Shelest recalled, "Before his (Khrushchev's) arrival, we had meetings for almost two days, always discussing how we should summon Khrushchev. Pidhornyi was originally entrusted with this. But he had spoken to Khrushchev the day before. So Pidhornyi refused: 'I'm not going to call, because that would raise doubts. I spoke with him recently and there was nothing wrong, then suddenly we're summoning him...' It was decided that Brezhnev would call. We were all present when Brezhnev talked to Khrushchev. It was awful. Brezhnev was shaking and stuttering, his lips turned blue, 'Nikita Sergeyevich, here... it's just... we request... that you come back... to deal with some issues...' Khrushchev said something to him, but we did not hear it. Brezhnev hung up, 'Nikita Sergeyevich said that he... for two days and you've already... shit your pants... can't deal with the issues. OK, call me later. Mikoyan is here, we'll discuss it.'"

Anastas Mikoyan, a brilliant opportunist, was with Khrushchev in Pitsunda and prompted him to make the "right" decision. When Brezhnev called a second time the same evening, Khrushchev said, "OK, I will fly back".

The only military force capable of supporting Khrushchev was the Kyiv Military District, commanded by Khrushchev's personal friend Petro Koshovyi, but the KGB was to see to it that the First Secretary could neither contact Koshovyi nor send a plane to Kyiv.

The meeting of the Central Committee Presidium began at 15:30 and went without a hitch. All members of the Presidium spoke one at a time and each demanded the resignation of the First Secretary. Khrushchev tried to fight, but he failed to convince his opponents or split their ranks.

The meeting continued the next day, October 14, but the end was already nigh. Brezhnev delivered the main denunciatory speech: "Nikita Sergeyevich, you know my attitude towards you. At a difficult time for you, I honestly, boldly and confidently fought for you and the Leninist line. I had a myocardial infarction then, but even seriously ill, I found the strength to fight for you. Today, I cannot ignore my conscience and would like to make some remarks from Party member to Party member... If you, Nikita Sergeyevich,



did not suffer from such shortcomings as a lust for power, self-admiration and a belief in your infallibility, if you had even a little modesty, you would not have allowed the creation of your personality cult. You have made the radio, film and television serve yourself. You have taken a liking to giving instructions to everyone on all issues, but we know that no single person can cope with this task – this is the root of all errors..."

For some time, Khrushchev tried to object, appealing to his colleagues' conscience: "I apologise to all of you if I offended someone or said something wrong, but you all supported our decisions. You were involved in them and voted!" Realising that it was all in vain, the First Secretary fell silent. He was broken and crushed. He agreed to write a request "to be dismissed from office for health reasons".

On the same day, a Central Committee Plenum started at 18:00, which was opened by strong criticism from Suslov. Khrushchev asked for permission to give a short answer, but the presiding Brezhnev did not dare, remembering the 1957 Plenum. Khrushchev was blamed for 5 C's: corn, communism (the promise to "live under communism"), culture, China (he fell out with Mao) and the Cuban Missile Crisis, as well as his penchant for lofty rhetoric and "showing people what's what". The Plenum immediately relieved him of his duties as First Secretary of the Central Committee, member of the Central Committee Presidium and Chairman of the Council of Ministers "due to old age and deteriorating health".

Khrushchev could no longer fight. He was old and tired. Perhaps the fact that "his Ukrainians" left him was the most distressing. They all betrayed him. They unanimously dismissed him and equally unanimously elected Brezhnev. The Ukrainian Leonid Ilyich did not completely destroy his defeated enemy, personally granting his predecessor a miserly pension.

The retired Khrushchev took an interest in hydroponic gardening and read a lot. In 1968, he started to write his memoirs, although former colleagues hinted that it would be better not to. He did not listen. And died of a heart attack at the Central Kremlin Hospital on September 11, 1971.

