

The Ukrainian Week

International edition

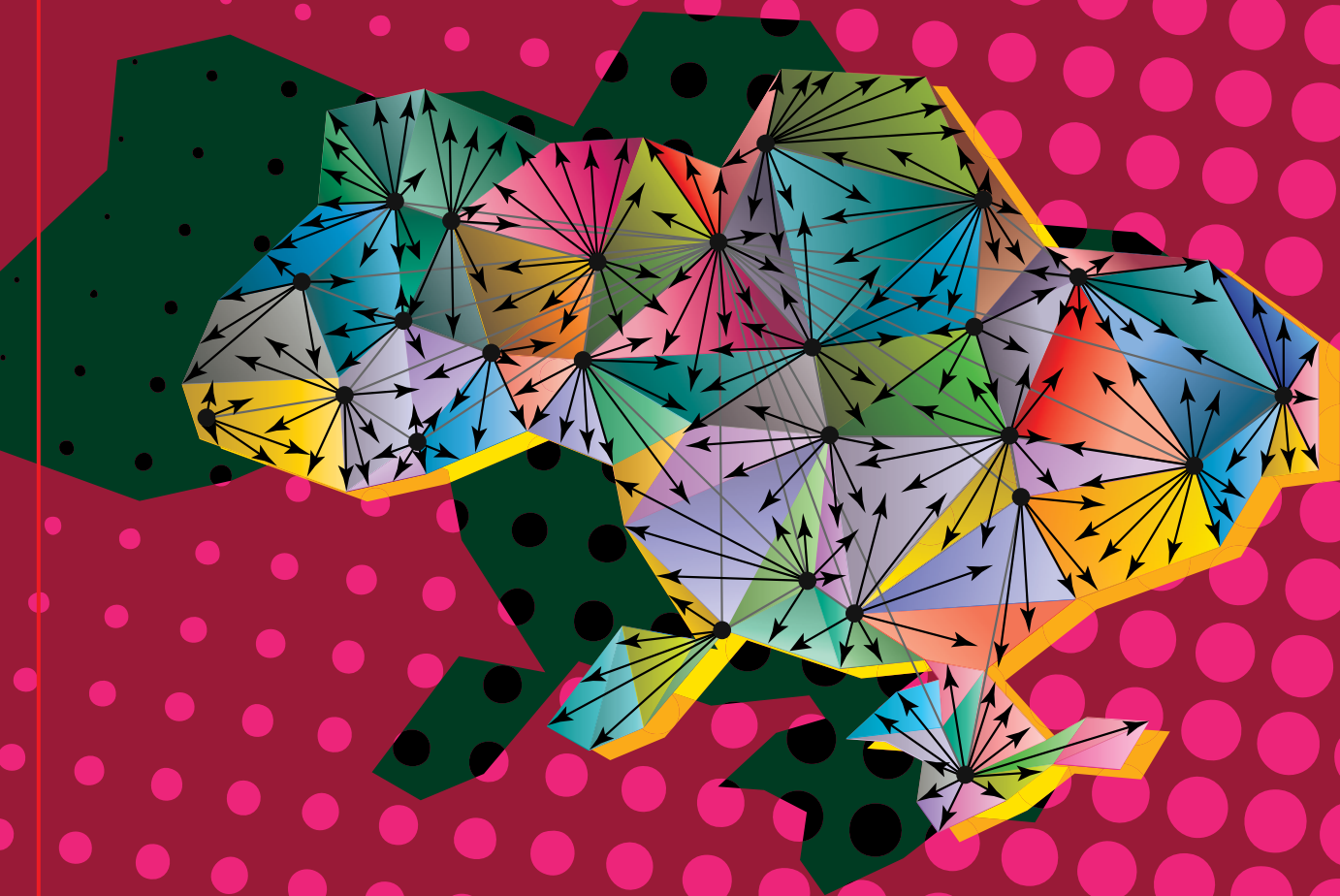
#5 (111) May 2017

How the years of war changed
life in Donbas

IMF's David Lipton on
cooperation with Ukraine

The definition and potential
of Ukraine's middle class

THE FIRST LESSONS OF DECENTRALISATION



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BRIEFING

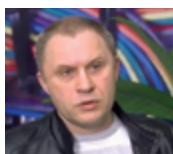
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ТИЖДЕНЬ





BRIEFING

Willingness vs capacity

Andriy Holub

Politicians have become tangled in their own intrigues, reforms are not taking place, and the state lacks a development strategy. It would be hard to find a more banal statement in journalist's reports than this. This thesis has almost always reflected the political situation and typified those in power. And now it's become a cliché.

On the other hand, it's quite difficult to explain this in conversations with foreigners and political spin-doctors—or their clients—are also unwilling to understand this, while they speak wistfully about “the third Maidan” just about every week. Ukrainians have become used to the fact that their government doesn't do what is necessary and the reasons for this are also very well understood by them. Just listen to any expert in the social nets: “They're all the same and they can't seem to steal enough.”

What's a lot more important for ordinary Ukrainians is the answer to a very different question: “Could they, if they really wanted to?” In other words, they see the people in power as falling into two

PHOTO: UNIAN



categories—“those who don’t want to and can’t” and “those who can but don’t want to.” The first lot can be dismissed out of hand, but the second one can be held to account and forced to perform.

Examples are easy enough to find. Incapacity was what Viktor Yushchenko was mostly blamed for. And the inability to leave Russia behind was the beginning of the end of Viktor Yanukovich.

The president and national deputies elected since the Euromaidan have passed the midpoint of their terms of office. During this time, one political group has done a great deal to concentrate almost all the levers of power in its own hands. Petro Poroshenko depends on the legislative coalition in which his faction is the largest, while the Cabinet of Ministers recently celebrated the first anniversary of his ally, Volodymyr Groysman, in office as PM. However, not only has this group gathered all the power into its hands, but also all the opportunities. The question comes down to whether this control is nominal or real.

The situation in the Verkhovna Rada is illustrative. On paper, there is a parliamentary coalition that, in addition, has reserves in the form of many deputy groups that are linked to one oligarch or another. However, the Rada has proved in recent months to be completely incapacitated. Initially there was the drawn-out drama with appointing an auditor for NABU that ended in a draw: the coalition was unable to get its person in, but it also did not let any outsider get the appointment. This failure can, of course, be blamed on the lack of desire on the part of deputies, who refused to take public responsibility for a pathetic situation.



A YEAR AGO, PREMIER GROYSMAN PROMISED TO SHOW EVERYONE HOW TO RUN A COUNTRY PROPERLY. AND MADE A KEY DECISION ESTABLISHING MARKET PRICES FOR NATURAL GAS. AFTER THIS, HE NEVER MADE ANOTHER EQUALLY SIGNIFICANT DECISION

After this, other events took place that are also hard to describe as anything else but incapacity. The Rada failed to pass a bill on the Constitutional Court. Deputies also turned down changes to the “Savchenko law” in second reading. This might all have been irrelevant except for one important point: judiciary reform is the key component of the president’s rhetoric these days. Indeed, it would be very hard to find any fans of the current system among voters. The inadequacy of the “Savchenko law” was explained away by the rising tide of crime and the press joined the chorus in criticizing this bill. After all this, Speaker Andriy Parubiy dismissed the legislature for a month, until May 16, although he clarified it by saying this was not a recess but a time for “working in committees and constituencies.”

A year ago, Premier Groysman promised to show everyone how to run a country properly. And immediately made a key decision establishing market prices for natural gas. The decision to raise consumer gas rates can be looked at from various angles, but its importance is indubitable. Unfortunately, after this, Groysman and his Cabinet never made another equally significant decision. Yes, there’s the initiative to double the minimum wage to UAH 3,200 a month, but it would be hard to count it among the many unpopular reforms still in the queue. It’s equally hard to say how much reforms in Ukraine have

progressed since the appointment of Groysman. The VoxUkraine portal and a number of other organizations launched an Index of Reform Progress that is updated every two weeks. These experts evaluate not only the work of the Cabinet but also of other government agencies. Still, in the time that Groysman has been in office, not once has the Index, based on a scale of -5 to +5, even reached the +2 that the authors consider the minimum acceptable level—let alone higher. Prior to Groysman it might have been rare, but it did occasionally get there.

Groysman seems to be trying to maintain a certain comfortable space and not to risk anything. That makes the Government’s opportunities less obvious than those of other government agencies. For now, the Government is dealing with the consequences of the Donbas blockade. Power and Coal Minister Ihor Nasalyk has promised to stop the import of anthracite from Russia after signing a delivery contract with the US. Of course, talks about importing American coal and re-equipping Ukraine’s TESs or cogeneration plants have been going on since the very start of the occupation of Donbas. Nevertheless, the real, rather than merely formal, blockade of ORDiLO, as the occupied territories are called, seems to have taken Ukraine by surprise. As of April 19, five of the country’s six coal-fired TESs have been shut down temporarily in order to economize on anthracite. Scheduled to be reviewed in the Rada shortly, the reform of the healthcare sector is likely to become a real measure of the current Government’s capacities.

Another lever of the current Administration is the law enforcement agencies, where also many questions remain unanswered. It’s not so much a matter of the government’s desire to really eliminate corruption and reform the system, but about the minimum necessary to survive: the capacity to combat those elements that are a direct threat to national security—and therefore to the government itself. At the moment, civic activists continue to independently expose separatists and Russian agents who are sometimes even benefiting from public funding, e.g., the story with the community council attached to the Defense Ministry. Meanwhile, judges keep releasing Berkut officers suspected of crimes against the Maidan protesters, who then show up in Russia.

Without resorting to conspiracy theories, it’s hard to imagine just how the flight of rank-and-file Berkut to Russia might benefit the Poroshenko Administration. But it does raise questions about its capability to prevent such incidents in the future. Instead of systematic work, the law enforcement agencies often restrict themselves to eye-catching statements or completely incomprehensible decisions that turn them into laughing stocks. For instance, on April 19, the Cabinet of Minister—obviously reflecting the wishes of the new leadership of the police force—made alterations to police uniforms that affected those at the rank of general: they were given back the right to wear stripes and to decorate their collars, ties, epaulettes and caps with ornaments in the form of “oak leaf and *kalyna* branches,” the *kalyna* or guelder-rose being a symbol of Ukraine. Maybe this kind of “return to traditions” will help change the situation in the battle with crime, rather than the reform of investigations promised for so many years now.

In the fourth year since the Euromaidan, the government has found itself in a situation where it’s no longer about its desire to reform the country. Today, it has to prove its capacity to do so. Otherwise it could find itself facing far more serious problems than the specter of an early VR election. ■

The undermining delay

Volodymyr Vasylenko

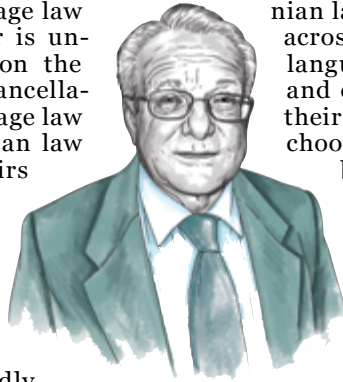
The thought of passing a new language law circulating among those in power is ungrounded and dangerous. Quite on the contrary, it is the delays in the cancellation of the Kolesnichenko-Kivalov language law and the passing of an adequate European law on the state language in Ukraine that stirs frustration and tensions in society.

After Viktor Yanukovich fled Kyiv, the Verkhovna Rada passed a bill cancelling the Kolesnichenko-Kivalov language law as illegitimate on February 23, 2014. The then-Speaker of and acting President, Oleksandr Turchynov refused to sign the bill into law, supposedly because its cancellation caused Russia's armed aggression against Ukraine. This argument was patently wrong. Russia's armed aggression began on February 20, 2014, and preparations for it had been ongoing for quite some time, whereas the bill was passed after all this.

Vladimir Putin and the Russian Duma cited the protection of the rights of Russian speakers rather than the cancellation of the K-K law as the pretext for Russia's aggression against Ukraine. The link between this aggression and the language issue lies in that Russia managed to occupy parts of the Ukrainian territory that had been completely purged of all things Ukrainian, including its language.

None of the UN missions that visited Ukraine before or after the start of hostilities ever observed any violations of the rights of Russian speakers. Moreover, not one Russian had appealed to the European Court of Human Rights, nor had Russia itself filed any complaints with the UN Human Rights Committee. On the contrary, it is the rights of Ukrainian speakers that have always been violated in Ukraine and the Ukrainian-speaking majority still feels discriminated against even today. Why? Because there is still no normal law about the Ukrainian language as the state language that properly implements the provisions of Art. 10 of the Constitution.

Therefore, the majority in Ukraine will support a new language law that will comply with international standards. This will obviously upset Russia since its policies were always focused on preventing the revival of the Ukrainian language. There will be all kinds of insinuations, speculations and accusations. A brief wave will roll through a small group of Ukraine's politicians who are Russia's fifth column here. However, the passing of the new law will not stir backlash in Ukrainian society. It is ready for Art. 10 of the Constitution of Ukraine to be properly implemented, which requires that the Ukrai-



nian language be used in all areas of public life across the country. All the more so, as the new language bills comply with the Constitution and do not deprive the citizens of Ukraine of their right to speak in whatever language they choose in their interactions with others. The bills also aim to ensure language rights of national minorities.

57 MPs turned to the Constitutional Court of Ukraine in August 2014 with a demand to declare the law unconstitutional. Although the court agreed to hear the case in fall of 2014, it only actually began to do so in November 2016. So far, the reporting judge, Ihor Slidenko, has drafted a ruling, but discussions are ongoing behind closed doors and it's not clear how or when a final ruling will be made. If the Rada were to adopt the law on the state language without waiting for the Constitutional Court to hand down a ruling, the issue would be resolved. The new law would make the K-K one null and void.

THE LINK BETWEEN RUSSIA'S AGGRESSION AND THE LANGUAGE ISSUE LIES IN THAT RUSSIA MANAGED TO OCCUPY PARTS OF THE UKRAINIAN TERRITORY THAT HAD BEEN COMPLETELY PURGED OF ALL THINGS UKRAINIAN, INCLUDING ITS LANGUAGE

Yet, many politicians, including in the top echelons, think in the old paradigm, do not take into account changes in society and are once again trying to play the language card to increase ratings and shore up the position that politicians think suits Russian speakers. The majority in Ukraine is not happy with this approach and is ready for the new language law to be passed. According to polls, even a large part of ethnic Russians believe it necessary to define the Ukrainian language as the only state one and supports the passing of the law that will regulate the language issue in Ukraine in a civilized manner. The latest polls show that the citizens of Ukraine do not see the language issue as a priority one and 92% of those polled identify themselves as Ukrainians. In this environment, the passing of a language law cannot provoke social conflicts.

The politicians who believe that the passing of the new language is not timely have no proper understanding of the significance of a state language in promoting political consolidation in the country and strengthening national identity and security. ■

The trail of Odesa

Stanislav Kozliuk

Three years after the May 2 fire at the Trade Unions' Building in Odesa, virtually all those involved have fled Ukraine. The remaining suspects have been under trial for more than two years now

"I had not known him before," Valeria says. "I've seen him by my parents' car on photographs. Later I've heard that he referred to himself as the "commandant of Kulikovo Pole in Odesa."

On August 10, 2014, Valeria's mother, Olena Kulish and her husband Volodymyr Alekhin who lived in Peremozhne, a village near Luhansk Airport, were kidnapped. Her grandfather and several kids from the next-door families who were using the basement as a bomb shelter stayed in the house for the days that the shelling lasted. Valeria's parents never returned. Six months later, Valeria got a call from the "Luhansk People's Republic prosecutor's office". She was told of two bodies that had been found and could be her parents. She was invited to come to Luhansk and identify them. That visit could be pretty risky. Her relatives managed to send the DNA of the bodies to Kyiv. The analysis confirmed the assumptions of the "LNR prosecutor's office".

An "individual special force Odesa brigade" was involved in the murder of Valeria's parents. At least two suspects featured in the case: Oleksiy Gerikh and Oleksiy Fominov. The same gang was involved in another murder: on August 22, 2014, seven armed men from it killed the Bochnevych family of four.

"Many residents of Peremozhne used to work at the Luhansk Airport," comments Yevhenia Zakrevska, a human rights advocate working with Valeria. "When the fighting began, some locals started delivering humanitarian aid to the Ukrainian military, mostly food. That put them on the militants' execution lists. In fact, those lists featured both people who were helping the Ukrainian Army, and those who were more or less open about their pro-Ukrainian stance, those who were wealthier than others, and those who were more successful. Valeria's mother had worked at a radio station, her stepfather had been a software developer," Yevhenia says.

The Odesa gang was involved in kidnapping people and looting, among other things, she adds.

"Some people from those execution lists fled, some were killed. There are reasons to believe that it was done by the Odesa brigade. In some cases, people were taken to an unknown destination and then brought back home. The facts of looting were recorded. For instance, the house of Olena Kulish and her husband was looted at least twice after they had been kidnapped. At that point, Valeria's grandfather still lived there," Zakrevska says.

The gang named itself Odesa for a reason. Some of its members had been noticed before the war broke out in Donbas. The first mention of them dates back to the May 2, 2014 tragedy in Odesa. More-

over, Oleksiy Fominov personally admitted that he had been a "commandant of the Kulikovo Pole" (the square where the Odesa Trade Unions' building is located and the anti-Maidan gathered in the late 2013 and early 2014 - **Ed.**). He said this in an interview for Den-TV, an online channel. A closer look reveals curious details. In addition to calling himself a "commandant" he speaks of his involvement in the May 2 clashes in Odesa, his move to Rostov-on-Don in Russia, and later to Luhansk. It was there that Fominov organized the gang. In the interview he also mentioned his stay in Peremozhne and fighting over the Luhansk Airport.

According to reports in the media and the letters sent by Fominov and Gerich to the St. Petersburg Defense and Security magazine, the "commandant of the Kulikovo Pole" is a citizen of the Russian Federation. Before Fominov visited Odesa in May 2014, he had allegedly been in jail but had been released early. No more details are available on him at present.

Out of 50 suspects in the May 2 case, 20 individuals are under trials. Only 5 of them have been arrested

"When we found out that Fominov and the others were Russian citizens, we sent an inquiry there to find out whether that information was accurate, whether they had actually been in jails and how they got released early. After all, we were trying to find out whether Russia was doing anything to hold them accountable for the crimes committed in Ukraine since they are Russian citizens, and so they can go under a Russian trial, not just a Ukrainian one. But our requests were ignored," Yevhenia Zakrevska recalls.

Overall, the list of suspects over the May 2 incident in Odesa included 131 people. Fominov is one of them. However, he was not put on the wanted list until half a year after the fire at the Trade Unions' building. The lawyers dealing with the case of Olena Kulish assume that this was after he had murdered her and her husband. On the clashes in Odesa, the city Prosecutor's Office opened a criminal investigation for hooliganism committed by a group of individuals under Art. 296.2 of the Criminal Code that entails up to four years in jail. **The Ukrainian Week's** sources at the prosecutor's office claim, however, that there had barely been any investigation of Fominov's role in the disruptions in Odesa, organization of rallies and the camp at Kulikovo Pole etc.