## **A UKRAINIAN ON THE THRONE – AND THE END OF THE USSR**

It is clear that all these people were more "Russian-Soviet" than Ukrainian. However, when they were in power, the Ukrainian voice in the "Soviet choir" became stronger.

Nevertheless, their replacement was inevitably dictated by the conventions of the genre. Shelepin and Semychastnyi left their high positions in 1967, Shelest in 1972, Polianskyi in 1973 and Pidhornyi in 1977. Marshal Malynovskyi died of natural causes in 1967.

The "Ukrainian mafia" did not disappear, only Brezhnev updated its composition, adding "his men from Dnipropetrovsk", who did not

emerge from under the umbrella of "Stalin's old guard". In Moscow, there were melancholy jokes that Russian history was divided into three periods: pre-Petrine, Petrine and Dnipropetrine. The most influential representatives of the "Dnipropetrovsk clan" were such "pillars" of the late Soviet Union as Volodymyr Shcherbytskyi (First Secretary of the Ukrainian Communist Party), Konstantyn Chernenko (Chairman of the Supreme Soviet Presidium and later General Secretary), Mykola Tykhonov (Chairman of the Council of Ministers), Viktor Chebrikov (head of the KGB) and Mykola Shcholokov (Interior Minister). Leonid Kuchma, the second Ukrainian president, was also part of this clan.

Of course, under Brezhnev there were enough Ukrainians not from Dnipropetrovsk in the upper echelons of power: Andriy Kyrylenko (member of the Politburo), Andriy Hrehko (Marshall and Defence Minister) and Vitaliy Fedorchuk (head of the KGB), among others. Together, these Ukrainian functionaries unintentionally



**IN 1968, KHRUSHCHEV STARTED TO WRITE HIS MEMOIRS, ALTHOUGH FORMER COLLEAGUES HINTED THAT IT WOULD BE BETTER NOT TO. HE DID NOT LISTEN. AND DIED OF A HEART ATTACK AT THE CENTRAL KREMLIN HOSPITAL ON SEPTEMBER 11, 1971**

brought the Soviet Union, drowning in the sweet, gold-plated Era of Stagnation, to its ignominious and logical conclusion.

Aleksandr Pyzhikov: "...from the late 1970s, the trend of 'state debauchery' gained in strength. By then, it could not be opposed. The Soviet project, powered by Russians' belief in a better life, was completely discredited and emasculated by Brezhnev's (Ukrainian) leadership, which paved the way for the collapse of a great country, over which all sorts of rabble were already circling, ready to plunder."

What else did the Russians want? It was absurd to expect denationalised "Little Russians" to show at least some concern for the Russian Empire, when the ability to care about Ukraine had already been beaten out of them. Besides, these "Little Russians" retained the characteristic of the Ukrainian soul that forces Ukrainians to fight against a lack of freedom in any time or place. First, they helped Khrushchev deal with Stalin's "personality cult" and then liquidated Khrushchev's own "personality cult".

After all, it is time the Russians understood once and for all that Russian ideas for a "better life" – with top-down governance, disorder, camps, stupidity and starvation – are categorically unacceptable for Ukrainians. Sooner or later, with armed force or a well-fed bureaucracy, Ukrainians will always ruin their "better life". So it is in the Russians' interests not to try to drag us back into it... ▣

# Bite and sting

Hanna Trehub

Performance art has gained pace since the Euromaidan. But it is not new to Ukraine



**An upgrade of classics.** Odesa-born Oleksandr Roitburd portrays classic writers and artists from Ukraine and the world in traditional Jewish attire. This painting features Ukrainian landmark poet Taras Shevchenko

**D**uring the decades of profound “unfreedom,” the terrors of Stalin and the stagnation of the Brezhnev years Ukrainian arts saw no artistic or theatrical rumbles, and no outrageous, shock or performance art. What there was remained in closed artistic circles and never became widely known. But times have changed. In an independent Ukraine, these artistic practices raise a number of questions about the degree of internal freedom in Ukrainian society, its willingness to know about what’s happening in the arts, not so much in Europe, America, Asia, or Russia—to which people were generally forced—, as in their own country. And about how honest they are with themselves.