"Fominov was known in Odesa. I don't know how it went elsewhere in Ukraine, but the EuroMaidan and the anti-Maidan communicated with each other in Odesa. They organized their rallies to avoid coming across each other and clashing. There was only one case on March 30 when the clash almost happened but the police intervened. But everyone thought Fominov was from Odesa. We knew nothing of his Russian citizenship," comments Tetiana Herasymova, board chair at the May 2 Group, a civil expert analytical group that is doing its own investigation of the incident.

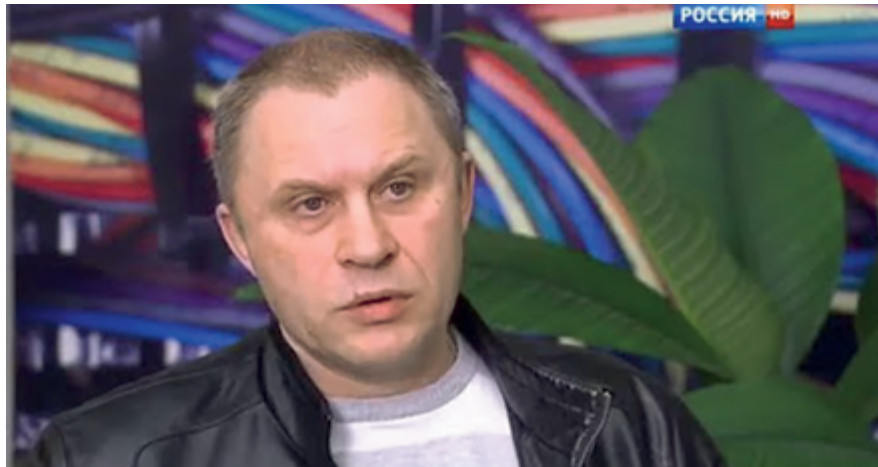
Still, Fominov was never detained. Nor were a number of other people involved.

"There are nearly 50 people who feature in the criminal proceedings as suspects but have not been detained," Zakrevska explains. "This means that nothing is known on whether Fominov crossed the border, where his mobile phone traffic led, whom he spoke with and where this traffic stops. Moreover, I can say that people from Fominov's gang later featured in other crimes. For instance, a slew of explosions in Odesa in 2014-2015 which, luckily, claimed no victims," she concludes.

Once Fominov ended up at the "LNR" controlled territory, he was put in jail eventually. This could have been because of infighting between the militants. At the same time, the "LNR prosecutor's office" was investigating - although it is difficult to know how that investigation goes - the crimes committed by the "commandant" and his cronies. These included the murder of Olena Kilish and Volodymyr Alekhin. Fominov didn't stay long at the detention center and was released as soon as the "investigation" was over. The case of the Odesa brigade should theoretically have been reviewed by the "LNR Supreme Court", but it has none. So the suspects are free.

Ukraine notified Fominov of the allegations in absentia and issued an order to arrest him in 2016. However, there are plenty of questions regarding the quality of the May 2 investigation by the prosecutor's office and courts. One is why the suspect pro-Russian "activists" were released on May 4, 2014, in the first place? Another one is why Volodymyr Bodelan, ex-chief of the State Emergency Service in Odesa Oblast, was released even though he had been the one to instruct the firemen to not respond to calls without his personal permission (the instruction was given verbally, not in writing)? Why no trial in absentia has been launched against him yet, while his subordinates are being prosecuted?

"Several criminal proceedings were opened on the night of May 3 after those tragic events," says Tetiana Herasymova. "They covered mass unrest and police inaction. Eventually, it was all combined into one big case and the most promising episode was singled out. It was about anti-Maidan protesters detained at the Afina shopping mall right after the clashes (it could have been the building from which pro-Ukrainian protesters were shot - Ed.). There were many suspects under that case but only 20 ended up in trial. Some managed to flee while others were exchanged (for Ukrainians held hostage at the "DNR/LNR"- Ed.)," Herasymova comments.



Commandant of crime. In addition to his involvement in Odesa clashes, Oleksiy Fominov has featured in a number of other crimes, including murder, against civilians in Luhansk Oblast

One such person was Oleksandr Hrybovsky, a key figure in the Odesa events. Local activists insist that he was the intermediary for the flow of funding to pro-Russian rallies and pro-federalisation marches. In 2015, he and some other suspects were allegedly swapped for several Security Bureau of Ukraine (SBU) officers that had been taken captive in the ATO area. It is known for now that Hrybovsky has gone to Donbas. No further information on him is available.

"Out of those 20 people, five are in jail and 15 attend trials that have lasted for almost three years now," Herasymova shares. "The prosecutor's office has not yet managed to prove them guilty. The indictment that was transferred to court looks like a political essay rather than a well-grounded document. Almost all 20 accusations have a similar text saying that former officials wanted to return to power and were therefore paying participants of the Kulikovo Pole protests. The actual charges are limited to some three lines: throwing Molotov cocktails and stones, and resisting the police. It is difficult to prove all this, so the judges are imitating a trial process, the prosecutor's office is imitating work, and only activists rally regularly to attract attention," she sums up.

The text of the indictment is different for Serhiy Dolzhenkov of the Odesa Guard, a radical pro-Russian organization active at the anti-Maidan. According to the Ukrainian activists, he had been their contact for coordinating actions with the anti-Maidan and avoiding clashes. On May 2, Dolzhenkov knew that the several thousand-strong pro-Ukrainian march had to take place. Yet, he led his several hundred "guard men" to cross ways with the march and turned off his phone at the very last moment.

This is probably the only episode that is as serious as the State Emergency Service case which has made it into the courtroom so far. The others are either not properly investigated or stalling. Those involved in those cases are in the suspect lists, but they have not been detained. So they have either fled Ukraine or have gone to the occupied parts of Donbas. Where they can continue committing more crimes. ■

Retired and exiled. Dmytro Fuchedzhi, former chief of the Odesa police and a key suspect in the May 2 investigation, has fled to Transnistria



The good, the bad and the ugly

Denys Kazanskiy

How life has changed in three years in occupied and liberated Donbas



PHOTO: REUTERS

Come and go. Some separatist warlords that started the bloodshed in Donbas in 2014 have been liquidated. Some, such as Igor “Strelkov” Girkin (pictured first) have fled to Russia

On April 12, 2014, a group of saboteurs led by GRU officer Igor “Strelkov” Girkin entered Sloviansk in Donetsk Oblast —the same group that had taken part in the annexation of Crimea. That day was the start of a bloody military conflict in Donbas that continues to this day. Later on, Girkin confirmed in one of his interviews that it was he and his gang that got the war going: “I’m the one that pressed the trigger of war. If our group had not crossed the border, everything would have ended up the way it did in Kharkiv and in Odesa. A few dozen dead, burned

or arrested. And that would have been that,” he proudly recalled the events of spring 2014.

Today, those living in the occupied territories controlled by “Donetsk People’s Republic” and “Luhansk People’s Republic” (“DNR” and “LNR”) militia can only envy Kharkiv and Odesa, whose residents look in horror at what is going on in Luhansk and Donetsk.

Once considered the locomotives driving Ukraine’s economy and laying claim to a unique role in the state, these two eastern oblasts are now divided by frontlines and borders, destroyed by shelling and buried in a deep depres-

sion. The “Russian spring” brought massive killings, broken lives and poverty to those same Russian-speaking residents of Donbas whom Russian saboteurs came to “save.” The war for Pax Rossiana or Russkiy Mir have made millions of people suffer on both sides of the line of contact while bringing joy to a very tiny circle of individuals who have taken advantage of the situation to enrich themselves on the tragedies of others.

The Minsk talks have dragged on for nearly two and a half years now, and have brought no measurable results. Indeed, with the takeover of Ukrainian enterprises by Russia's proxies in March 2017, all that's left is to declare Minsk officially dead. So far, the two sides have not even managed to make a single ceasefire stick.

Three years of war have made bulletins from the front and reports of losses a daily occurrence. Nor is there any indication of a way out of the Minsk cul-de-sac. The way the situation looks today, it seems as likely to last months as to last years. Of course, the economy of Donbas is unlikely to survive such a long period of self-mutilation.

Three years down the line, the Occupied Regions of Donetsk and Luhansk Oblasts (ORDiLO), the slice of Donbas grabbed from Ukraine, remains divided into two quasi-statelets by a border whose purpose remains a mystery to all—other than perhaps the armed Donetsk and Luhansk gangs that make money by taking tributes from all those who cross it. Their territories are marked as the self-proclaimed “people's republics of Donetsk and Luhansk”. In the last three years, these Russian-managed entities have established nearly all the structures that are typical for unrecognized states. So far, however, this policy has not brought a higher standard of living to those residing there.

All this time, the economic situation in the occupied territories has been deteriorating. And after the militants took over management of Ukrainian enterprises in ORDiLO at the beginning of March, the territories have gone into complete economic collapse.

Posts to social networks sound like the chronicles of a dive-bomber. Mine warehouses are bursting with coal that no one wants to buy. It seems that Russia simply has no need for such quantities of fuel. Meanwhile, the mines are suffering a shortage of lumber for support structures, which was previously shipped from Western Ukraine, and so they've had to stop operations and send miners off on unpaid leave. On April 18, the miners working for the Zasiadko Mine in Donetsk were sent on unpaid leave for a week. Mines of the MakiyivVuhillia Mining Association in Makiyivka are currently working in water-pumping mode.

Steel plants in ORDiLO are working to only partial capacity. Coking plants are barely operating at all. The most difficult situation is in the machine-building industry: their complex production cycles, the breakdown of old production links and the lack of necessary legal status have

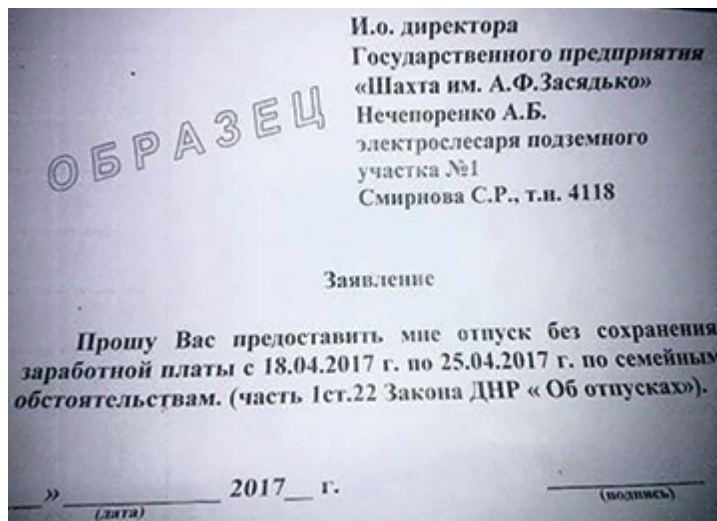
made it virtually impossible for these companies to operate.

Right now, a second wave of migrants from ORDiLO to the rest of Ukraine is underway. After Ukrainian companies were “nationalized”, i.e. taken over, and stopped operations on the occupied territories, the management of DTEK and MetInvest plants has moved away. This time, however, the migration is also limited primarily to the most qualified professionals. Low-skilled and unskilled workers are unlikely to find jobs somewhere else without problems. For this reason, there has been no mass movement of ordinary workers from the occupied territories so far.

THE WAY THE SITUATION LOOKS TODAY, IT SEEMS AS LIKELY TO LAST MONTHS AS TO LAST YEARS. OF COURSE, THE ECONOMY OF DONBAS IS UNLIKELY TO SURVIVE SUCH A LONG PERIOD OF SELF-MUTILATION

Despite their low wages, beggarly pensions and the lack of certainty, people are afraid to abandon their homes and risk the unknown. Propaganda has played no small role in all this, with which the militants and their Russian handlers have been bombarding ORDiLO residents. Many of them now really fear the Government of Ukraine, believing the fairytales that blood-thirsty fascists and punishers are simply waiting for them on the other side of the line of contact.

The hardest fate has befallen pensioners on the occupied territories. Many of them have no way to collect their Ukrainian pensions—they have to be registered as IDPs on the government-controlled territory and reside here to be able to do so —and are now forced to survive »



Jobs vanishing. This sample of a miner's unpaid leave request illustrates the new employment pattern in the occupied parts of the Donbas



Restoring bridges, not control. Ukraine is slowly rebuilding the infrastructure of the liberated Donbas. But power remains in control of mostly the same people that were busy fanning the flames of military conflict in the spring of 2014

on the pittance that Russia provides. Until recently, they received considerable humanitarian aid from Rinat Akhmetov's charities. But since the militants prohibited them from operating, ORDiLO residents lost even that small amount. Some families are literally at the verge of starving to death.

"How are we supposed to live?" ask people in Donetsk who call Akhmetov's hotline. "They hang around and drink and then they demand that we pay for utilities that we can't afford!" These kinds of conversations with residents in the occupied territories are regularly recorded and published by employees of the foundation.

Still, outside occupied Donbas, in those areas that were taken back from Russia's proxies in 2014, life is not sweet, either.

The economic situation in Donetsk and Luhansk Oblasts remains as difficult as it always was. The nearness of the front and the break in old economic ties make themselves felt. Although the central and western oblasts of Ukraine showed marginal improvement in 2016, depression and decline have not been overcome yet. The settlements that are actually in the areas under regular bombardment are particularly hard hit in every sense.

Certainly, their situation is not comparable to what is going on, on the other side of the frontline. Ukraine has already begun restoration work in the battlefields of 2014: the bridges in Sloviansk and Lysychansk that were blown up by the militants have been rebuilt, and some infrastructure has also been reconstructed. Food is both cheaper and better quality on Ukrainian territory than in the occupied territories. Still, the situation in Ukrainian Donbas cannot be called positive. The region has accumulated a vast array of problems that need to be addressed. But the old local clans of strong Party of the Regions managers aren't capable of doing this.

If anything, the political situation is even worse. In the three years since the war started, mostly the same people have remained in power as were busy fanning the flames of military conflict in the spring of 2014. Those who organized anti-Ukraine rallies and the illegal May 11 referendum in 2014, encouraging massive social unrest, are still warming their seats as deputies and mayors. The mayors of Severodonetsk, Rubizhne, Druzhkivka, Mariupol, Kurakhovo, and Dobropillia who cooperated with the Russian proxies have not felt any consequences under Ukrainian law. Worse yet, they are doing everything they can to bring back the separatists and collaborators who sat quietly for awhile after the militants were expelled and appear to have now decided that enough time has passed that they don't need to hide themselves any more.

For instance, on April 12, Druzhkivka Mayor Valeriy Hnatenko tried to appoint his friend Serhiy Berezhniy as municipal police chief. But in 2014, Berezhniy led the police in Druzhkivka and patrolled the town's streets together with Girkin's fighters. There's even an interview of his from a local paper where he proudly admitted that he was collaborating with the "home guard."

RIGHT NOW, WE SEE ALL THE CONDITIONS BEING SET UP IN DONBAS FOR A NEW ANTI-UKRAINE PUTSCH. SHOULD THERE BE A NEW POLITICAL CRISIS, THOSE WHO BETRAYED THEIR COUNTRY BEFORE WILL DO IT AGAIN WITHOUT HESITATION

Obviously the government needs to pay immediate attention to these worrisome signals. Right now, we see all the conditions being set up in Donbas for a new anti-Ukraine putsch. Should there be a new political crisis, those who betrayed their country before will do it again without hesitation. Why should Ukraine wait for the same rake to hit it in the face again?

Unfortunately, it does look like the government still hasn't learned its lessons from 2014. Right now, a separatist comeback slowly making its way across Donbas. In order to prevent another tragedy in the future, civil society needs to actively counter these negative trends and do its best to get through to those in power. ■



Raynell Andreychuk:

PHOTO: UNIAN

“Ukrainians have started to work more consistently on the issues that could lead them to NATO”

The *Ukrainian Week* spoke to Co-Head of Ukraine-NATO Interparliamentary Council at the 10th Kyiv Security Forum on the current state of dialogue between the Alliance and Ukraine, the future of the Euro-Atlantic security system and the Russian propaganda.

Given the uncertainty over the future of the EU, can we expect any –exits from NATO similar to Brexit from the European Union?

I do not believe that the UK or any country will talk about NATO. I have heard reassur-

Interviewed
by Yuriy
Lapayev

ances from the United Kingdom and elsewhere about their commitment to the Alliance. These are two separate things. I am confident that the collective security architecture of NATO has served its countries well. There are no alternatives there.

At the same time, some international organizations have proven virtually helpless when faced with conflicts in Donbas or Syria and need to be reformed. Is NATO still competent in this regard?
We have been trying to reform the United Nations for years. We know that it is the best »

platform we have for bringing all the nations of the world together, and there are rules there. But we also know there is the Security Council has veto power. I can't say any more than that the UN is as strong as the will of all of its nations. If they are not ready to move on these issues, we will be in the situation where we are today.

It is the same thing with the OSCE, I think. It is appealing to Russia to live by its agreements and using every lever they can. All these international organizations, whether it's the OSCE, NATO or the UN, have appealed to Russia to abide by the agreements they have signed. President Putin is the person that has to work with his government and adhere to the international order. We have to see what the future brings us. I don't know what his next move will be.

Not all politicians in the West understood Russia's behaviour in the past. Has the understanding of the current situation in Ukraine, both politically and militarily, changed among NATO member-states and their politicians?

I think that political leaders do understand the situation. There is no question that all NATO members understand: there is the aggression into Crimea that violates international law. It violates the Budapest Memorandum. The question now is what to do about this? Every country and every leader even within one country have different ideas. As NATO Parliamentary Assembly, we took very swift action and severed our relations with



WE ARE STILL TALKING ABOUT PROPAGANDA, BUT THAT IS AN OLD TERM. TECHNOLOGIES ARE SOPHISTICATED NOW. HOWEVER, NATO IS ALERT, PARLIAMENTS AND ORDINARY CITIZENS ARE WORRIED ABOUT THE INVASION OF THEIR PRIVACY, AND ABOUT MISINFORMATION

Russian parliamentarians. We acted in uniform fashion. There may have been different ways we looked at, but the decision was consistent that the fact was inappropriate, broke the law etc. The question is how we resolve it.

What can NATO do now, in the world that changes dramatically?

NATO Headquarters is assessing what to do. And of course, there is always a military option that will be the last resort of any kind.

I do not think that NATO members will ever agree to any violation of territorial integrity and sovereignty of Ukraine. The question is how long it will take to reunite. I am hopeful this time that NATO members are not giving up on that. There is every indication that they are going to continue to maintain their

position whereby there cannot be any change of sovereignty and territorial integrity of Ukraine. So, wherever leaders are and whatever avenues they use, they will continue to assess those changes from day to day.

We know where we stand – we are going to support international order. The question is in the hands of President Putin. He has violated the international order. It has happened and it continues to be. If he comes back to accept the international order and to move out of Crimea, stop supporting any dissidence or any activity in the eastern flank of Europe, of Ukraine, then I think the actions will speak and we can then see what the new options exist. At the moment, there is a standstill about Ukraine. He must give up his claims on Ukraine and Eastern Europe. He must live by the Minsk Agreements, and not just for a few days. That is the way forward now. That is reassessed every day, but that is what it is.

Do you think Minsk Agreements are still working?

I think that they are on the table. The Minsk Agreement was agreed to be a very constructive effort to say to President Putin: "Live by those agreements". Because they have the underpinning of restoring Ukraine's integrity.

Does the Ukrainian government provide NATO member-states with timely and full information about the situation in Ukraine?

Yes, the government has contacts with our respective countries. We get experts on Ukraine at the NATO Parliamentary Assembly, we get Ukrainian parliamentarians coming. One of the strengths is that we get parliamentarians from all parties, so we do not just hear from one side of it. They can be very open when they talk about the situation here. So, I think, there is enough information.

But parliamentarians come and go. So every time there is a new parliamentarian, there has to be new information. We are keeping a continual information capability and we offer Ukrainian parliamentarians much space to explain what is happening on the ground. There is the sharing of information.

It is very difficult to be up on everything in the democratic world now: we have so many issues in our own countries. Earlier there was fatigue; the reforms were not moving fast enough, representatives were weary of hearing what they should do.

After the invasion, however, we saw a dramatic change, a more consistent effort. That is when Ukraine assessed that NATO is an option for it in the long run. The Ukrainians started to work more consistently on the issues that could lead them to NATO. They are also working on the issues that could lead them to closer cooperation with the European Union.

There is optimism in all this, but, of course, there are also some differences. I think we

Raynell Andreychuk was born in Canada in 1944. She graduated from the University of Saskatchewan with a law degree. Ms. Andreychuk worked as a lawyer. She later served as Canada's High Commissioner to Kenya and Uganda and ambassador to Somalia and Portugal. From 1988 to 1993, she was Canada's Permanent Representative to the United Nations Human Rights Commission. She is currently Co-Head of Ukraine-NATO Interparliamentary Council. Since March 2014, Ms. Andreychuk has been banned from traveling to Russia under the sanctions imposed by Vladimir Putin. She has been awarded the Order of Prince Yaroslav the Wise for her substantial contribution to the development of Ukrainian-Canadian relations.

have enough information about Ukraine, its development and reforms. But the worrisome thing is the disinformation and other tools that are being used on our populations from Russia. NATO Parliamentary Assembly is dealing with that, we have seminars on that, we have had speakers. It is also worrisome how new technologies are used in a negative way. We are looking at Ukraine to understand where sources come from in this interconnected world. So, there are a lot of difficulties with new information systems, their abuse rather than use. And it comes from many sources, non-state actors.

We know that there is disinformation in our countries. I know it exists in Canada, the United States, and in European countries. We are well aware of that. The question is about finding proper mechanisms to bring forth the accurate information and to fight disinformation.

We are still talking about propaganda, but that is an old term. Technologies are very sophisticated now. However, NATO is alert, our countries are alert, parliaments and even ordinary citizens are worried about the invasion of their privacy, and about the misinformation which is coming. I think we are well aware of what is going on with disinformation from Russia.

Can you describe the current state of cooperation between Ukraine and NATO on the level of parliaments? Do we need any new formats?

NATO Parliamentary Assembly has been working with the Verkhovna Rada ever since Ukraine obtained independence. We were one of the first ones to come here. We worked very cooperatively on eastern flank countries, helping them develop structures and ideas on building a functioning parliament and democracy.

We have assisted in Ukraine's election monitoring after invitation from it. We have also worked with civilian oversight of the military with the Ukrainian side, and held discussions in the Parliamentary Assembly on ways for the

parliamentarians even in my country to get involved in the oversight over the military. This is because citizens everywhere in the world are demanding transparency and more accountability today. And so, we share many projects, much support and we will continue to do that. I think we have had an impact, including in the fact that Ukrainian parliamentarians are coming to the NATO Parliamentary Assembly. They have learned many new ideas from all of their colleagues and we have learned from Ukrainians.

It is an excellent association, a strong one, and I trust it will be continued. In that venue, we are very honest and frank with each other when we say "it's too slow", "this is worrisome", "corruption is still an issue", "reform here is important". So, we have honest good dialogues, and we assist, too. I am optimistic about the parliament-to PA cooperation, that it has been good for Ukraine, and that it will continue.

So, you are happy with the current level of interaction between Ukraine and NATO?

I am an idealist. I am of Ukrainian background. My mother used to say: "You are doing well, but you can do better". And I am like that about my own country. If you are in a democracy, you do not accept the status quo. You want to get better and better, you want to learn from each other. Ukraine has made significant steps forward.

PEOPLE IN UKRAINE ARE TAKING OWNERSHIP OF THEIR GOVERNMENT, PARLIAMENT. THEY SPEAK OUT AND HAVE A VIBRANT CIVIL SOCIETY. IT IS DIFFERENT FROM WHAT I HAD SEEN HERE IN 1993-1994

It has much further to go. There have been milestones and we regret some of the regressions, some "forward and back" steps. But there are more things to do. The NATO Parliamentary Assembly is willing and open to continued work with the Verkhovna Rada. Therefore, I hope that progress accelerates. I am also optimistic about the people. What I mean is that the Maidan was significant. People in Ukraine are taking ownership of their government, of their parliament, they are speaking out, they have a vibrant civil society. It is different from what I had seen in 1993-1994 when I first came here to work with the Verkhovna Rada. People have now become really aware about their role in democracy. They have to make their government accountable. How they choose their members of parliament is important too. I think there has been good progress and there needs to be more. I am optimistic in that regard. ■

Defensive treatment

Yuriy Lapayev

Identifying and overcoming the problems of corruption in Ukraine's defence industry

The production and trade of weapons is considered one of the most profitable industries. The rise in terrorist threats and political instability only stirs up additional demand. In 2015, the global arms market showed its highest growth rate for 10 years. According to British research firm IHS, trade was 10% higher than in 2014 and reached US \$65bn. Not surprisingly, many want to get their piece of this pie, and often not completely legally.

The weapons market is traditionally one of the most convenient places for corrupt deals to take place. The Ukrainian military-industrial complex is no exception to this. In our country, the most common examples of illegal activity in this area are the use of fictitious contractors to perform works under defence contracts and the inflation of the actual cost of this work or other goods. The State Defence Order (SDO) is a secret document, so it is almost impossible to check what exactly, in which quantity and, most importantly, for which amount the government is planning to make purchases. These restrictions also pose other problems. The management of the UkrOboronProm State Concern, despite its access to state secrets, does not have a copy of the SDO at its disposal. This means that one of the largest weapons producers on the Ukrainian market (in 2016, the concern fulfilled 52% of the SDO) does not have a complete picture of what the state wants. Or who will meet these needs.

The fight against bogus companies remains one of the priorities of Ukrainian defence industry. UkrOboronProm considers that the most effective way to overcome this problem is to launch a transparent mechanism for the selection of suppliers and automation of the procurement process. Since 2014, the concern has been conducting its tenders through electronic systems, namely SmartTender. In 2016, there were 20,500 such tenders, and this made it possible to save more than UAH 375 million (US \$14mn). For added security, UkrOboronProm has created a separate unit to monitor procurement and uncover possible violations. The use of SmartTender, a private product, instead of the public ProZorro remains open to question, although according to the Law of Ukraine "On Public Procurement", the production, repair and development of weapons belong to different economic sectors and each have specific requirements for the publication of information about tenders.

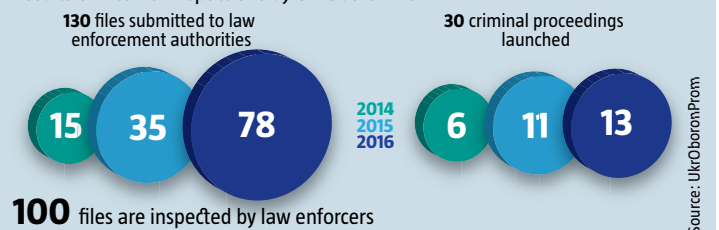
The number of potential contractors is also expanding: in 2016, 4,300 companies worked for the defence industry compared to only 502 in

2014. This makes it possible to stimulate competition, diversify production and get better quality at a lower cost. However, such a variety of suppliers requires detailed study of their characteristics. This is somewhat complex, as the State Fiscal Service refuses to disclose tax information about individual businesses. Therefore, it is practically impossible to find out whether a company is in debt to the state or pays nothing into the budget at all. As a result, UkrOboronProm tries to combat financial risks independently. A prequalification system has been introduced for contractors, internal reviews and audits are conducted.

At present, the concern has reported over 150 violations to the police, however almost no investigative work is taking place. The case of former Lviv Armoured Plant director Oleksandr Ostapets, who was arrested for embezzling UAH 2 million (US \$75k) of public funds through the fictitious company Pacific-2, is symptomatic. After a short investigation, his actions were classified as "negligence" and it was not ruled out that Ostapets could be recognised as a victim. However, the intervention of UkrOboronProm, the media and activists prevented this from happening. On May 20, 2016, the Sykhiv District Court in Lviv only gave him a suspended sentence – five years of imprisonment with a probation period of three years. Too lenient for a country that is at war. Another scheme is the creation of a private company to compete with a state one. Oleksandr Zhdanov, director of the FED plant in Kharkiv, chose this option. He created an alternative manufacturer using the facilities of the state plant, employing his former workers and diverting orders to his own company. In practice, two identical plants were operating in almost the same place at the same time – while the state-owned one gradually went bankrupt and had no work, the private firm actively filled orders. Some unique machines from the state enterprise were put up for sale as scrap to later be used by the private company. The only thing that UkrOboronProm could do

Can't hide it all

Results of internal inspections by UkrOboronProm





in this situation was to dismiss Zhdanov. Currently, there is no information about investigations against him carried out by law enforcement agencies.

Meanwhile, the very fact that an investigation is taking place is sometimes used to gain an unfair competitive advantage. A company that has been charged is not allowed to participate in tenders, so this is an easy way to get rid of unnecessary rivals. This was used against Promelektronika, which was accused of syphoning off more than UAH 40 million to fictitious firms. In January 2016, the criminal investigation was closed due to the lack of material damage and an objective aspect of the crime. One of the tools for contractors to defend their reputation in such cases is the publication of official data on the successful execution of an order or works by the contractor. Only openness and public access to information can guarantee trust.

Transparency and the fight against corruption, especially in the defence sector, are becoming a trend, and not only in Ukraine. According to the head of Transparency International Lithuania, Sergejus Muravyovas, this is a logical continuation of the increase in military activity in Europe. The growing number of both traditional and hybrid threats is encouraging countries on the continent to increase military spending, which in turn creates conditions for stealing more public money, so closer attention is required from society. In this sense, the confidentiality inherent in most defence contracts only impedes monitoring. It is therefore important to keep a balance between the needs for secrecy and accessibility for citizens. An example of an abuse of confidentiality in Lithuania is the recent scandal around the purchase of cutlery for the army. Due to the use of loopholes in the law and a non-transparent tender, the utensils almost seemed to be made of precious metals. But under pressure from the public, the tender was temporarily halted and an investigation is ongoing. To solve this dilemma, the Lithuanian Ministry of National Defence has started active and effective cooperation with Transparency International. A national anti-corruption programme

has been adapted in view of the organisation's proposals. A separate anti-corruption inspection operates as part of the defence department. The country's military command has come to the understanding that the fight against corruption is an element of national security. Especially in such a sensitive area as the defence industry. "Corruption makes the country vulnerable and its citizens defenceless," underlines the expert.

However, according to Muravyovas, the fight against corruption cannot be a rapid process. "This is not a sprint but a marathon," he said. It is a long process and there must be constant control. It is extremely important to correctly determine resources, timeframes and goals. After all, an unsuccessful fight against corruption could be no less harmful than corruption itself. Especially now that reputational risks are becoming more and more crucial for the top management of state enterprises and politicians. Specific performance measures, similar to those that have been successfully applied in business for quite a long time, are gradually being introduced for politicians. This trend can already be seen in Europe and some traces of it are visible in Ukraine too. Now, government leaders must show through real actions that the fight against corruption is truly important for them, because citizens are becoming more demanding towards their authorities and are starting to actively monitor them. Of course, there are also certain disadvantages. Combating corruption at all levels, not only in the defence industry, has become a fashionable thing to do. Recently, quite a few foundations or NGOs have appeared that declare

THE MOST EFFECTIVE MECHANISMS TO COMBAT CORRUPTION IN THE DEFENCE INDUSTRY ARE THE TRANSPARENT SELECTION OF SUPPLIERS, AUTOMATION OF PROCUREMENT AND REMOVAL OF UNNECESSARY RESTRICTIONS ON THE ACCESS TO TENDER INFORMATION

this to be their goal while in fact simply spending foreign grants or, in the worst case, complicating the work of real anti-corruption professionals. According to Muravyovas, in order to prevent abuse at the state level, there should be a clearly defined system of criteria for the authorisation of these organisations and evaluation of their performance. "Although NGOs are the driving force behind change in society, they should themselves set an example by reporting on their activities, publicly disclosing their income and outgoings," he said.

Of course, corruption in the Ukrainian defence industry, as in other areas, is impossible to defeat in a short time. Political will from the state leadership, transparency in the actions of managers and the effective work of law enforcement are all necessary. Although the participation of citizens in this process is no less important. ■

Haste in the village

Oleksandr Kramar

The amalgamation of territorial communities has been chaotic. This may lead to unequal funding, abilities to support themselves and impact on local residents

The delegation of additional financial resources and powers from the center down is one of the key reforms after the Maidan. The Cabinet of Ministers approved the Concept of Local Self-Governance and Territorial Organization of Governance back in April 2014. In late December 2014, the Rada passed amendments to the Budget and Tax Codes. This increased the sources of revenues for local budgets as some of the funding was passed to them from the central budget. A new excise duty on sales to final consumers was introduced. The tax base expanded to include real estate tax. Self-governing authorities got more control over local taxes, including the power to determine tax rates and privileges. New subventions from the central budget were introduced to help education and health care systems perform their new functions. A legislative mechanism was designed in 2015 to make cooperation of territorial communities horizontal: nearly 400 of those have already signed deals on cross-community cooperation in various fields ranging from road repair and transport maintenance to education, health care and fire security services.

Meanwhile, a sharp rise in local budget revenues of the first two years of decentralisation has slowed in 2017. In 2015-2016, local communities saw a 42-49% increase in their own revenues compared to the previous year. In 2017, the expected rise is a mere 16%, which is slightly over the current inflation rate. In the past years, the most attention has been focused on the creation

of amalgamated territorial communities and priority funding for them.

MERGERS PROGRESS

The mechanism for community amalgamation was designed in 2015. It enabled them to switch to direct work with the central budget, eliminating intermediary levels, such as oblast or county, and thus allowing them to receive funds for infrastructure directly. A number of powers were delegated to the merged communities from the county administration level: they will now provide social assistance, administrative services, run schools and kindergartens, organize the work of primary health care facilities, as well as culture and sports facilities. This brings along subventions for education, health care and infrastructure development from the central budget.

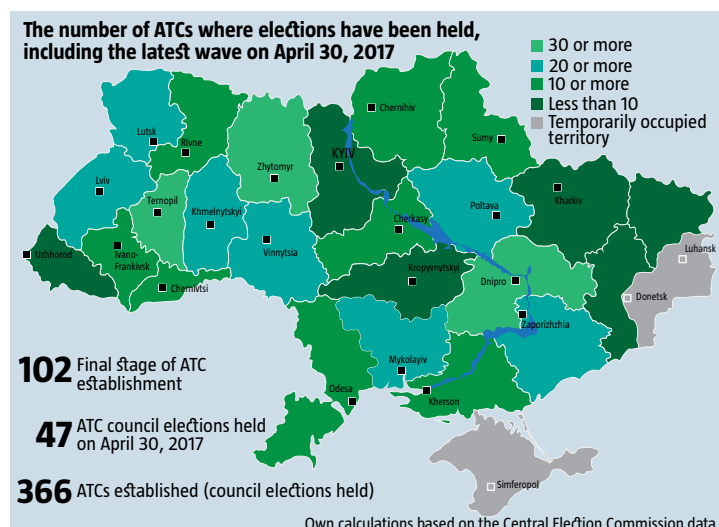
As a result, 794 old village and town councils that covered 2,015 settlements merged voluntarily into 159 amalgamated territorial communities (ATC) as soon as 2015. The initial process was the most dynamic in Ternopil and Khmelnytsky Oblasts in Western Ukraine where 26 and 22 ATCs emerged in 2015, merging 673 settlements out of the 2,015 that year. Elsewhere, however, a few or no new ATCs were created. As of the early 2016, ATCs covered more than 5% residents in four regions only, and more than 5% of the territory in ten regions.

That year, the pace of amalgamation accelerated, taking the number 159 to 366, and doubling the population covered to over 3.1 million. For now, these ATCs number at 1,740 or nearly 15% of former town and village councils. The geography has changed too: Zhytomyr, Dnipro, Vinnytsia and Zaporizhzhia oblasts have the lead now, while the pace of mergers in the two abovementioned oblasts has slowed down.

Overall, as of April 2017, Ukraine has 413 ATCs where elections of local self-governing authorities have already taken place, most recently on April 30 in 47 of those. According to the Ministry of Regional Development, another 102 potential ATCs are finalizing their merger.

On March 14, 2017, President Poroshenko signed Law No5520 "On details of voluntary amalgamation of territorial communities in cross-county territories". It will allow a number of ATCs to hold the first elections and speed up the creation of new ones.

Financially, the key difference between the ATCs and old unmerged village and town councils is as follows: ATCs pool the revenues and ex-



ercise the powers, which local or county councils used to have previously. As a result, 60% of personal income tax generated at the ATC territory goes to its budget. So does 100% of the administrative tax on the registration of individuals and legal entities, the revenue that previously went to the county budget.

In addition to that, ATCs get 100% of natural resources rent, excise duties on alcohol and tobacco sold on their territory, flat tax, land tax, real estate tax, utility company income tax, property lease tax, transport tax, parking and tourist taxes, administrative fines and more. In unreformed communities, these still go to village or county budgets.

PROBLEMS REMAIN

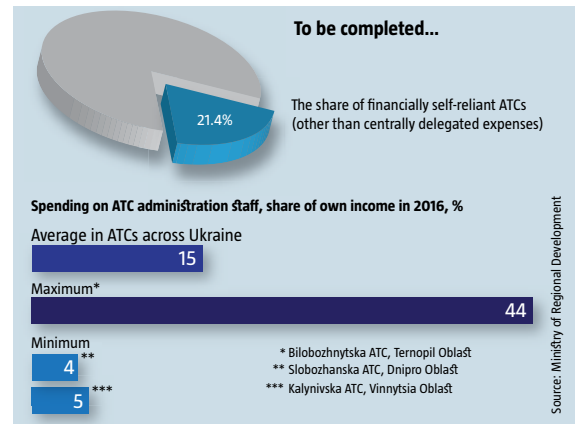
The amalgamation of communities is hampered by many reasons. The first one is that almost half of the 12,000 old local councils lived on subsidies. The financially independent ones are reluctant to share their revenues with the poorer settlements. Another reason is that local officials want to retain their posts and influence: even subsidized communities offer plenty of opportunities for illegal enrichment. Plus, the officials employed in village councils are likely to lose their jobs after the mergers.