The history of performance as an art direction in Ukraine has roots going back to the traditions of the Avant-garde at the beginning of the 20th century. According to Alisa Lozhkina, editor-in-chief of ART Ukraine, in this context, the Futurists lead by David Burliuk come to mind, with their strategy of shocking the general public: they would walk the streets in strange outfits, painted their faces, and held fake funeral processions. Ukrainian performance art in soviet times was no less intriguing. In the early 1980s, a group of conceptual artists in Odesa that included Leonid Voitsekhov, Yuri Leiderman, Igor Chatskin, and Sergey Anufriev held events that were radically different from acceptable soviet art practice and are today seen as classic. One of the most interesting was a joint project between Leiderman and Chatskin called “How to kill with a flag.”

Although many did manage to penetrate it, the Iron Curtain cut off most Ukrainian artists from current trends in the world of the arts. Reproductions and photographs of the works of western artists, the “bourgeois painting” that it was mandatory to criticize, was possible to see in some book in plain wrapping, under someone’s table, but when it came to those works that can only be seen live or on video, the situation was not even that good. Performance as a form of modern art is based on the artist’s actions and is viewed by an audience in real time. Its foundation lies in a concept of art as a style of living.

## PARADZHANOV AND FRYPULIA

One of the first who comes to mind in this context is filmmaker Serhiy Paradzhanov, whose life was filled to abundance with both sophisticated art, and outrageous and hooligan art. The point is that all these things are very subjective and it’s not possible to arrive at a definitive assessment. Incidentally, one of Paradzhanov’s favorite filmmakers was Pier Paolo Pasolini, who made the film “Saló, or 120 Days of Sodom,” which was only allowed to be shown in the UK in 2000.

Another figure worth mentioning is the Kyiv artist Feodosiy “Frypulia” Tetianych, possibly the first Ukrainian artist who could really be called a performer. You might not have been able to see performance art on the streets of Moscow in 1988, but you certainly could in Kyiv. Frypulia performed on Andriyivskiy Uzviz dressed in a polyethylene cloak, a much-patched shirt smeared with paint, with a very long beard and a very strange hat on his head. Few people understood that there was a person hiding under all this, someone who manifested himself in many ways, including as a member of the Artists’ Union of Ukraine, a monumentalist, and one of the leaders of the informal underground of Ukrainian art. Among others, he raised a very significant question: Why did the Artists’ Union have sections on graphics, sculpture, painting, monumental art, and art criticism, but

nothing on op-art, performance or installationa? This issue remains equally current today. According to Lozhkina, the closest comparison to Frypulia's performance strategy might be the European Fluxus movement of the 1960s and 1970s.

### THE MASOCH FUND

Art historian Oksana Barshynova, head of the XX-XXI century art research at the National Art Museum of Ukraine, notes that performance art was a relatively rare occurrence in Ukraine during the 1990s, although artists occasionally did put performances on. "The most exciting ones, in my opinion, were run by the Masoch Fund—Ihor Diurych and Ihor Podolchak," says Barshynova. "Works like 'Mausoleum for a President' and 'The Last Jewish Pogrom' were provocative events that hit their targets, bringing out into the open issues that were hidden through fear and hang-ups." This artistic group was founded in Lviv by theater director and actor Roman Viktiuk in 1991, together with Diurych and Podolchak. The works of this group belong to the European tradition of actionism and is categorized as "aesthetic interactions" by the French art critic Nicolas Bourriaud.

Bourriaud was particularly interested in the collection of artistic practices whose jumping-off point is human relationships. The name "Masoch" was part of the name of this Lviv artists' group, not to promote the works of this Austrian writer or the sexual perversions such as the masochism with which his name is associated, but as an appeal to the "marginal zones" of culture and society. In the "Mausoleum for a President" performance, the artists invited the artistic crowd to the opening of their new project on the lawn in front the National Art Museum. When the guests arrived, they saw a strange object covered in a white cloth. Underneath there turned out to be an electric hotplate on which stood a huge jar of backfat, known as solonyna or salo or in Ukraine. The artists then turned up the burner and when the fat began to melt, a statuette of the then-President of Ukraine, Leonid Kravchuk, emerged.

### THE PARIS COMMUNE

Yet another informal artistic association at the turn of the 1990s was the Kyiv-based Paris Commune. This group of artists rented a studio in the very heart of Kyiv from 1990-1994, in a building that had been evacuated for major renovations at vulytsia Paryzkoyi Komuny 12A, today Mykhailivska. This is where professional performances of classics of modern Ukrainian art took place, involving people like Oleksandr Hnylytskiy, Valeria Trubina, Arsen Sadoviy, Heorhiy Senchenko, Oleh Holosiy, Maksym Mamsikov, Oleksandr Klymenko, Vasyl Tsaholov, Illya Isupov, and Illya Chychkan. This is where the Ukrainian New Wave came into being. It was the place where Oleksandr Roitburd and Dmytro Dulfan would come from time to time.

Art critic Natalia Filonenko, who participated in this group at one point, talks about their experiments in performance art: "Performance art in the nineties looked different from performance today. Back then, it was a lifestyle that was being documented. When people are celebrities, then their entire lives are like a performance. It's fun and you can record it on your camera." She adds that then Ukrainian artists did not understand what western video art was all about, or what that video art

was supposed to look like. "Certainly it wasn't supposed to look like post-perestroika movies, films about people who have been 'torn apart,'" says Filonenko. In addition to the videos being taken by Maksym Mamsikov, a performance by Vasyl Tsaholov doing "Père Lachaise on Karl Marx Street, or The shooting of the Paris Communards, was recorded in photographs whose central theme is the settling of scores among bandits in the "wild 90s," which was part of everyday life then.

From 1993 to 1996, Kharkiv's Rapid Response Team was a project by artists and photographers Borys "Bob" Mykhailov, Serhiy Bratkov and Serhiy Solonskiy who based their creative approach on actionism. Coming from the photographer underground, neither private nor intimate life was subject to taboos the way it had been in soviet times as they studied and illustrated the painful and difficult transition from post-soviet to Ukrainian.

### HOOLIGAN ART TODAY

After 2000, performance art became far more widespread, according to Barshynova. For groups like REP and SOSka, it was possibly the most important instrument of artistic influence. The art group Revolutionary Experimental Space was established on the wave of the Orange Revolution in 2004 by young Ukrainian artists like Mykyta Kadan, Ksenia Hnylytska, Lesia Khomenko, Lada Nakonechna, Zhanna Kadyrova, and Volodymyr Kuznetsov. One of their most notorious events was a wake for Professor Pyrohov in February 2008, when the artists sat at a covered table eating and drinking in a subway car that travelled through the entire city on Kyiv's Red Line, from the Lisova station to Akademmistechko.

The Kharkiv group SOSka was set up in 2005 by Mykola Ridnyi, Anna Kryventsova, Bella Logachova and Olena Poliashchenko after they squatted a one-story building in the center of town, an act that was clearly

**OUTRAGEOUS ART IN AND OF ITSELF IS NOT THE GOAL BUT ONE OF THE STRATEGIES OF MODERN ART—AND OF SOCIAL ACTIVISM AS WELL. ITS PURPOSE IS TO QUICKLY DRAW ATTENTION TO A TOPIC OR PROBLEM, TO ATTACK STEREOTYPES**

provocative hooliganism. The groups most publicized performance was a series called "'Them' on the Streets" in 2006. The artists dressed up as bums in masks representing the country's top politicians at the time and begged for money from passers-by—a direct metaphor for a country over-saturated with political advertising in the run-up to a Verkhovna Rada election.