When an ATC is created in a given county, the latter no longer exists as it loses its income and powers. Therefore, county elites either try to craft new ATCs along the county administrative borders, or halt the process when they are unlikely to keep control over local self-governance after the merger and election. Lately, experts have spoken of the sabotage of ATC creation by county state administration as the central government tries to preserve this key instrument in its administrative hierarchy in order to use it in the general election process.

The experience of existing ATCs can be discouraging, too. It looks nice in government statistics. According to official statements, the budgets of the first 159 ATCs grew almost sevenfold over 2016 compared to 2015 revenues for the local councils before the amalgamation. First and foremost, this resulted from the allocation of UAH 1bn in subventions to set up the infrastructure of merged communities, and the sharp rise in education and health care subventions sent directly to the ATCs. While the old local councils received UAH 39 and 42mn for these purposes, the post-merger ones got UAH 1.62 and 0.85bn respectively. This looks like a drastic change.

But things are more nuanced than that. It would be inaccurate to compare the budgets of ATCs and the local councils operating within their boundaries previously. The newly merged ATCs took over part of the revenues and functions from the county administrations. As a result, it was not the spending on education and health care that grew in ATCs, but the ability to administer that funding on the local basic level.

125 ATCs out of the 159 merged by the beginning of the 2016 fiscal year had to be subsidized. The average level of that need varies by the re-



gions, from 42% in Ivano-Frankivsk Oblast or 31% in Lviv Oblast to 13% in Khmelnytsky and Zhytomyr Oblast, or 8-9% in Dnipro, Cherkasy or Odesa Oblasts. This may not seem much but it shows how diverse the new ATCs are. Even one region can have communities where subsidies cover half of their needs, and those that have a surplus budget and transfer excess funds to the central budget.

Government statements and the media tend to focus on individual success stories. This would be perfectly normal if the success resulted from good management in the respective communities. Which is not the case simply because they have not had enough time to actually deliver. Most current success stories have secrets that are not managerial talent. Some are based on industrial, energy or transport enterprises built in the pre-reform years or inherited from the soviet times. Others are located along key transport channels that support their gas stations, hotels, restaurants and the like.

A MAJOR RESULT OF AMALGAMATION SO FAR IS THE CHANGE IN THE APPROACH OF LOCAL AUTHORITIES AND RESIDENTS FROM PASSIVE EXPECTATION TO PROACTIVE DEVELOPMENT OF OWN COMMUNITIES

Ternopil Oblast is one example. Out of 26 ATCs there, only four did not need any subsidies from the central budget. Baykivtsi ATC, the most affluent one, is right next to the oblast capital. Zavodske ATC has a large sugar plant on its territory. Husiatyn ATC was merged around former county capital: it has inherited industrial facilities and a central county hospital, and it is a tourist destination. This generates good personal income tax revenues.

In Dnipro Oblast, own revenues exceeded subsidies in four out of fifteen ATCs whose financial statements of 2016 are available. Slobozhanska ATC is a former suburb of Dnipro, the oblast capital. Zelenodolsk ATC hosts Kryvyi Rih thermal power plant, one of Ukraine's largest TESSs, while Verbivka and Bohdanivka ATCs are close to Pavlohrad, a county capital, and their economies rely on coal extraction that gen-

erates good flows of individual income tax from miners' salaries.

Thus, the sources of tax revenues that used to form the budgets of entire counties are now heading to the budgets of specific communities. These success stories cannot be easily replicated by other emerging communities. A comparison of the surplus and deficit ATCs shows that the major difference is specifically in the volume of personal income tax and the revenues it generates, and less so in land tax or excise duties from the goods sold on their territory.

This makes the benefits of ATC creation very unequal: the winners are the communities that retain large enterprises and employers which used to fill county budgets with personal income tax even before. As these revenues concentrate in the budgets of some communities, others that used to be covered from the same county budget suffer. Because all ATCs, regardless of what they inherited from the dissolved county, have to take over kindergartens, culture facilities, outdated transport infrastructure and the like.

Another problem is whether personal income tax is paid where an individual resides or works. Some large enterprises located in "successful" communities employ many residents from subsidized ATCs, which means that the budget-filling tax is not paid where these residents receive public services, but elsewhere.

Prior to the reform, the fact that county administrations had been in charge of important public services, such as education, health care and others, was seen as a problem. For many decades, the premises of schools and hospitals in many settlements were unrepaired. As new communities are merged, this will go under their local control.

Therefore, one of the major result of community amalgamation at the current stage is the change in the approach of local authorities and the residents of the new communities that comes with transitioning from passive expectation of changes to proactive development of own communities. The entry conditions, however, often vary greatly.

This problem can partly be solved through subsidies from the state budget, but only at the initial stages. According to the Ministry of Regional Development reports, almost 2/3 of all development spending (UAH 1.2bn out of UAH 1.9bn) in 159 ATCs were funded with subventions from the central budget. UAH 1bn went to build ATC infrastructure, which largely focused on repairing and upgrading roads, education facilities, water and waste facilities, street lighting, cultural and health care facilities, and public service centers.

In the mid to longterm prospect, this will not change the huge financial disproportions in own capacities of ATCs. With an almost twofold growth in the number of ATCs in 2016 compared to 2015, the state budget is expected to allocate only UAH 1.5bn to their infrastructure development, compared to UAH 1bn in 2016. This means that the financial support to show the benefits

of ATCs to the unmerged communities is going down as well, even though current ATCs cover only 20% of the population in former administrative counties.

The newly merged communities vary by sizes, too. The largest one, Nadornytska ATC in Zhytomyr Oblast, is 1,300 sq km. The smallest one, Mizhenets ATC in Lviv Oblast, is only 8.7 sq km large. The least populated community in Chernihiv Oblast has 1,600 residents, while the most populated one in Donetsk Oblast has 44,200 people.

With these differences, one of the key arguments in favor of the merger (to reduce the spending on administrative staff to an adequate scale) remains unaccomplished. A report on the absorption of local budgets in 2016 shows that the average spending on civil servants in 159 ATCs is 15%, ranging from 44% in a small community in Ternopil Oblast to 4-5% in communities that cover 15-20,000 residents.

It will become increasingly difficult to maintain schools or hospitals in communities with less than 5-6,000 people. One ATC in Zaporizhzhia Oblast with 3,800 residents has 320 children which is not enough even for one full-scale school. For now, the community has four, including two junior schools and one nine-grade school.

Out of 159 communities merged by the beginning of fiscal year 2016, 125 had to be subsidized

The maps of some oblasts that have made the most progress in community merging look like the territories divided between feudal lords in old times. They leave an impression of chaotic amalgamation based on ambitions of local elites or reluctance of some settlements to merge with others. Some new communities cover up to half of former counties while others have only one or two former village or town councils merged. In some, the farthest settlements are 25-30km away from the ATC center and only 5-10km away from the center of the neighbouring ATC.

Under these circumstances, the initial goal of the reform will hardly be accomplished. It does not create a prospect of financially self-reliant communities or basic public services brought closer to people. When old county structures cease to exist and small settlements find themselves too far from the centers of the merged communities, the flaws of the chaotic amalgamation will be experienced in full. This will hamper the communication of residents with ATC centers, including hospitals and schools. People will have to go to the nearest centers in neighbouring communities or travel far to get to their own community centers for quality services. If the infrastructure in less successful ATCs is underfunded (and most ATCs will be less successful if the current trends prevail), this can discredit the concept of decentralization in the eyes of most residents. ■

Danubian Principalities

Stanislav Kozliuk, Reni – Izmayil

Decentralisation started in Odesa Oblast almost eighteen months ago. The initiative was sometimes successful in the north, while the south has seen a fundamentally different process

In Odesa Oblast, as at one time in the Donbas, the image of the region's particularity and large difference from the rest of Ukraine is often cultivated. If we ignore pro-Russian sentiments, the only thing that remains is the multi-ethnic character of the population, which in practice gives rise to certain intricacies in local politics. Ukrainians and Moldovans, Bulgarians and Gagauzians, Romanians and Russians all live in Bessarabia. It seems that this factor is playing if not a crucial, then at least a rather important role in the decentralisation process.

UNITING PAINS

There have been attempts to launch the process of community amalgamation in Odesa Oblast almost since the relevant law was adopted. Roundtables and seminars on decentralisation were held in the oblast to ascertain the attitudes of local officials towards such initiatives. The result was that the heads of towns and villages have no burning desire to support reforms and would prefer leaving everything as it is to becoming involved in changes that offer them vague prospects for the future. There are no guarantees that they would be part of the governing bodies elected after the new communities emerge. Instead, the idea that the essence of decentralisation is to "destroy the countryside" was spread among the local population, although no compelling arguments were put forward in support of this thesis.

"In 2015, we started with a roundtable on international conflicts. The Izmayil and Reni counties were there. It was said that there are no problems with inter-ethnic tensions, but there is the issue of decentralisation. Allegedly, people in the countryside 'will lose their jobs' and 'villages will be destroyed'. As there are many different nationalities in our region, the fact that Bulgarians and Moldovans apparently would not be able to agree on the distribution of the local budget between themselves was given as an example of 'murder'. But this argument is rather primitive, as they all get on well in county councils at the moment. There are no problems with the allocation of funds," decentralisation expert Svitlana Hud tells The Ukrainian Week.

She adds that the "national question" comes up every few years. For example, representatives of the Moldovan community complain that the Romanians have more preferences. Or ethnic minorities reproach schools for not teaching in their languages. "Such complaints usually come from representatives of minorities in Odesa, not the countryside. It seems they do not account for the fact that their child will later go to university, where subjects are taught in the state language", adds the expert.



Barriers to integration. Reni has tried twice to launch the merger of communities with the neighbouring villages. But both attempts failed

Some politicians, campaigning against the territorial reform, also refer to problems in inter-ethnic relations. They argue that the reform would stall because of the multi-ethnic character of Bessarabia. According to them, Bulgarian villages cannot be merged with Romanian ones, which in turn cannot join Moldovan or Gagauz settlements.

"There is a widespread view that if we merge Bulgarian and Moldovan villages into one territorial community, for example, and the community leader will be a Bulgarian, he will not stand up for the interests of Moldovans. And vice versa. Unfortunately, this issue is often used for manipulation in Reni and Bolhrad counties. The problem also exists in Izmayil County, but it is slightly less pronounced," adds Hud.

Off the record, local officials point the finger at MP Anton Kisse, a member of the Vidrozhennia (Renaissance) Party, a spinoff of the former Party of Regions. Yulia Molodozhon, director of the Office of Reforms in Odesa Oblast, adds that "Kisse is not directly opposed to decentralisation, but the communities in the district, which elected him to parliament, are making no effort to unite".

"At one time, Kisse held an entire conference in Kyiv on the fact that decentralisation allegedly ignores the »

interests of Bulgarians. And in general there are a number of media outlets that regularly publish his position on the reform. His constituency is the areas around Bolhrad and Artsyz. For some reason, no activity to unite communities is visible there," says Molodozhon.

But man shall not live by ethnic problems alone. The financial standing of the population adds extra issues to the merger of communities. Local officials assert that northern Bessarabia is poorer than the south, so more merged communities arose there. The Office of Reforms observes that it is necessary to take into account the specifics of the region. Since there are more small hamlets of several hundred people in the north, the residents do not have much choice. Whereas in the south of the region villages can have 2-3 thousand inhabitants each and are reluctant to unite. As a result, the north of the region currently has nine merged communities, while the south has two.

"In the north, there is a typical farming settlement pattern. Unlike the south, there are many villages, but with few residents. So people are willing to join forces and the mergers are taking place. But there is a caveat: it is necessary to unite a large number of settlements to make a viable community. Given that they are scattered over a large area, it is difficult to manage such an association. So various options are being considered," explains Molodozhon.

In addition, experts point out that settlements and towns in the region, despite the delays in reforming, receive additional funding from the state. Consequently, budgets are overfulfilled and local authorities are sometimes unable to absorb additional funding. The reform complexity is thus conserved: while no new jobs are created or investments made, budgets continue to swell, allowing officials to report on their "successful" work to the public and cancelling out the pros of the reform.

"Many rural councils are overperforming in terms of their budgets. They don't know what to spend money on. It's similar with town councils. Officials report on increasing budgets. But in practice this is due to subsidies, as there are neither new jobs nor investment," explains Hud.

But mainstream politics is perhaps the biggest problem on the path to reform. Or rather, the majority system that allows MPs to be continually elected to parliament in certain regions. This is in reference to the "good deeds" that most constituency MPs have rather successfully been using in recent years. This is enabled by the public money distribution system that goes from the oblast centre down. As a result, in the event of urgent problems village mayors are forced to go cap in hand to the oblast centre or MPs. Alternatively, representatives of a candidate running for a seat in Parliament may visit the village mayor and promise him, say, a full set of new windows for the local school (not always at their own expense – Ed.). The mayor, in turn, is obliged to provide them with the "right" votes. In such cases, it is not even necessary to resort to electoral fraud. It is enough to explain the locals who arranged for their renovated school, new road, playgrounds and so on. If approached rationally, the merged communities should in theory gain financial independence. As a result, it will be harder to buy votes for constituencies with these cheap handouts. In addition, there are great chances that the Central Election Commission

will redraw constituency boundaries, which will add extra trouble before coming elections. It was political interference that local authorities in different parts of the oblast complain most about.

"It is impossible to say whose interests MPs are defending when they openly or otherwise oppose decentralisation. But, more than anything, it looks like electioneering. After all, when financial resources go from the oblast centre to the local level and communities can manage their own finances without appealing to MPs, then what will these politicians be left with? Most likely, they are struggling for their electorate and spheres of influence," explains Molodozhon.

The next big problem stems from the previous one: in Ukraine, some heads of village councils have held their positions for decades and have long become a modern equivalent of feudal princes, endowed with power and authority. If they work together with their constituency MPs, they almost turn into a "deputy God" in their district. Predictably, they are quite happy with the frozen situation in Odesa Oblast and have no desire to consider reforms.

Over the eighteen months of decentralisation, **11** communities emerged in Odesa Oblast: **9** in the poorer north and **2** in the better-off south

SLOW CHANGES

Reni County is almost the smallest in the oblast and is home to about 40,000 residents, half of whom live in Reni, the rest – in seven surrounding villages. Local authorities started to unite communities before local elections in 2015. In accordance with recommendations, the oblast drafted a plan to split the county into two communities: one was to unite the villages of Dolynske and Lymanske with the town of Reni, while the second should have been made up of the villages Novoselske, Orlivka, Kotlovynna, Plavni and Nahirne. Reni tried to create a community, but violated the procedure. As a result, the process was stopped. After local elections, the new authorities started work on decentralisation, but met problems on the way, from the reluctance of village mayors to make concessions to the passivity of the county council and administration.

"The head of the county administration should go around the villages, explaining the nature and benefits of decentralisation. Ideally, of course, the chair of the county council and the mayor should be there too. In practice, we tried to start the process, but the county council and county administration took a back seat. We went to the villages and explained what the processes are about. But then the head of the Reni administration intervened and said something like "We don't need these associations" in private. In the villages we heard "We don't need anything, we already live quite well," Reni mayor Ihor Plekhov complains to *The Ukrainian Week*.

Svitlana Hud confirms: the country council's contribution to the decentralisation process in Reni is minimal. "No one even monitored what exactly Reni County Council has done for decentralisation. If you take this into account, there have been no explanations and no measures taken on the matter. The documents haven't even been prepared," said the expert.

Timely prevention.

In 2015, the SBU revealed a pro-Russian scenario to create the "Bessarabian People's Republic" in Odesa Oblast. Separatist sentiments have faded in the region ever since



It is quite easy to explain this passivity: according to the plans, the county council and administration would be cut back. As a result, dozens of minor officials would have to enter the job market in search of work. The law makes no provisions for their future. So, faced with an uncertain post-reform future, district officials are in no hurry. This, in turn, leaves the problem of triple power overlap unsolved. In other words, a town or village actually has three heads: that of the local council, county council and county administration. And each has their own ambitions, which do not always benefit local communities. Decentralisation could make a difference and finally create a single decision-making centre (not three).

"I would find it interesting if we moved away from triple power. Because now, for example, our town has a mayor, a head of the county council and a leader of the administration. And everyone has their own political ambitions. Nothing good comes of this. For instance, a clinic is being built in our city utilising oblast resources. But from time to time the Reni County Council gets involved in this project. In the end, our town has an unfinished building that a lot of money has been pumped into, but there is no result," explains Plekhov.

The local residents we were able to speak to responded to the reform initiatives with cautious optimism. Not least because of the hope that the budget of the town and surrounding villages will grow and this will make it possible to spend more money on the essentials: road repairs, street lighting and gas and water supplies. However, local authorities cannot give an exact date for the creation of a community due to previous negative experiences.

"Maybe people think that if they are far from Kyiv, the reforms will not come to them. When we spoke with village mayors about merged communities, we heard something like 'This amalgamation will do nothing! In the future there will be elections, the political system of the country will change and the reform will be forgotten'. In September 2016, we tried to start the process of creating a community at the initiative of the councillors and the mayor. There were public debates, then we sent village mayors our proposals for mergers and asked them to invite us for discussions. They never replied," said town councillor Oleksandr Balaniel.

"But in the villages, fears have spread that the mayor of Reni will come to take away their land, schools and nurseries. And that he's just going to steal instead of working on development," complains the local representative.

In addition, officials state that village heads' fears about decentralisation could be strengthened by the fact that land in the region would have to be brought out of the shadow economy. According to them, most farmers in the region currently work without paying taxes. After the unification of communities, a land inventory will be prepared and money should come out of the black market and into community budgets, which could be unprofitable for officials accustomed to "dirty" revenue streams.

By contrast to Reni's feeble attempt at decentralisation, it is hard to say what is happening with the unification of the second community, which should include five settlements. For now, only the fight for

the status of community "capital" between the villages of Orlivka and Novoselske is visible. According to the plan developed by the oblast, Novoselske should become the centre, but its neighbours disagree. And it is safe to assume that the business interests of certain politicians had an influence there.

"About a year ago, I spoke to the head of Novoselske, which should be the centre of the community according to the plan. I complained that the village of Orlivka is trying to grab the biggest piece of the pie. The reason was that they have plans to build a ferry to Romania. Which means new infrastructure, investment and business. MP Kisse supported Orlivka's ambition. When Novoselske mayor was offered to set an example and start the amalgamation, he replied, 'What if the community doesn't elect me? What's the point then?' So even here self-interest comes into play," notes Hud.

Such suggestions by Kisse are nothing extraordinary, because he was the coordinator of the ferry project in Orlivka. A closer look reveals more interesting details. At the time, the general director of Orlivka Ferry Complex was Yuriy Dymchokho, who is now deputy chairman of the Odesa Oblast Council. In public, he usually appears in the company of MP Kisse. So in the future, the struggle for central status in the community of five villages will only pick up steam.

HEADS OF TOWNS AND VILLAGES HAVE NO DESIRE TO SUPPORT DECENTRALISATION REFORMS: THERE ARE NO GUARANTEES THAT THEY WOULD BE PART OF THE GOVERNING BODIES ELECTED AFTER THE NEW COMMUNITIES EMERGE

Meanwhile, local officials prefer the idea of the "one community per one county" division, which will leave the county as it is. This is despite the fact that the distance from Reni to the furthest village is about 60km, while the recommended distance is up to 35km. Reni Mayor doubts that he would be able to provide a settlement so far from the centre with everything it needs. Nevertheless, some bigger, neighbouring districts such as Bolhrad and Izmayil have made similar proposals, although they cover more than 20 villages.

In general, it is safe to argue that the legislators have played into the hands of all those who oppose decentralisation in Reni County, Odesa Oblast, by not defining clear deadlines or frameworks. While less wealthy settlements have no choice and are forced to merge under the circumstances, the richer and larger ones refuse such initiatives, citing their ability to provide for themselves. They have even come out with an initiative called "One village – one community". However, the viability of these amalgamations is questionable for financial reasons. Still, despite these teething problems, decentralisation is progressing in the oblast, albeit slowly. In Reni, local councillors are trying to make plans to develop the still non-existent community in the future by attracting funds from alternative energy and tourism, among other things. At the same time, experts say that, despite everything, we can expect the emergence of several communities in Odesa Oblast in the near future. ■

Self-government on the front line

Yelyzaveta Honcharova, Bakhmut

How the liberated parts of Donbas set up their territorial communities

The reforms of local government in Donetsk Oblast, despite military operations, are moving quite briskly, but not always productively: some cities and towns have merged into the new amalgamated territorial communities (ATCs), while others have not been given green light for various reasons. These include the reluctance of the rural population to unite with economically unstable towns, the inability to add settlements in which hostilities are continuing and the prospect of electing leaders for villages included in the new ATCs.

One of the pioneers of decentralisation in the Donbas and Ukraine overall was the Lyman community. This was an easy task: the 40 settlements governed by Petro Tsymydan since the post-merger election in November 2015 have been amalgamated since 1989. At that time, the county and its centre town participated in an experiment that concentrated all administrative functions in the town. As a result, the community only had to submit the documents in 2015 to set up an amalgamated territorial community and elect a head.

Lyman was one of the first places freed from the separatists. The town received substantial funds to restore infrastructure (including the overhaul of the local hospital to which part of the Donetsk Medical University was evacuated). Although Lyman was rather well prepared for the changes, expectations were very high. Nearly two years later, the first changes can be seen in the community. Officials report that in 2016 the Lyman Urban ATC received UAH 23.2 million in subsidies to build and develop social infrastructure, including the refurbishment of the Administrative Services Centre, the repair of water supply systems in villages and towns controlled by the Lyman Town Council, the renovation of a nursery school in Yarova and nine communal roads, and the purchase of specialised equipment for the local public utility company. The example of the community can quell the most common fears that schools will be closed after towns and villages merge: all existing schools were converted into Teaching and Learning Complexes, while a hub school has been established in the ATC centre town. In addition, at the end of 2016 Lyman opened the first Community Safety Centre in Ukraine, which is home to the State Emergency Service, ambulance and police. The regional budget contributed UAH 5.2 million to the project, and the head of the Donetsk Civil-Military Administration Pavlo Zhebrivskyi promised that such centres will be opened in each ATC of the region.

"I felt the changes through seemingly little things. For me as a displaced person, it was very inconvenient to go to social services in the town to solve the problems that arise almost constantly due to changes in legislation. After the community amalgamation, we have mobile consultations with specialists from different services on a regular timetable in each of the 12 village council areas. This is really convenient," says Maria, a mother of two children who moved to Lyman County from Horlivka, now in the occupied part of Donetsk Oblast.

Residents of the ATC that was established in December 2016 are still not entirely sure of the benefits or disadvantages. The Illinivka ATC brought together 9 village councils (25 settlements) in Kostiantynivka County with the centre in Illinivka. Other localities were not happy about this. Member of the Oleksandro-Kalynove Village Council Andriy Taraman shares his doubts: "You know, every village council has its own ambitions, but we were brought together and someone else was put in charge. Firstly, Illinivka is on the edge of the newly created territory. Secondly, one kilometre from the hub school established there now is another hub school in Kostiantynivka. In our school, which



THE REFORMS OF LOCAL GOVERNMENT IN DONETSK OBLAST, DESPITE MILITARY OPERATIONS, ARE MOVING QUITE BRISKLY, BUT NOT ALWAYS PRODUCTIVELY

is now a hub school, about 50% of the pupils are not from villages, but from the town. That means we have to pay for children from Kostiantynivka to study from our budget, while ours will have to travel through the entire county to get there. So I don't really understand why this is the case."

The young councillor, who was elected as a representative of the united community after demobilisation from the Armed Forces, told us about some positive changes: this year's budget already includes money for planning refurbishment of the Culture and Leisure Centre. This is very important, as his fellow villagers would like Oleksandro-Kalynove to become a cultural centre. A unique museum of Ukrainian culture and life has been created here and the village hosts the office of the Kleban Byk landscape park, which is located nearby. There are also plans to set up a Safety Centre in Oleksandro-Kalynove.

According to Andriy Taraman, the unclear mandate of village heads is a problem: in order to get almost any issue solved, the locals have to travel to the head of the ATC, while the village heads solve virtually nothing but are still paid a salary and use a public-funded car.

"Most importantly, they have been left to run the village councils for yet another term in advance. Village heads should be elected at the expense of local budgets, and we are told that there's no money for this. But it's important that we still have influence on many processes. Initially, for example, we were offered to join Kostiantynivka and form an urban ATC, but we refused because we wish to preserve the rural identity of Donbas. We didn't find many things in Kostiantynivka that we'd like to have here: even the pavements and roads are much worse there."

For the same reasons, a few more village councils in Kostiantynivka County have not yet decided what to do: they do not really want to join Kostiantynivka or Chasovyi Yar, as recommended in the plan designed by the oblast centre. They are biding their time as they do not see any other options.

The residents of Zvanivka and Verkhniokamyanske in Bakhmut County, who are mostly people displaced from Western Ukraine during and after World War II (they were forced to move in 1951 due to changes in the demarcation line with Poland), have been more active and productive in their resistance to the planned amalgamation. They refused to join neighbouring Siversk because they believe that their standard of living is much better than in a town where all the factories have closed. A year ago, they invited the head of the Military-Civil Administration to visit in order to tell him why they want to create a community of only two village councils. In March they went to picket the administration building in Kramatorsk, demanding a start to the unification process and insisting that they will not only be able to preserve their cultural heritage, but also provide for themselves financially.

Oblast officials objected as the distance from Zvanivka to the nearest administrative centre is only 8km, and it should be at least 25km for every community. Additionally, these villages do not have many pre-schoolers and their schools are not completely full. Most importantly, economic development experts do not see that they can generate sufficient financial resources. The locals had a good answer to this: there are many farms in their villages and the community is actively involved in various international projects – in the 1990s, they built the only Greek Catholic monastery in Donetsk Oblast without outside help. On March 24, 2017, the persistent descendants of the Lemkos were finally notified by the regional administration that their ideas conform to the plan for community amalgamation.

The process of creating communities almost everywhere near the front line has caused many problems. The situation in Mariupol, which even in peacetime had different ambitions to Donetsk,



A role model to follow. One of the first places freed from separatists, Lyman was also a pioneer in community amalgamation. It received UAH 23.2 million in subsidies in 2016 to build and develop social infrastructure

is complex. Currently, the process of creating ATCs on the Azov coast is only moving from west to east, as the northern districts will only be able to join after the end of hostilities. But this is not always practical, even in places under Ukrainian control. It is incomprehensible how elections can be held now in frontline villages such as Shyrokyne or Pikuzy (formerly Kominternove). However, the process of creating a commune centred in Sartana has begun, although with considerable difficulties. The County State Administration is unsure whether to assign this newly created administrative division to Mariupol or the Volnovakha County. As a matter of fact, Mariupol itself would not mind automatically creating a community without incorporating other small settlements in order to avoid early elections. But then how is the city supposed to expand if the surrounding areas belong to different communities? In order to properly calculate the pros and cons, the people of the Azov coast are in no hurry to merge or split. No ATCs have been created there yet.

At the same time Siversk, which the Lemkos were so unwilling to join, held elections without them on April 30. While the town seems depressed, there were as many as 17 candidates to run it. And only five of them were local. Residents of Bakhmut, Kramatorsk and Mykolayivka have showed interest in the position. It is safe to say that the revival of political life even in small towns that were affected by the fighting is not by chance. This usually happens when the powers-that-be can see the benefits (in this case, privileges) that come from self-government and considerable financial investments. Whether this will help communities succeed or once again fill the pockets of certain individuals most likely depends on their willingness to make real changes. ■



David Lipton:

«Ukraine can't pause or go backwards»

Interviewed by
**Lyubomyr
Shavalyuk**

This April, the 2017 Spring Meetings of the World Bank Group and the IMF, a top annual international economic forum, took place in Washington. It looked at the current trend and prospects of the world's economies, regions and individual countries. Upon the invitation from the IMF, *The Ukrainian Week* correspondent attended the Spring Meetings and spoke to the IMF First Deputy Managing Director about the details and prospects of the IMF's cooperation with Ukraine.

Ukraine completed 3 out of 11 structural benchmarks from the previous memorandum with the IMF, and still received the last tranche of the loan. Why did the IMF grant it?

We always try to see the big picture. Ukraine is making important strides in stabilizing and building foundation for growth in the country. It was time to go ahead. But we still want all of the other benchmarks to be implemented. We con-

tinue our work with the government on some high-priority reforms necessary for the next review. If we move forward together, Ukraine can overcome the legacy of the last 25 years and really make life better for a lot of people in the country.

The upcoming benchmarks include some politically sensitive ones, such as pension and land reform. How would the IMF put pressure on the Ukrainian Government to go through these reforms taking into consideration the fact that Ukraine is looking at double elections in 2019?

We don't force anyone to do anything. The history of the past 25 years in Ukraine shows that the country moves forward when it wants to do so, and it doesn't when it can't find agreement.

The next three important steps are pension reform, land reform and privatization of state enterprises. These reforms are all long overdue. Not doing them has imposed costs on Ukraine year in

David Lipton, born in 1953 in Boston, is an American economist. He earned a B.A. from Wesleyan University in 1975 and a Ph.D. and M.A. from Harvard University in 1982. Mr. Lipton's career includes the IMF; economic advisory to the governments of Russia, Poland, Slovenia; the Treasury Department, Citibank and the White House. He has been First Deputy Managing Director at the IMF since 2011, reappointed for the second term in 2016.

and year out. You have some of the most fertile land in Europe. But it has never been possible to reap full benefit from it given the land use and ownership. I remember discussing it with then-President Kuchma! It's time that this reform is done, because Ukraine can no longer afford to be giving up what it is giving up now. Ukraine will have to decide. Prime Minister Groysman has declared that he aims to try to do it.

When you talk about privatization, I also remember meeting with top officials, including the responsible Vice Prime Minister, already in 1995 to discuss their plans. Again, the cost of poor management, poor financial outcomes in state enterprises over the many years since then is substantial. Ukraine can improve its economy if it begins and carries out the process of privatization. If you look around Eastern Europe, many countries that have successfully privatized have found benefits in doing so. It is up to Ukraine, and if Ukraine wants to do it, we will support it.

Pension reform is always a sensitive issue, affecting many people. But no one in Ukraine can possibly like the fact that the average pension now is so small. And Ukraine cannot afford higher ones, because there are too many pensioners. There has to be some rationalization. The Prime Minister has assured us that he intends to try to craft a pension reform that would get the backing of the people.

The people of Ukraine – and the Parliament on their behalf – have to ask themselves whether they want to move on those three reforms and what is the cost of not doing so. If nothing changes, we will have more and more years of difficulties and waste that have characterized the past.

Pension reform has been mentioned in many memoranda of Ukraine's cooperation with the IMF since 2015. Yet, virtually no progress has been achieved. We have some discussions or concepts, but not a complete reform ready to be implemented. Can Ukraine suggest anything as an alternative in case it does not carry out this reform?

We have discussed pension reform with the President and Prime Minister since the beginning of this program. We never contemplated that it would happen at the beginning of it. The first part of the program focused on stabilizing the financial situation and bringing finances under control. That has been done.

Ukraine is now in phase two, where it needs to solidify stability and prepare base for growth and more efficient operation of the economy. Therefore, it is now time for pension and land reforms, and privatization. This kind of reforms

will create the basis for development and growth in the country, and make the future different from the past.

The Prime Minister has explained his aims and intentions and expressed his commitment. We hope that the Ukrainian people and Parliament can come together with the Prime Minister behind the very meaningful pension reform – It is very important for the country's finances, budget, people and the economy. It is a necessary next step.

Head of the IMF's mission to Ukraine Ron van Rooden published an article on pension reform. It was heavily criticized by Deputy Prime Minister Pavlo Rozenko. This hints at some interests at the highest level which are unlikely to back the reform.

All big complicated reforms are controversial. They don't just happen. They require a lot of planning, discussion, dialogue, even argument. The aim is to get a sensible pension reform that makes the system financially sound but also provides meaningful pensions to people who receive them, rather than pensions that are a pittance and not fair to the people who worked their whole lives.

The Government is expected to submit a draft law on land reform to Parliament by the end of May. However, we have yet to see any discussions on that whatsoever. Would the IMF be flexible about this deadline?

The IMF team has been visiting Ukraine, and we will have conversations with the authorities in the coming days and weeks to develop a strategy. We want to see the pension reform, land reform and privatization.

When it comes to privatization, we have seen two years without any success. What should be done to go through that dead point?

There needs to be a decision to go ahead. Ukraine clearly has state enterprises that would be valuable private companies. There have been some companies prepared for privatization that for various reasons have not been privatized. And while I understand some of those reasons, these are certainly valuable companies. In private hands, these companies would be more productive and profitable, and hence serve the Ukrainian people better.

It takes a combination of political decision and careful preparedness. There are examples of successful privatization efforts in the region. IMF has the expertise and some of your neighbors have the expertise. There are plenty of ways to figure out how to do this well, if there is a decision to go forward.

With the resignation of Valeria Hontareva as NBU Governor, the number of bright reformers continues to shrink in Ukraine. This being said, does the IMF expect obstacles in cooperation with Ukraine?

Governor Hontareva has done a fantastic job in an incredibly difficult situation, despite huge resistance from some people and political factions. »

When she came in, the country was on the edge of instability: It had an exchange rate system that had contributed to paralyzing exports and growth. Moreover, Ukraine had many banks that were either or both mismanaged and failing. She has dealt with those problems and deserves a medal for it, as far as I am concerned.

After all of the hard work she has done, one can understand her moving on. Running the National Bank of Ukraine has never been and is not an easy job. But there is no doubt that Ukraine can and will find someone to carry forward the good hard work that she has done.

Do you expect the restructuring and privatization of Ukrainian state-owned banks to be included in the Ukrainian program with the IMF at any point?

Already some of the state banks are being dealt with. It is certainly a subject of interest for us.

In two years, Ukraine is expected to start making large payments on foreign debt. That will coincide with the period of elections. Meanwhile, Ukraine does not have substantial economic growth to meet those financial needs. Do you expect any financial problems caused by that in two years?

We see growth returning to Ukraine after several years, reaching over 2 percent. If the program goes forward, that growth rate can rise. But much more importantly, if Ukraine continues to succeed, solidify stability and intensify growth, then capital markets will make funding available more amply and on better terms. In that circumstance, there would be no problem. But if Ukraine decides to pause or step back from reform, there will inevitably be a problem.

Two other important reforms are of the state fiscal service and customs. Virtually no progress has taken place there. And the ex-head of the State Fiscal Service was arrested. Do you expect that Ukraine can start moving in the right direction after that step?

I surely hope that Ukraine addresses the problems in those two areas. It would be a very important progress.

In the second half of 2016, Ukraine passed the e-declarations law. Lately, however, controversial amendments have been made in it. Fighting corruption is a major part of Ukraine's program with the IMF. How do you assess Ukraine's progress in that?

Ukraine is moving forward in fighting corruption, though not fast enough. There are many dimensions to fighting corruption. Part is about having institutions – part of that was the creation of NABU envisaged in the program. Part of that is transparency – the e-declarations address it. Part of it is enforcement – that is a domestic governance issue, and the President and the Government have to take it seriously. Part of it is cleaning up problems in banks – corruption in many countries comes from the ability of oligarchs to use banks to fund corrupt activities or for companies to make illicit payments through financial institutions. Wherever banks have been managed

and governed well in Eastern Europe, corruption has lessened.

Finally, part of fighting corruption is about liberalization. One of the greatest epicenters of corruption in Ukraine was the gas system. Cleaning up Naftogaz and its system, adjusting the prices so that there are no opportunities to buy the imported gas low and sell high – these are the ways for cleaning up corruption.

In some of these areas, Ukraine has made quite important steps forward. In others, there is a lot more to do. Some of these areas we can try to foster and support. Some require political action by the leadership of the country.

If you were asked to assess the success of Ukraine's reforms in general, taking into account accomplishments in the banking and gas sector reforms on the one hand, but lack of any in privatization on the other, how would you assess what is needed and what has been done in percentage?

IMF doesn't do report cards... Ukraine has performed an important stabilization of the economy. It is something that the leadership should be proud of and that people should understand. Sometimes, the stabilization phase doesn't feel very good – it takes getting to the growth phase for people to start appreciating the value of the work that has been done.

In Poland, for example, there were a number of changes in governments after stabilization, and a number of years had passed before the population started to feel the benefits of transition when growth had risen.

UKRAINE HAS PERFORMED AN IMPORTANT STABILIZATION OF THE ECONOMY. IT IS SOMETHING THAT THE LEADERSHIP SHOULD BE PROUD OF AND THAT PEOPLE SHOULD UNDERSTAND

While stabilization was a major accomplishment, there is so much left to do. Ukraine can't pause or go backwards, or else it will lose the work that has been done. It should go forward because there is huge potential – provided that the rest of the reforms are completed – to develop the economy, to have growth and rising income. Then people will feel better about it.

When does the IMF expect for the global financial markets to open to Ukraine?

Markets have two sides – supply and demand. Right now, the interest of the capital markets is in providing funding to emerging markets. We have seen a number of countries, also those that don't have highest ratings, financed. But the other side matters as well: that Ukraine prepares itself, makes itself a good, worthy customer. Having completed the review with the IMF was a useful step. Making progress towards the next review could be just the ticket to convincing the world and markets that Ukraine is heading in the right direction. ■

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The mythical steel collapse

Oleksandr Kramar

How pro-Russian oligarchs started an economic war against Ukraine in revenge for the ORDiLO blockade and how it will end

In February, the press was a-buzz with stories about a “nearly 8-hour long joint lunch” between President Poroshenko, ex-PM Arseniy Yatseniuk, Radical Party leader Oleh Liashko, and steel magnate Rinat Akhmetov that supposedly took place in Akhmetov’s Kyiv office on February 11. The participants neither denied nor confirmed the reports. Still, after this marathon, the ostensible guests of the Donetsk oligarch and members of their parties—the Petro Poroshenko Bloc, the People’s Front and the Radical Party—began to sound like spokesmen for Akhmetov’s own DTEK and MetInvest, or members of his Opposition Bloc in the Rada. The press repeated comments from them to the effect that breaking economic links with the occupied counties of Donetsk and Luhansk Oblasts, known as ORDiLO, would have catastrophic consequences, that there were no alternatives for now, and that it was necessary to preserve ties at least in the steel and power generation sectors—the two sectors, of course, that matter the most to the country’s wealthiest man.