"After 2000, performance was different from the performance art of the 90s," Barshynova explains. "It became more personal, more reactive towards events. It even began to hybridize, merging with other types and media." As the artists' approach became more thorough, the performance itself became more "serious." The Lviv School of Performance Art, which organizes the only festival of this type of art in Ukraine today, discussions, roundtables and academic studies suggest that performance has taken its place as a fairly ordinary form of art. Meanwhile, it has also become one of the manifestations





**Mocking the insecurities.** In pieces like *The kolhoz Mahākāla* artists of CBX, or the Union of Free Artists, mock some of the worst flaws in Ukraine's mentality. One such flaw is *zhlobstvo*, a widespread social culture where primitive and aggressive paradigm dominates in individual or collective behavior

of civic activism: quite a few events take place in public places, expressing more visible sharpness and affecting a larger number of people. This, then, is the right place for hooligan art and rumbles.

When it comes to outrageous art, Oksana Barshynova says that outrage in and of itself is not the goal but one of the strategies of modern art—and of social activism as well. Its purpose is to quickly draw attention to a topic or problem, to attack stereotypes, no matter what it is. The most outrageous actions, says the art critic, remain those that display the naked body or sexuality. An example of this was Oleksandr Volodarskiy's performance outside the Verkhovna Rada attacking the violation of human rights: it imitated sexual intercourse as a protest against the actions of Ukraine's notorious Commission for Public Morality. Volodarskiy was taken to court over this performance and even spent several months in jail. After being released, he had an inkless tattoo made on his back to read "This ain't Europe, folks."

An equally outrageous performance was "Sleeping Beauty" by Taras Polanaika at the National Art Museum.

The Culture Ministry tried to stop it, religious groups protested against it, and the event raised heated debate in art circles. Its shock value lay mainly in the fact that a fairytale, imaginary story was brought to life: a real sleeping girl was allowed to be kissed and this took place at a public institution—the museum—and aired online.

In 2006, Oles Doniy founded the *Ostannia Barykada* or Last Barricade art society, which organized an annual underground festival called "Independence Day with Makhno" from 2006 to 2009 at Hulaipole, the hometown of the anarchist Otaman Nestor Makhno. The festival took place in the atmosphere of the 1920s, complete with machine-guns on horse-drawn wagons. In 2008, a much-talked-about event called "Barricade on the Tuzla" took place, to demonstrate that Crimea was territory tied to the development of Ukrainian culture.

Outrageous and hooligan art are the calling card of another group called the "Freedom or Death" Union of Free Artists (CBX), founded in 2009 by artists Ivan Semesiuk, Serhiy Koliada, Andriy Yermolenko, Oleksa

Mann, Nina Murashkina, Ihor Preklita, Serhiy Khokhol, and Antin Mukharskiy. They call themselves national anarchists. Although it initially seems that they are merely entertaining, the purpose that brought the group together was to engage in artistic diagnosis of various states of contemporary Ukrainian society and reflecting it in works of art, public events and performances that, by raising one issue or another, force society and the viewer to engage in a dialogue. They gave Ukraine the Zhlob-Art project, or Parasite Art, which transforms and makes fun of some of the less-than-attractive aspects of the national mentality. Members of CBX associate the parasite with mass man, a phenomenon about which Spanish philosopher Jose Ortega y Gasset wrote and refers to individuals who are driven by their emotions and deal with all their problems through aggression and emotional pressure on those around them. This kind of person is incapable of freedom and is a victim of televised upbringing and education.

Most members of CBX express their views on canvas, but they have also engaged in street performance. At the Lviv Publishers' Forum in 2013, Mukharskiy organized an event to go with the presentation of an art book called *Zhlobologia*: a cage containing some young people who were obvious *gopniks*<sup>1</sup> for the public to view. After the Euromaidan, this group pretty much stopped its activities. After all, this event, despite its bloodiness and tragedy, can be seen as an extraordinarily powerful performance, on a scale that Europe had never seen before. There are many graphic images from those events, such as Taras Shevchenko or She—echoing Che Guevara—on the barricades and Lesia Ukrainka in a gas mask, two of Ukraine's most iconic poets.