As it turned out, these dire warnings were not supported by the facts and were simply a desperate attempt by the oligarch to preserve the old mechanism of Ukraine paying for socio-economic support in the territories occupied by Russia, in exchange for the loyalty of his people in the Rada to those in power. Akhmetov and other nominal Ukrainians who own assets in ORDiLO were obviously not operating out of altruistic motives, but to justify themselves before Russia and its local proxies. The related Government resolution that came into force on March 14, “On the procedure for moving goods in or out of counties where the Anti-Terrorist Operation is taking place” was written in the same spirit. However, when it became clear that the terrorists weren’t about to stop their “nationalization” project, any probable deals with Akhmetov were transformed into the already announced complete, if temporary, blockade of ORDiLO whose primary purpose was to get them to return the enterprises that belonged to him.

By the end of February, the standard bullying threats that the power would be cut off were replaced by threats that Ukraine’s coking industry, and therefore its entire steel industry—which would then be left without fuel—were a new and much more powerful argument against breaking economic links with ORDiLO. Azovstal General Manager Enver Tskitishvili announced that as a

result of the blockade of rail movement and the disruption of coke from the Avdiivka coking plant, their company was working to only 55% capacity, although existing orders required it to be running at 80-85%. In neighboring Mariupol Steel Plant (MSP), the situation was supposedly still worse: plants were running at below 50%. At the Industrial Union of Donbas (IUD), officials resorted to blatant lies about the loss of the Alchevsk Steel Plant, which is located in the occupied territories and blackmail: they threatened to completely shut down the Dnipro Steel Plant, which is not in the occupied territories.

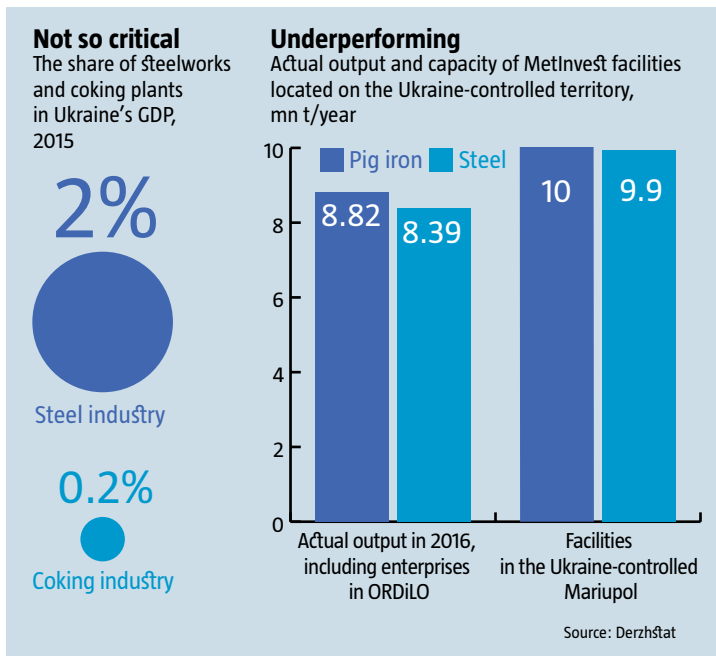
In fact, a closer look at the situation shows that Ukraine’s steel industry could develop and even expand output if it completely refused



UKRAINE HAS BEEN A STABLE IMPORTER OF COKE AND COKING COAL FOR A LONG TIME. THE REASON IS THAT DOMESTIC PRODUCTION OF QUALITY COKE AND COKING COAL IS NOT ENOUGH TO COVER DEMAND AND A POOR VALUE FOR THE QUALITY

any links with ORDiLO. What’s more, as *The Ukrainian Week* already wrote (see **Feeding the enemy at ukrainianweek.com**), this kind of move could stimulate growth in those enterprises located on non-occupied Ukrainian territory. However, this means the government has to stop passively tolerating open blackmail and a de facto economic war against Ukraine on the part of pro-Russia steel oligarchs, and take decisive steps to force them to reorient their production chains or else sell off assets located on non-occupied Ukrainian territory. If they can.

First of all, it’s worth noting that if the steel plants located in ORDiLO stop operations, this is hardly a reason to reduce output or exports in the rest of Ukraine. In 2016, the MetInvest Group, including operations in occupied Yenakiye and Makiyivka, produced only 8.82 million tonnes of pig iron and 8.39mn t of steel. Yet the combined capacities of just two steel plants outside the occupied territories, Mariupol’s Azovstal and MSP, are capable of producing 10mn t of pig iron and 9.9mn t of steel annually. In 2013 alone, the two plants produced more than all the MetInvest Group put together in 2016: 8.91mn t of pig iron and 9.5mn t of steel. All that’s needed is demand—and the desire to supply it. If this



doesn't happen, that is, if MetInvest doesn't replace the output lost in ORDiLO by increasing output in Mariupol, this means only one thing: it is deliberately blackmailing the government and people of Ukraine.

The behavior of the management at Russian-controlled IUD was even more obnoxious. In order to "persuade" the Ukrainian government to move decisively to restore trade with the occupied territories, they resorted to obvious lies and economic war against Ukraine, estimating losses from the disruption in deliveries from the occupied Alchevsk plant at US \$55.7mn in just the first three weeks of the blockade. But this number was based on the plant working to full capacity, and not its real output prior to the blockade but after armed conflict started in Donbas. For instance, they claimed that the stop in trade meant that in those three weeks the Alchevsk steel plant was unable to produce 0.13mn of slab and rolled steel, although the company's annual report shows that the plant only produced 0.62mn t for all of 2015. What's more, the supposed loss of output at the Alchevsk plant due to hostilities in Donbas can easily be compensated by increasing output at the group's subsidiaries outside ORDiLO, where output had fallen off considerably in recent years due to low demand.

Instead, Ukraine saw IUD management try open blackmail: using the excuse that steel production in ORDiLO would have to be stopped, they threatened to also completely close the Dnipro steel plant in Kamiansk, which is outside the occupied territories. IUD claimed a fall in production of 115,500 t of coking coal at Alchevsk and the resulting failure to deliver 65,700 t to the Dnipro plant over the three weeks from February 13 to March 6. IUD sharply cut back output at the Dnipro plant and began to threaten that

"unless there is immediate progress (in restoring rail links with IUD's Alchevsk plant – Ed.), production will be stopped completely."

In actual fact, Dnipro can get all the necessary coke abroad, just as ArcelorMittal has been doing at its Kryvorizhstal plant, the biggest in Ukraine, for years. Indeed, according on its corporate filings, the Dnipro steel plant has long been importing significant volumes of coke from other countries. However, for it to completely substitute Alchevsk coke would spoil the main argument for restoring economic links with occupied Alchevsk. And so, Russian-controlled IUD decided to play hardball, in the hopes economic blackmail would do the trick with Ukraine, sharply cutting output at the Dnipro plant. According to IUD's official site, output of pig iron was cut 136,500 t and square steel billets by 143,500 t during those same three weeks. Incidentally, this caused a shortfall of US \$52.5mn in hard currency revenues for Ukraine in less than a month.

A normal Ukrainian Government should, in this kind of situation, have nipped in the bud the efforts of MetInvest, owned by pro-Russian oligarchs Rinat Akhmetov and Vadym Novynskiy, and IUD, controlled directly by Russians, to play the economic component in Putin's hybrid war against Ukraine. For instance, it would have explained that shutting down production facilities located outside ORDiLO and trying to make their operations dependent on trade with the occupied territories would result in their immediate nationalization with further sale to investors who can ensure alternative production chains.

HOW THE MYTH OF COKE WAS DEBUNKED

Ukraine has been a major and stable importer of coke and coking coal for a long time. The reason is that domestic production of quality coke and coking coal is not enough to cover demand and, even more importantly, it is a poor value for the quality. So imports of bituminous coal used for coking had been growing steadily even before the conflict in Donbas began, according to Derzhstat, the official statistics agency. Under the Yanukovich regime, they grew from 11.3mn t in 2010 to 14.2mn t in 2013. The crisis, of course, caused volumes to decline to 12.5mn t in 2014 and then to inch up to 12.7mn in 2015. However, despite the absence of obstacles for transporting coking coal from ORDiLO, imports continued to grow, rising to nearly 2013 levels again, at 14.15mn t. Only one Russian company, Evraz, increased its coal deliveries to Ukraine by 42%, to 2mn t. The company's annual report says that it planned to increase orders to 3mn t in 2017—even if there were no blockade of ORDiLO. In 2015, imported coal was up to 63% of all the coal used by coking plants, rising to 67% in 2016 according to the industry association, UkrMetLurgProm. This happened well before the blockade of rail traffic into ORDiLO even began.

In short, claims that imported coke or coal used in its production are a consequence of the

rupture in economic ties with ORDiLO and that it threatens a collapse in Ukraine's steel industry are simply not true. Equally groundless are warnings that coking coal or coke can only be bought in the occupied territories—or in Russia itself. In 2015, the year that Ukraine imported the most coke, only 34.5% of it came from the Russian Federation, while 37.4% came from Poland, 20.1% from China, and 7.2% from Colombia. Coking coal, on the other hand, came 55.0% from Russia, 29.1% from the US and Canada, and another 7.5% from Australia. Of course, Ukraine could easily stop using Russia as a supplier, because the current dependence is mostly a reflection of the existing logistical

Before the blockade began, the share of imported coal consumed by the coking plants in Ukraine was rising rapidly, hitting **63%** in 2015 and **67%** in 2016

links of companies that often belong to Russian financial-industrial groups (FIGs), such as IUD and Evraz, or are linked to them. Even without including procurements in Russia, Ukraine has already been importing up to 5-6mn t annually of coking coal and up to 1.4mn t of ready coke, so that arguments that the country will have to increase imports by several million tonnes to compensate the loss of supplies from ORDiLO are clearly speculative.

In 2013, MetInvest's coking facilities in Mariupol and Zaporizhzhia alone produced more than 2.47mn t of coke. In 2016, the entire group produced 4.32mn t, of which only 3.27mn t were used internally, while the rest was sold outside the company. This shows that, even with just the company's Zaporizhzhia and Mariupol coking plants working at 2013 levels, they can easily provide 80% of the coke needed to keep MetInvest's processing of pig iron going at 2016 levels. In short, even with the Avdiivka coking plant completely shut down, it would be enough to buy a maximum of 0.8mn t of coke a year. These are completely realistic volumes, even with world trade in these commodities not even 30mn t annually. In fact, however, there may not even be much need to import such quantities because the Avdiivka coking plant has not completely stopped working, while the Mariupol and Zaporizhzhia plants can produce far more than the 2.5mn t that they put out in 2013.

The horror stories being spread by MetInvest managers about shutting down their coking enterprises should the delivery of coal from ORDiLO be stopped is just another kind of blackmail, not a real threat. First of all, even the complete disruption of supplies from occupied KrasnodonVuhillia, which produced 0.79mn t of coking coal in 2016, can easily be compensated by restoring extraction at mines belonging to the American company United Coal, also part

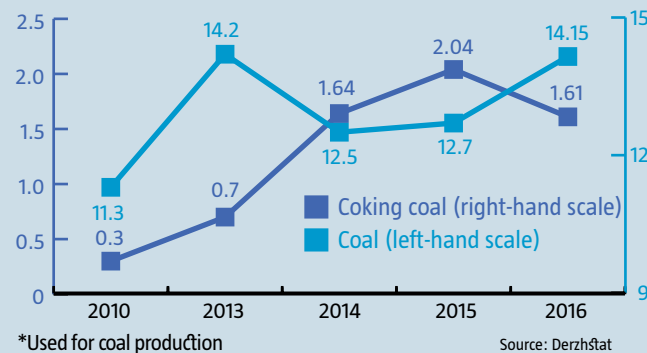
of the MetInvest Group, to at least 2015 levels. Secondly, according to MetInvest's 2015 annual report, its own production of coal concentrate for coking has covered less than half the needs of the group's enterprises all along, and the larger share was bought from outside suppliers. In addition to this, the Ministry of Power and Coal reports that 8.36mn t of coking coal were extracted on non-occupied Ukrainian territory in 2016, an amount that can potentially be increased. Unfortunately, only 0.93mn t were extracted from them at mines belonging to Akhmetov's DTEK, while 1.56mn t were extracted at state-owned mines, while more than half the total volume, 4.3mn t, came from PAT Pokrovsk Mine Administration, which is under Donetsk-Stal, owned by the notoriously ukrainophobe and, according to press reports, sponsor of terrorists, Viktor Nusenkis. By comparison, MetInvest's KrasnodonVuhillia, which is located in ORDiLO, was able to, at most, extract 5.46mn t of bituminous coal in 2013, which was the peak period prior to the decline with the start of hostilities. Nusenkis continued to process coal from his own mines, which are on non-occupied Ukrainian territory, to supply coke to the enterprises located in terrorist-occupied Donbas. And the steel products that he made were exported as though they were Ukrainian-made. However, this is an organizational issue for the Government to deal with: should all transport links with ORDiLO be cut, the Pokrovsk Mine Administration will have to deliver coal to coking plants located in non-occupied Ukraine, including Avdiivka or Mariupol. Nusenkis's attempts to shut down his mines for political reasons should result in their return to state ownership with further privatization to investors who want to keep them running.

HOW TO AVERT A NON-CATASTROPHE

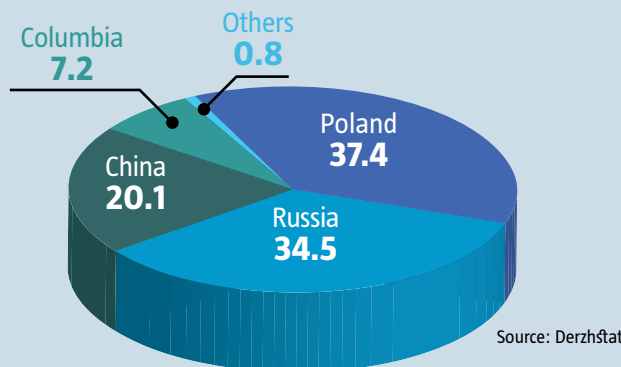
In the end, even without an appropriate response from the Ukrainian government to the blackmail of pro-Russian steel giants, there won't be any catastrophic consequences for Ukraine's economy because of the loss of ties to ORDiLO in the mining and metallurgy industry. This is thanks to fundamental structural changes that have taken place in Ukraine's economy in the last decade. According to Derzhstat, the domestic steel industry was only UAH 40.03bn or 2% of GDP in 2015, the last year for which such data is available, while the coking industry was a marginal UAH 4.39bn or 0.2% of GDP. By contrast, agriculture provided UAH 249.0bn or 12.5% of GDP, food processing UAH 165.4bn or 8.3%, and oil&gas extraction—even at below-market 2015 prices for domestic extraction, which changed only in 2016—UAH 54.8bn or 2.8%. For the average Ukrainian, this may seem improbable, based on the traditional image of metallurgy as being a key sector and the driver of the Ukrainian economy. But these impressions are based on widely disseminated but deceptive information about the volume and share of the domestic steel industry of all goods

Addressing the myth of the 2017 blockade killing Ukraine's steel industry because it has to import more expensive coal and coking coal

Imports of coking coal and bituminous coal* in Ukraine, mn t



ORDiLO or Russia alone? Suppliers of the coking coal imported by Ukraine in 2015, a peak year, %



and services in Ukraine—which is actually 5.7% vs 12.9% for agriculture—and particularly of exports—19.9% in 2016, vs 42.0% for agriculture.

In Ukraine, the metallurgy and coking industries have traditionally been trailing sectors that actually offered the least added value to the country's economy, mostly just payroll and official indicators of gross profits, in the end value of their output; in 2015, this indicator was only 13.5% and 8.4%, whereas in the farm sector it was 37.4% and in the oil&gas sector, 51.1%.

The steel magnates directed around 6.9% of the value of their industry's output towards paying their workers, and posted even less in the way of gross profit: 6.1% or UAH 17.35bn. This means that, thanks to transfer pricing, that is, the sale of products to related companies for below-market prices, to be resold further on at market prices, and to the active use of offshore accounts, the lion's share of profits remains outside the country. Indeed, these supposed "economic drivers" paid a whopping UAH 3.23bn into the budget in 2015, which was less than 0.5% of all of their income. By comparison, agricultural enterprises paid UAH 12.38bn in to the budget in 2015—even after substantial tax breaks. The fact is that the main tax-based revenue stream in Ukraine is the

VAT—which is almost entirely refunded to the export-oriented steel industry. Meanwhile, the biggest share of the final cost of production in the metallurgy and coking industries is the cost of supplies from other branches, and often from abroad.

All this is by way of saying that, in the absolute worst-case scenario, steel output might possibly shrink by as much as US \$1-2bn after the rupture of ties with ORDiLO, but it still won't mean the same loss in Ukraine's GDP or balance of trade, let alone to public budgets up and down the line. The real loss will be at least severalfold smaller. In a situation where the production of coke uses largely imported coal, whether from abroad or from ORDiLO, external purchases in non-occupied Ukraine will go down proportionally. Ore that is no longer in demand in the domestic steel industry can be directly exported in exchange for hard currency. A decline in electricity consumption means that less power will need to be generated by the country's coal-fired TESs or co-generation plants, and that means importing less anthracite.

In 2016, the entire export of ferrous metals brought Ukraine US \$7.25bn in sales. However, the majority of this came from companies without close ties to ORDiLO. Once the artificial sabotage of the management of pro-Russian metallurgical companies offended by the blockade is out of the picture, the most vulnerable might be the pig iron exporting sector. Coke is a major part of the production cost of this primary product in the steel industry, which is later smelted into steel and poured into rolled products. So, with the shortage, and therefore growing cost, of coke, there could really be little economic sense to producing a half-finished product for export. However, exports of pig iron and products made of it constituted only US \$0.55bn or 1.5% of all exports of goods from Ukraine in 2016. With the biggest component of its cost being coke, of which far more will now have to be bought abroad, and iron ore extracted in Ukraine, which can be exported for hard currency, the net loss for the country from stopping the export of pig iron at 2016 levels will be no more than some tens of millions of dollars.

In the end, rather than the mythical catastrophe from cutting economic ties with ORDiLO, in fact, the real catastrophe for Ukraine has been maintaining these financially costly links. Both IUD's Alchevsk steel plant and Akhmetov's enterprises on the occupied territories were costing the country billions in losses for the years that they weren't paying for their electricity. In 2016 alone, UAH 1.4bn or US \$52mn worth of electricity was provided just to the occupied parts of Luhansk Oblast. Such losses are anything but mythical, like the supposed losses IUD management warns about when Russia's proxies shut down the Alchevsk steel plant. They are real losses for Ukraine and its millions of consumers who will later have to cover these unpaid bills through inflated electricity rates in the rest of Ukraine. ■

Between the rich and the poor

Lyubomyr Shavalyuk

Why Ukraine's middle class has not yet become a socio-economic foundation of the country



Imagine an average middle class representative. What do you see? A farmer in a clean shirt behind the wheel of an imported tractor, his hands not stained with oil, his face not expressing uncertainty in the future? A doctor in a neat white coat, focused on the patients' problems, without an absent look betraying annoying thoughts on how to scrounge a bribe to provide for his family? A professor, who is so immersed in his studies that sometimes he loses touch with reality, but not over where to find candidates for tutoring or how to make his students pay for his study

guides? A small entrepreneur, owner of a cozy coffee shop, where hipsters flock at night?

Finding a collective image of a middle class Ukrainian is not an easy task. Practically no activity and no profession in Ukraine guarantee a stable and decent level of income that is typical of the middle class. This problem is so complex that it is difficult to spell it out completely.

To begin with, what is the middle class? It is a rather intellectual, abstract category. Defined simply, the middle class is formed by those who earn enough to meet the usual

needs of a society where they live. At the same time, they have some savings that are not sufficient to create a capital and to live off it. Of course, in every society the middle class has its specific attributes that vary dramatically from country to country. For example, the cultural norm in the US is a household of two parents with two children and two cars. A private car is an integral part of the American dream, therefore, life in the United States (infrastructure, transport, and retail chains) is organized accordingly to cater for motorists. In Ukraine, part of the middle class feels comfortable without a car, while another part has one car per family, which is considered quite enough. Unlike in the US, a household with two cars in Ukraine is considered upper middle class.

In terms of quality, middle class representatives earn enough to think not about survival, but about development. This mental focus has profound implications both for an individual and for the society and the country in general, since a person struggling to survive cannot create. The same is true in a broader sense: a country of poor people cannot create sufficient assets to earn enough of them. To change that, a push, often from a genuine economic miracle, is necessary.

In the macroeconomic context, small middle class is the result of low economic performance. However, performance is just a symptom that says little about the causes. Low performance can be caused by dozens of factors. For example, when a country constantly invents new products and services (such as the United States in general and the Silicon Valley in particular), it can dictate monopoly prices on the global market (Apple, Microsoft), thereby increasing nominal labor efficiency and expanding the middle class among the citizens. To the contrary, countries with dominating lower economic structures are usually poorer, with narrower middle class. When a country builds on its global competitive advantage (such as land in Ukraine's case), its productivity is higher, and its population is more prosperous. Countries that enjoy the rule of law and the market economy usually have a stronger middle class. Educated population is another factor of high performance, because a proper social and economic system always allows for converting good education into a decent income. The higher the level of corruption in society, the larger share of the nation's wealth is concentrated in fewer hands. This is also one of the important factors for the strength of the middle class.

There are a lot of such determining factors. However, all of them have one thing in common: they either increase an individual's potential, helping increase the productivity and growth of the middle class, or they work the other way around.

If we analyze the middle class and the barriers to its development based on specific examples, several issues stand out. Why so few Ukrainian farmers are middle class? Firstly, because it has very few farmers compared to the vastness of its arable land. The increase is hampered by a slew of factors, including difficult business climate, lack of access to funding (farmers cannot take a loan for their agribusiness development, and many see a solution in the free sale of land plots to be used as collaterals), lack of infrastructure for storage and export of niche agriproducts, such as fruit or vegetables, and difficult access to foreign markets because of product certification and various regulations.

As a result, large landowners increase the land bank in their private use, hire workers for wages that are too low

for the middle class, and use their economic and political influence built on the size of their businesses to make sure that farmers never become a real force or join the ranks of the middle class.

Why neither a doctor nor a teacher in Ukraine is middle class? Because they are mostly employed in the public sector and the salaries paid to them are insufficient. The state cannot afford to offer them better remuneration for a number of reasons.

First of all, the public sector is hugely inefficient as a result of Ukraine's underdevelopment. For example, the huge source of inefficiency in healthcare is the system whereby the funding of hospitals is based on the number of daycare beds in it rather than on the number of people in need of medical care. In this way, huge amounts of money just slip through the fingers. Many other spheres have similar flaws. Inefficiency, complexity and clumsiness of the state system fosters the development of the class of people who, for a fee, will help citizens get from the state whatever it should give for free under the Constitution. These individuals are interested in keeping the system inefficient, which creates for them the opportunities to earn. Obviously, they will hardly strengthen Ukraine's middle class.

MIDDLE CLASS EARNS ENOUGH TO THINK NOT ABOUT SURVIVAL, BUT ABOUT DEVELOPMENT. THIS MENTAL FOCUS HAS PROFOUND IMPLICATIONS BOTH FOR AN INDIVIDUAL AND THE COUNTRY IN GENERAL, SINCE A PERSON STRUGGLING TO SURVIVE CANNOT CREATE

The second factor is the behavior of those working in the public sector. They tend to "work as well as they are paid", bringing their efforts to a minimum (only after the Maidan a handful of people emerged who work far more than they are paid by the state). This preserves the inadequacy of the state apparatus and plays into the hands of the intermediaries helping solve issues with the authorities. It does not contribute in any possible way to the development of the middle class or to doctors and teachers joining it as full members.

The same factors apply to entrepreneurs. In most countries, small and medium businesses provide the solid foundation of the middle class. Ukrainian entrepreneurs are often focused not on providing consumers with the best product at the lowest cost, thereby increasing their business performance. Their main focus is to "fight fires", i.e., to solve problems with tax and customs officials, law enforcement agencies, and regulators.

With so many obstacles to doing business, being a businessperson in Ukraine is not a cakewalk, but rather a struggle for survival. This struggle is further complicated by all kinds of monopolists, from natural and public monopolies to those artificially created by the oligarchs through the use of political cover for their actions that are, consciously or unconsciously, aimed against the middle class. In such circumstances, many entrepreneurs go out of business, while the middle class is generally devoid of this important policy shaping factor.

The obstacles to the development of the middle class in Ukraine are many, and a lot can be said about them. To cut the long story short, the country is like a house that hasn't been cleaned for 25 years. Before we put it in order, we cannot expect the emergence of a strong middle class. ■

A helpless giant

Oleksandr Kramar

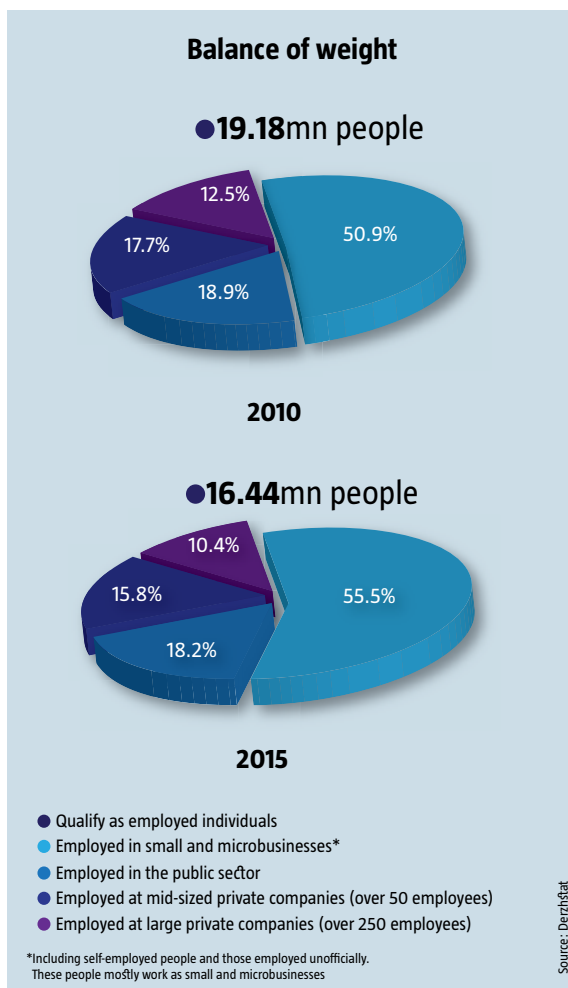
Middle class plays an important role in the socio-economic structure of modern Ukraine. Still, it remains an object in the political struggle of oligarchs

Ukrainian middle class and SMEs have long been the subject of Ukrainian political struggles. Political forces have increasingly declared the protection of their interests as part of their platform. They are the source of hope for the country's economic and political development. At the same time, the term "middle class" remains vague in Ukraine, and so does the definition of small and medium businesses, their size and weight in the economy, as well as their interest unknown. As a result, the middle class and SMEs,

not to mention the protection of their interests by politicians, became a myth, while they turn into a passive object amidst political infighting.

DECEITFUL TERMINOLOGY

In the West, there is the "old" middle class (owners of small and medium businesses that directly manage them) and the "new" one (middle income employees). In terms of income, middle class is divided into "upper" and "lower" groups. This division is mostly clear in German-speaking countries, which, unlike the English or French speaking countries, use two different terms to define middle class.



AS LONG AS UKRAINE'S SMEs ARE NOT AWARE OF THEMSELVES AS A CLASS WITH ITS OWN INTERESTS AND POTENTIAL, IT IS DOOMED TO ACT AS AN APPENDAGE TO THE OLIGARCHIC SYSTEM

"Small and medium-sized enterprises" (SMEs) have their counterpart in the German-speaking countries: "Kleine und mittlere Unternehmen" (KMU). However, the latter term is simply a statistical ranking of companies by the number of employees and annual turnover. It does not take into account that several, or sometimes even dozens or hundreds of such companies, may belong to the same owner or be in public or collective ownership. That is, the government, an oligarch or a billionaire can realistically be an owner of SMEs in Ukraine (and elsewhere).

All this complicates the assessment of the "old" middle class or SME owners in the social and economic life of any modern country. All available data on the role of small and medium businesses in any country, be it in Europe, in Ukraine or elsewhere in the world, are based solely on the statistical category of "SMEs," which, for the above reasons, can distort the understanding of the role of small and medium entrepreneurs, for example, in a country like Ukraine.

It is for the lack of adequate statistics that the weight of the "old" middle class in the social structure is not analyzed in the world. Instead, the focus is made on the division of the middle

class into the "upper" and "lower" layers by income levels and the respective occupations.

UKRAINIAN REALITY

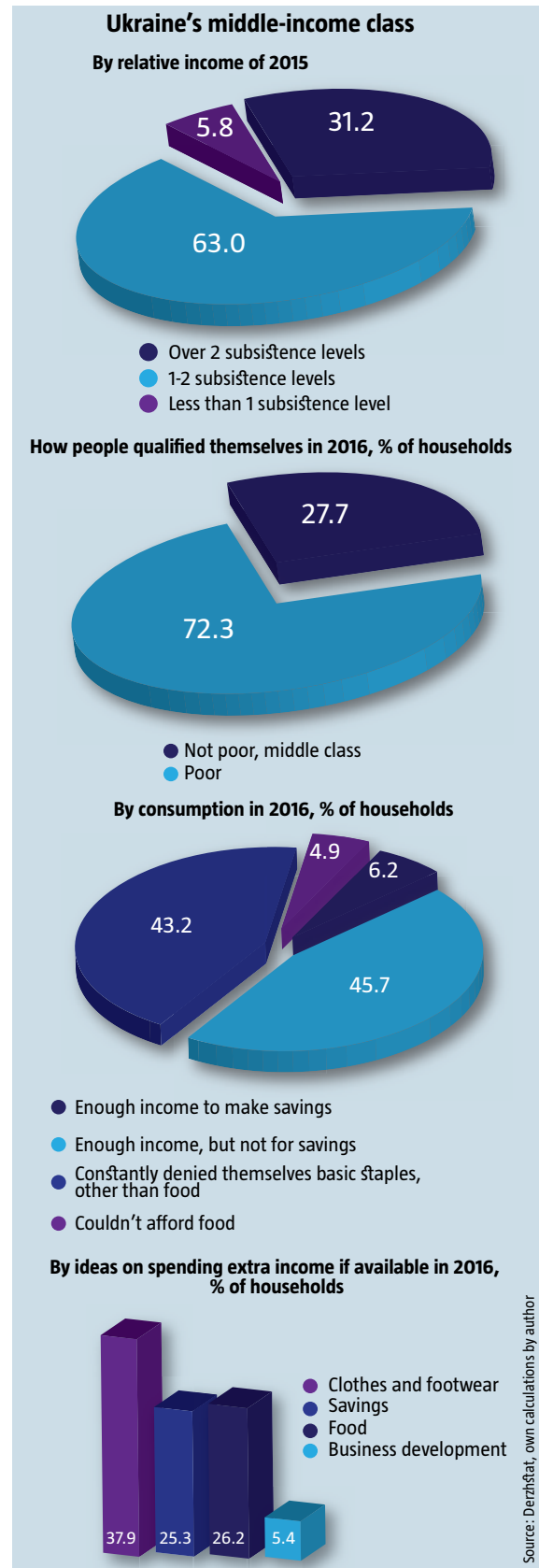
At the first sight, the large and oligarchic business in Ukraine is not so powerful. According to Derzhstat, the state statistics service, all 432 large business entities (with over 250 employees and over €50 million, or UAH1.45 billion, in annual revenue) in 2015 employed only 1.7 million people (10.4% of all employed Ukrainians, and 26.5% of all those formally employed in the commercial sector). By contrast, 63,100 of medium and small (except micro) enterprises employing anywhere from 10 to 250 people dominated the commercial sector, employing 55.7% of all those officially employed in the private sector and receiving more than half of the total business revenues from sales of goods and services.

In terms of the overall employment in Ukraine's economy (including the self-employed and informally employed citizens), those working outside large and medium enterprises dominate. For instance, in 2015 business entities with the staff of 50 or more employed only

27% of Ukrainians define themselves as "not poor, but not yet middle class," while **72.3%** consider themselves to be poor. Only **0.7%** say they qualify as middle class

4.31 mln out of the 16.44 mln Ukrainians that are considered employed. In 2015, more than 100 companies of Rinat Akhmetov's SCM Group employed less than 300,000 people, while Ihor Kolomoisky's Privat Group, Dmytro Firtash's Group DF, Viktor Pinchuk's Eastone, and Petro Poroshenko's Prime Assets Capital employed less than 100,000 each. The grand total of their employees did not exceed 1 million people. Another 3 million received salary from the state budget. However, the vast majority (over 9.1 million) are either self-employed, informally employed (mostly in small businesses) or officially employed in small businesses or as individual entrepreneurs (as owners or employees). This must look like a "kingdom of small businesses".

In reality, this does not reflect the real role of small and medium-sized entrepreneurs (not enterprises) either in Ukraine's economy or its socio-political life. This is because small enterprises are not identical to small entrepreneurs, while large businesses tend to register their employees as microfirms and individual entrepreneurs to minimize taxes. Large business empires of key oligarchs, as well as smaller conglomerates, are umbrellas for large numbers of formally small and medium enterprises. Many of them are affiliated structures, whose owners are actually their clientele, making them part of the oligarchic framework. At the regional lev-



el, numerous small business entities linked to state officials of different levels that milk state resources or work on preferential terms cause identical or probably bigger damage to the country than some big oligarchs. They, too, destroy competition in the economy and undermine the foundations of competitiveness in social life.

Moreover, the SMEs that are linked to the families of a prosecutor, head or deputy head of a county administration or council, mayor or head of a state enterprise usually get much less attention than the key oligarchic empires or large business groups that make up monopolies in certain sectors. The scope of parasitizing by such small businesses does not compare to that of the empires owned by the top 10 or top 50 richest and/or most influential people in Ukraine. However, the cumulative damage they cause is difficult to overstate.

MIDDLE-INCOME CLASS

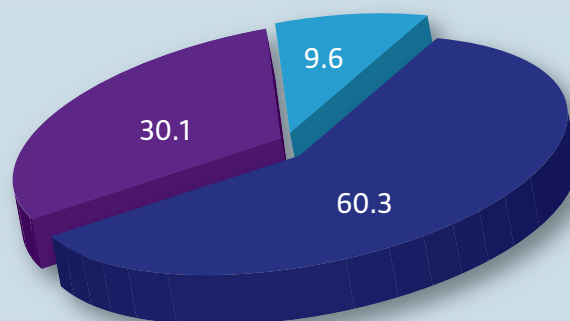
The criteria for counting citizens as the "new" middle class, and hence the assessment of its size and structure in modern Ukraine, are as blurred. A study carried out by Derzhstat in 2016 found that 45.7% of the households "had enough money, but made no savings," while 43.2% "constantly denied themselves the essentials other than food." The number of those who had enough money to make savings was 6.2%, while those who lacked money even for food numbered 4.9%. 25.3% of the surveyed households said that they would save extra income if they had a chance to receive any, while 5.4% were ready to invest in business. At the same time, 26.2% of income was used for food, and 37.9% for clothing and shoes.

When asked directly, 27% of the respondents defined themselves as "not poor, but not yet middle class," while 72.3% considered themselves to be poor. Since no one defined themselves as wealthy, and only 0.7% as the middle class, these 0.7%, can be considered as the wealthiest, while the 27% of the "non-poor" as the Ukrainian middle class, which simply has inflated ideas of the income level required to qualify as such. For example, in the US, according to the research made by Statista, 54% of the respondents have to deny themselves the purchase of durable goods (TVs or electronics) in order to be able to go on vacation, and 43% can't afford to buy new clothes and other merchandise. A report by Feeding America showed that 66% of households had to choose between spending money on food and on medical care.

It is safe to say that 27% of "non-poor" Ukrainian households correlate with the 25–30% of the population who would save additional income or invest it in business development, as well as with the share of people earning an average income when compared to other citizens. In the West the middle class is defined not based on nominal revenues, but based on the comparison with the

In the mood for paternalism

Who is responsible for our well-being, % of households



- Mostly or exclusively us
- Both the state and us
- Mostly or exclusively the state

Source: Derzhstat

income of the rest. In the US, these are households with 2 to 7.5 subsistence minimums per family member. In Ukraine, 31.2% of the population had the average of more than two subsistence minimums as income per family member in 2015 (which qualifies as middle class by a number of other factors cited above). Ukraine's share of the middle-income class in 2015 was almost half that in the US (55.6%). A comparison of absolute incomes shows that the Ukrainian middle class has slightly lower living standards, even when different costs of living are considered.

According to the IMF, in 2015 GDP per capita

SMEs LINKED TO STATE OFFICIALS OF DIFFERENT LEVELS THAT MILK STATE RESOURCES OR WORK ON PREFERENTIAL TERMS CAUSE IDENTICAL OR PROBABLY BIGGER DAMAGE TO THE COUNTRY THAN SOME BIG OLIGARCHS

at purchasing power parity (PPP) in Ukraine was 3.98 times higher (\$7,960) than at par (\$2,000). In the US they are identical, therefore the ratio is 3.98. It has to be multiplied by the average income of the middle class in Ukraine in order to know the equivalent average income of the middle class in the United States. This figure starts from \$11,800 per year per family member in the US. In Ukraine, the abovementioned 31.2% of middle income citizens earned \$5,800 and more at PPP per year (based on the 3.98 ratio). Thus, the share of the Ukrainian middle class in the social structure is almost half the share in the US and has a slightly lower standard of living.