According to Alisa Lozhkina in her comments for *The Ukrainian Week*, one of the best-known Ukrainian performance artists is Alevtyna Kakhidze. Working consistently in this vein, possibly Kakhidze's most brilliant performances was the project "I'm late for a flight that I can't possibly miss," in which she used a private plane belonging to Rinat Akhmetov to sketch the earth from the sky.

Another big name is Larysa Venedyktova and the group Tanzlaboratorium, who work at the intersection of contemporary art and dance.

"Many performance artists have appeared in Ukraine since the Maidan," recalls Lozhkina. "Often, they weren't artists but community activists. The photograph of Lviv musician Markian Matsekh playing the piano in front of ranks of armed soldiers near the Presidential Administration on Bankova went viral during the Maidan. Another performance was thought up by separatist Mariam Drahina. During 'Ukrainian women against a servile future,' women brought a huge number of toys to the Berkut special forces. Another event organized by the Civic Sector of the Euromaidan was called, 'Dear God, is that really me?' Here, women brought the Berkut mirrors marked with this question and forced them to look into those mirrors."

A country battered by war can't possibly remain neutral to this reality in its art. Kakhidze herself was driven out of Zhdanivka in Donetsk Oblast (currently controlled by the pro-Russian forces) by the Russian war against Ukraine and has gone on to carry out a number of other interesting projects. In 2015, she did a performance called "Calls from a Cemetery" in Cologne,



**Shock art.** In 2013, Antin Mukharskiy organized an event to go with the presentation of an art book called *Zhlobologia*: a cage containing some young people who acted as gopniks for the public to view

in which she talked about her mother, who has stayed behind in occupied Donbas and the only place where her mother can receive a cell-phone signal to the outside world is in the cemetery near her apartment building. In this case, performance art is a way to tell about what is going on today in Donbas that is familiar to a western audience.

Two elements play a key role in performance art: content and form. Today, western art is more inclined towards form whereas Ukrainian tends towards content. Probably because we have an ongoing war. As a result, Ukrainian actionism has become heavy, and severe, and often uses blood. For instance, artists from the C14 group spilled bull's blood in the courtroom where Berkut officers were suspected of shooting demonstrators on the Maidan. "The highest level of actionism is when the artist risks self and life to cause shock," writes blogger Volodymyr Nesterenko. "I think the kind of performance art that Ukraine should be proud of is the actions of the roofer Mustang, who repainted a star on a stalinist building in Moscow blue and yellow. Another similar performance was Serhiy Zakharov's Donetsk caricatures of the odious folks running DNR—Ghirkin-Strelkov, Motorola and so on. He was caught and was kept in the basements of the DNR KGB for some time."

The point is that those Ukrainian artists who engage in performance, outrageous and hooligan art typically work on themes that are familiar in post-soviet countries. When Roitburd or Podervianskiy engage in hooligan art and trolling, it's subject that are not only familiar to those who once lived in the socialist camp. The same is true of the performances of Dakh Daughters under the direction of Vlad Troitsky.

For Ukraine, the question is how to increase the quantity of this kind of art that might not only be used in Europe but might capture the hearts and souls of people around the world. Art critic Natalia Filonenko points out there still is no system for teaching, presenting and supporting performance as a form of modern art. Performance isn't always about revolution. It's also contains deeply esthetic elements, such as choreography. It's just a matter of whether this is the case during a time of geopolitical and social turbulence, in Ukraine, in Europe and in the world. ■

<sup>1</sup>Gopniks are a class of hoodlums, young men from poor families with little education who cluster together in gangs to harass and rob others. The British equivalent would be chavs. The Ukrainian titushky are basically gopniks for hire.



February 17, 20:00 — Feb. 20 – Mar. 7, 19:00 — February 21, 19:00 —

**Jazz for Grown-ups  
with Oleksiy Kohan****Caribbean Club  
(Kyiv, vul. Symona Petliury 4)**

An evening of jazz with Oleksiy Kohan means unexpected improvisations and a down-to-earth. Every month, Ukraine's jazz guru draws the biggest fans of this music to the Caribbean Club for an open chat about life in the language of jazz. Kohan's genuine, intriguing conversations with his audience reflect the musician's many years of writing about jazz. But, more importantly says the jazzman, this format allows you to laugh at yourself and not be afraid to experiment.

**Documenting the Everyday  
Izone  
(Kyiv, vul. Naberezhno-Luhova 8)**

Contemporary Ukrainian history written in photographs—this, in short, describes the latest exhibit by renowned Ukrainian photographer Oleksandr Chekmenov. As part of a Donbas Studio project, this show includes photographs from two well-known series by Chekmenov, "Donbas" and "Ukrainian Passport." The program includes a presentation and discussion of his book, Passport, on the important role of the photographer and photographs in the contemporary history of Ukraine and Ukrainians.

**Animal Ads Day  
Planeta Kyiv Cinema  
(Kyiv, prospekt Stepana Bandery 34B)**

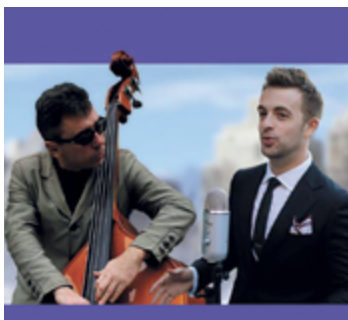
A presentation of several hours' worth of a wide variety of commercials today is not unusual, but this collection of the best public awareness clips about animals comes to Ukraine's capital for the first time. The animal videos come from around the world. Animal Ads Day is a joint project between UAnimals, an animal rights initiative, and the Molodiya Festival of public awareness campaigns. The organizers ask that those who are interested in this showing register in advance.



February 24, 19:30 — February 28, 19:00 — March 24, 20:00 —

**Ark Ovrutski / Benny  
Benack III (USA)****BelEtage  
(Kyiv, vul. Shota Rustaveli 16a)**

The *Jazz from New York* project brings the quintet of double-bass player Ark Ovrutski to Kyiv, featuring vocalist and trumpet player Benny Benack III. The New York-based musicians will present Ukraine's capital with their new Winter Farewell program, which includes some of the best tracks from their US albums *Sound of Brazil* (2010) and *44:33* (2014), as well as new compositions from their latest CD, *Intersection* (2016). See winter off in a great mood to the accompaniment of great jazz!

**British Theater on Film:  
"No Man's Land"****Kinoteatr Kyiv Cultural Center  
(Kyiv, vul. Velyka Vasylkivska 19)**

The Kinoteatr Kyiv's February schedule of British theater on film ends with a performance of Harold Pinter's comic masterpiece, *No Man's Land*, starring Ian McKellen and Patrick Stewart. Hirst and Spooner, two elderly writers, get so caught up in their own storytelling after meeting at a pub that their pleasant chat turns into a strained conversation as they continue drinking in Hirst's mansion. The situation becomes even tenser when two aggressive young men enter Hirst's home.

**Babylon Circus Opera****Palace of Arts  
(Kyiv, prospekt Peremohy 37, K7)**

Filmmaker Vlad Troitskiy looks at conflict between the individual and God in modern society. The founder of the DAKH Center for Contemporary Art once again makes the musical accompaniment play a key role in this new project. By mixing a variety of musical styles, from avant-garde and rock to trip-hop and shamanic folklore, Troitskiy conveys the story of the birth of nations. The operatic circus includes a mix of vocal techniques and a marvelous performance by theatrical actors, circus performers, live puppets and a team of VeeJays.







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