A somewhat better ratio can be obtained from the comparison of incomes at purchasing power parity of the middle-income citizens of Ukraine and Germany. In Germany, 58% of households with incomes ranging between €7,200 and €15,300 per year per family member are considered to have middle income. If we take into account the difference of GDP per capita at par and PPP in the countries (the ratio will be 4.54), 31.2% of Ukrainian middle class representatives in 2015 had revenues starting from €5,900, which is almost comparable with the middle class income in Germany.

At the same time, in the case of SMEs, many representatives of the "new" middle class in Ukraine, who are average income employees, are also subjected to the ruling oligarchic system. Many of them, if not most, have to work for it either directly in private entities, or in the public sector managed by the oligarchs. As a result, they are not aware of themselves as a class with its own interests and a strong potential and are doomed to act only as an appendage to the oligarchic system and to serve its interests.

OUTLOOK

Most of the middle class in Ukraine has accepted the rules of the corrupt oligarchic system that emerged in the recent decades. Being dispersed rather than organized, its representatives have to individually seek ways to adapt to this system, rather than to reject it as unacceptable or oppose it. In this environment, one does not need to worry about competitiveness or the rule of law when he or she needs to solve certain issues, get a good public contract or enter a prestigious university. A bribe or ties with representatives of the system are enough to provide all this.

So far, small and medium entrepreneurs have largely been dragged into political projects that have little to do with their real interests and rely on the funding from oligarchs or large businesses. In this situation, these SMEs are doomed to play secondary roles. They have been showing little interest in investing in an independent game or in changing its rules, but preferred to rotate those who set the rules based on old practices. At the same time, neither the upper nor the lower middle class expressed claims to have power or to independently define public policy. To the contrary, they seemed afraid of this responsibility and the subsequent need to place their own interests behind the national ones and, therefore, take responsibility for others.

However, the degradation of the scanty economic potential inherited from the Soviet times and the decades of living on credit near the time when the need to save the country from self-destruction will become pressing. The problem of Ukraine's lag and imbalance will be resolved by the middle class under any circumstance. The only question is whether it will gain the opportunity to shape the country's future and to de-

fine the agenda of transformations, or whether it will remain an object in the oligarchic system with which it shares no common interests.

The best way out for the middle class would be to take the initiative and the responsibility, finally moving from the infantile denial of the "alien" state, sporadic protests against the most unacceptable actions of the authorities and the oligarchs associated with them to maturely and responsibly subordinating them and converting them into the tools to implement own policy. Only a proactive approach, rather than attempts to fit into someone else's game with the set rules can bring about positive change.

A study carried out by Derzhstat in 2016 found that **45.7%** of the households "had enough money, but made no savings," while **43.2%** "constantly denied themselves the essentials other than food"

Despite the above problems and the share and social and economic weight of the Ukrainian middle class and SMEs (which is lower than in the West), the current key role played by the oligarchs and the large businesses in the country is largely due to the lack of organization and passivity of its middle class. Even under the current quantitative and qualitative parameters, it is a rather powerful environment that can form a force to become an alternative to the corrupt oligarchic system.

To achieve this, however, the middle class has to stop requesting from the authorities and the ruling oligarchy new sacrificial goats and waiting for the Messiah, who will disperse all the enemies and solve all the problems. It has to get rid of the illusion that the reforms could be carried out by the people who don't want them and are afraid of them due to the apparent threat to themselves. The existing corrupt oligarchic system is flexible enough to simulate reforms under pressure. However, the fragmentary and superficial transformations, not properly implemented, will never become systemic and irreversible and, therefore, will never give the desired positive effect. At the same time, the burden of reforms in any country is always disproportionately distributed and shared between those who control and those who do not control the authorities.

Therefore, to change the system it is necessary for the middle class to become aware of itself as a sustainable social group with its distinct interests and its own role and weight in the society and the economy, to develop a program of constructive change and to understand the purpose of transformations in the country. Besides, it requires proper organization and the willingness to independently finance the constant fight for the realization of its own vision of the country's development and the changes in specific spheres of life, including through making the government completely accountable. ■

The eco-explosion in Donbas

Yelyzaveta Honcharova, Bakhmut

What the war is doing to the environment in what was once Ukraine's most industrialized region

Donetsk Oblast is tightly crammed with enterprises that use dangerous chemical substances in their production cycles. If we add the filtering and livestock stations located all along the line of contact that are constantly in the path of artillery fire, this densely populated region is an explosive cocktail waiting to go off.

Just how urgent the situation is, Pavlo Zhebrivskiy, head of the Oblast Military-Civilian Administration (OVTA) states without ambiguity: "There is a slew of enterprises in Donetsk Oblast that continue to operate on the line of contact, such as the Donetsk Filtering Station the Carbolic Acid plant outside Torets, the Avdiivka Coking Plant, and farms belonging to the Bakhmut Agricultural Union near Novoluhanske. Shelling in the vicinity of these operations constitutes a major environmental threat because lack of access to normal maintenance or shelling could lead to an ecological disaster not only for the oblast but for the entire region. For instance, if the sludge pond at the phenol plant or the dam at BAU's septic tanks were destroyed, the collapse would lead to hazardous wastes flowing into the Siverskiy Donets basin, causing damage not only to Donetsk and Luhansk Oblasts but also to adjacent oblasts in Russia as well as, eventually, the Azov and Black Sea basins."

Unfortunately, the presence of a military conflict means that resolving many such issues depends entirely on those who started the war. Yevhen Didus, General Manager of TOV NVO Incor & Co. in Novhorodske is extremely worried about possibly fatal consequences. Since the start of the conflict in Donbas, specialists at the phenol plant have not been able to maintain the sludge pond because of constant shelling. Yet this is supposed to be done on a weekly basis to prevent damaging changes to the surfaces of the dam and the leakage of phenol into surface and ground waters.

"Since July 2014, when the city effectively became a frontline town, we've lost the capacity to properly monitor the sludge pond because it's located in the no-man's land near the village of Zalizne – formerly Artemove," says Didus. "ATO HQ have given us permission and guarantees that shelling will be stopped, but the other side doesn't respond. They haven't given us the green light, although we have sent requests several times a month."

"By some miracle, in the summer of 2016 we were able to partly look into the situation and clear away the southern and western sides of the dam but this has to be done all the time. Otherwise, the waters in these sludge ponds, which are at a height, will leak harmful substances into the Zalizna River, which flows into the Kazenniy Torets, then the Kryviy Torets, and finally into the Siverskiy Donets, the only source of drinking water in the Donbas," Didus concludes.

Management at the phenol plant notes that the leakage of process waters that contain alkaline substances

and phenol into natural waterways threatens to bring disastrous consequences. One of phenol's attributes is that it absorbs oxygen, so that if this clarified water were to leak into on a mass scale, Donetsk rivers would die. Because the production cycle has been disrupted, the likelihood that the enterprise will have to shut down is very high.

"This clarified water is part of the production process," Didus explains on. "If we become unable to contain them, the plant will have to shut down. But we'll still be left hoping that nothing goes wrong with the sludge ponds and the 7 km of piping. During a de-mining operation, we already found several unexploded shells. If something like an Uragan hits us, even the seven-meter crest of the dam won't save us... So we are insisting that the sludge ponds be included in the demilitarized zone from which both armies are supposed to have retreated."



THE ARMED CONFLICT HAS ALREADY DAMAGED THE NATURAL BALANCE OF THE AREA: THE FIRES AND SHELLING WITH HEAVY ARTILLERY HAVE DESTROYED HECTARES OF FEATHERGRASS IN STEPPE PRESERVES, AS WELL AS COUNTLESS BIRDS AND SMALL PRAIRIE FAUNA

As the weather warms up, the question of utilizing the wastes from BAU's pig farms becomes a problem as well, because it will poison not just the rivers of Bakhmut County, but also its ground waters. Residents of the village of Kodema felt its noxious impact in the summer of 2016: their livestock fell ill from the polluted water. People were told to filter and boil water from their wells. The ammonia content in the Kodemka River was 19 times above permissible norms. Even after the wells were cleaned out, which a humanitarian aid organization did, many of the water sources in the town continued to reek.

"No, we still don't use water from the river or the well because it stinks of ammonia," complains Valentyna, a resident of the village. "We buy bottled water for ourselves, but that costs too much for the livestock. This winter, I melted snow for the livestock and right now I'm collecting rainwater. Last summer, our cow fell ill and we were sure she would die. So I'm already scared."

Yet this is nothing, because the environmental impact was almost marginal, say specialists at the commercial farms. They were able to turn the slurry in the ponds into fertilizer on a regular basis, which they then used on their fields. But the septic tank in the village of Dolomitiy, which is cut in two by the front line, is impossible to maintain right now because it's booby-trapped.

In order to properly empty out the liquid that has already accumulated for a fairly long time, professionals with heavy farm machinery need to go into the storage



The zone of vulnerability. Adviyivka Coking Plant is one of the most environmentally dangerous objects along the frontline

area. But because the site has been heavily mined and demining it under constant enemy fire is not an option, this is impossible. The army unit that is now standing in Novoluhanske to replace the Donbas battalion is willing to start demining. But it all depends on the other side not starting to shell the minute the sappers get to work. In any case, this is merely theoretical for now, because there are already rumors circulating in Novoluhanske that BAU will close down in May.

“Nearly 700 locals work at this company, where the war has made sure that there are virtually no other jobs available,” says Novoluhanske Mayor Kostiantyn Sarkisov. “But the surrounding areas could end up feeling it a lot more. If the liquids in the septic tanks and ponds should start leaking, tonnes of harmful substances will get into the Kodemka and from there into the Bakhmut and the Siverskiy Donets. If the ground waters are contaminated, it will be impossible to use local wells in a dozen villages, the fish will die, as will the wildlife and domestic animals.”

Meanwhile, the armed conflict has already damaged the natural balance of the area: the fires and shelling with heavy artillery have destroyed hectares of feathergrass in steppe preserves and indigenous plants have died out, as well as countless birds and small prairie fauna. Ecologists talk about the loss of the natural balance in aquatic and terrestrial sites. Even such a seemingly minor thing as cutting down stands of trees to heat and cook for the soldiers has already led to the loss of humidity in the plains. These plantations were intended precisely to reduce the impact of steppe winds in high-risk farming areas.

For many farmsteads, fortifications and mined fields are also interfering with the utilization of farmland for the third sowing season in a row. During fieldwork,

nearly every month news comes of a tractor or cultivator being blowing up in the region, even in places seemingly far from the current front line, despite the fact that these areas are carefully monitored by sappers. In the forests and open steppes, it's even worse as demining has barely even been started there. The Donetsk countryside will continue to explode without warning for many a decade to come.

One explosion that has been an unexpected boon to Donetsk Oblast, however, is greater diversity of fauna. Almost like the Chornobyl zone, with the retreat of humans, nature has begun to renew its resources at a rapid pace. In the nearly depopulated villages near the front, entire breeds of wildlife have reappeared that were driven out by the stomp of hunters' boots prior to the war. Hunting is currently prohibited in Donetsk Oblast, so the wildlife in many settlements is not especially afraid of humans now.

Residents of Zaitseve, outside Horlivka, complain that they have to walk at least in pairs along the highways because they often encounter entire families of boars wandering there. Foxes run down village streets fearlessly and hares have multiplied so much that people joke around that it's time to domesticate them. In winter, among the wolves that typically migrate to Ukraine from nearby Russian oblasts for warmth and food, golden jackals have also been seen. But the most noticeable phenomenon is the pheasants, which were previously specially bred in nurseries in Donbas to be released into the wild. The population of these fowl has increased nearly to the level of the humble sparrow and they can be seen along all the roadways, in the hillsides, in ruined buildings and even in cities. Nature is fighting with all its force to survive, despite the hellfires surrounding it. ■

Guillaume Scheurer:

“When there is a feeling of separation between those governing and those governed, it’s wrong”

The Ambassador of Switzerland to Ukraine and Moldova spoke to *The Ukrainian Week* about the perceptions of the EU and NATO in his country, neutrality as a tool of influence in international politics, conditions preventing the exploitation of direct democracy by populists, and the visible impact of Swiss investment and technical assistance in Ukraine.

How does Switzerland see the EU and itself with regard to the EU? Has that perception changed over the decades of the EU's existence?

There is no direct answer as Switzerland is a very diverse country. Many different opinions of the EU coexist and vary between segments of the population – those very much in favor and those completely opposed to the EU. But there are also many who are more moderate and want to maintain a good relationship with the EU without being part of it. Over the years, there has been a general acknowledgement of both the EU's contribution to peace, stability, economic growth and values, as well as of its shortcomings like its centralization, its lack of direct democracy which is very important for the Swiss population, the EU's bureaucracy and some economic flaws. As a result, the Swiss population is not ready to adhere to the EU, as it has made clear in the past by voting narrowly against joining the European Economic Area. Nowadays, talks of adhesion are no longer on the political agenda as the politicians have taken note of the population's opposition to Switzerland becoming an EU member state. At the same time, we probably have the most intense bilateral relations than at any point before. We have a network of strong bilateral agreements; we have had many votes on EU-related matters. That's also an important element: the Swiss people were asked on the issues of European identity, values, principles and regulations at referenda, - many difficult issues - and remarkably, they voted yes, until 2014 (when Swit-

Interviewed by
Anna Korbut

zerland narrowly voted in favor of immigration quotas - Ed.). We are not in the EU, but we are strongly European thanks to our shared values. It is sometimes difficult to understand for outsiders.

Meanwhile, that European identity is often questioned in EU member-states by some aspiring forces. And they push for the fragmentation of the EU. How could these changes affect Switzerland?

The EU is politically, economically and financially absolutely central for Switzerland, so we need good relations with the EU.

I'd like to give you a few numbers: 55% of the Swiss exports go to the EU and 73% of Swiss imports come from there. We are the fourth most important trade partner of the EU. Moreover, 1.3mn people out of almost 8mn inhabitants of Switzerland come from the EU, meaning that the links are not only economically important, but from the perspective of human relations.

What many Swiss have problem with is the lack of direct democracy and decentralization in the EU. In Switzerland, we vote on anywhere between two to seven topics every three months. This means that every political process, from the very early stage, begins with broad consultations and an understanding that some sort of a compromise will be needed, as the population will have the final say.

You don't see that too often in other countries. There, you have a majority swinging directions every four or five years, and no consultations in between. As a result, when there is a vote the population is less responding to the question, but rather making a political statement against or in favor of the government. In Switzerland, people are a bit more integrated into everyday political life of the country.

Meanwhile, direct democracy is increasingly being used as a tool by populists for their ends – and sometimes quite successfully. In your opinion, what does it take to make nations vote responsibly and make informed choices?

I don't think we're better than any other country in that. We've just been lucky enough to develop our system for a long time.

Switzerland opted for direct democracy. But this system is refined by a politi-



cal system that makes it work: We have two chambers in Parliament, like in the USA, one for the people and one for the cantons. Moreover, our MPs are very close to the people, as they all are not professional politicians. It is dangerous to bring direct democracy to a country without it having a political culture revolving around it, as you might have the kind of reaction I mentioned before: people voting against or for the government, not on the topic discussed.

The best way to prevent populism is to have a government and MPs close to the people. When there is a feeling of separation between those governing and those governed, it's wrong.

Switzerland is known for neutrality, among other things. Now that we see NATO challenged from inside and outside and hear talk of the European army, how would that impact Swiss perception of its own security architecture?

We follow the developments in NATO closely, but we ourselves have adopted a principle of active military neutrality. This means we are self-reliant, assume protection of ourselves, and we continue to develop a strong Swiss Army to protect the country and its neutrality. The main defense strategy for Switzerland is to ensure respect of international law and obligations as a key principle of interstate relations while keeping the capacity to defend our borders ourselves.

Neutrality is something that's widely recognized and accepted by the Swiss, as well as abroad. When it was enshrined in the Vienna Convention in 1961, many states were probably interested in a Switzerland that remained neutral. And there is no debate among the Swiss about joining NATO, which was never a topic of discussion unlike the EU membership issue.

Does this neutrality allow Switzerland to wield external influence? Is that something the country seeks?

The Swiss neutrality doesn't prevent us from pursuing an active foreign policy and assuming important diplomatic responsibilities, such as chairing the OSCE in 2014, being an active member of the UN and a candidate for a UN Security Council seat in 2023-2024, board members at the IMF and WB. Thus, Switzerland is neutral, but actively engaged.

Also, we have a good level of technical and humanitarian cooperation with other countries, including Ukraine. Such cooperation is completely apolitical and therefore usually accepted by various sides of crises. Geneva is an interesting case regarding neutrality and diplomatic influence: it is here, on Switzerland's neutral ground, that the UN hosts many conferences, more than in New York, where new elements of soft security are discussed, and where many International Organizations have their seats. So there is a nexus between human security, rights, development, and health, all being discussed in Geneva.

In addition, in Geneva there is strong presence of civil society bringing direct democracy to the international level. Many NGOs and think tanks are involved here, they are being consulted, their opinion is taken into account in the process of creating norms that affect everyone. Thus, an element of our daily security is created in Geneva, including for example regulations on the internet or health system. We are an incubator of this kind of consultative process which is also part of defending Swiss interests in a broader sense, alongside more classical means such as diplomacy or the military.

Guillaume Scheurer received his Law degree from the University of Neuchâtel and did his postgraduate studies in International Security at the Graduate Institute of International Studies in Geneva. He achieved the military grade of First Lieutenant of Artillery during his military service in the Swiss Army. He entered the Swiss Foreign Ministry in 1992. Over the course of his career, Amb. Scheurer held a number of positions at the OSCE, including member of the Task Force in Berne for the Swiss Chairmanship of the OSCE in 1996, Deputy Head of the OSCE Section in Berne in 1997, and First Secretary at the Swiss Delegation to the OSCE in 1998-2001. In 2013-2015, he was Deputy Head of the Delegation to the Swiss Delegation to the OSCE (2014 was the year of Swiss Chairmanship of the OSCE). In 2001-2005, he was Deputy Chief of Mission at the Swiss Embassy in Teheran, which also represents U.S. interests in Iran. In 2009-2013, he served as Deputy Head, as well as head of the political and legal section, of the Swiss Embassy in Washington, D.C. In October 2015, Mr. Scheurer was appointed Ambassador of Switzerland to Ukraine and Moldova.

Meanwhile, crises are rising that breed conflicts. The most immediate examples are Syria or Russia's aggressions against its neighbors. International communication on these happens but no solutions are found. That leaves an impression that the consultation process is the end in itself rather than an effective solution-seeking mechanism. Isn't that something that Switzerland reflects upon?

It is an issue. But it's not an issue of Switzerland or its neutrality. It's an issue of international relations, as peace processes can drag on for years. The sad reality of political life is that not all crises can be prevented and not all solutions can be found. But at the same time, what could be the alternative to consultation processes? Sometimes good solutions are found as a result of long processes.

In that context the role of Switzerland, as I see it, is to facilitate debates and create conditions for a quicker and better process, while recognizing that success can't be taken for granted. In the meantime, it is important to give humanitarian organizations the opportunity to help people to alleviate the tragedy of the situation. As an example, what Mr. De Mistura, the United Nations and Arab League Envoy to Syria, is trying to do every day in the Syria talks by bringing the parties together and looking for possibilities is amazing. The same goes for the ICRC – it's a neutral organization working hard on bringing humanitarian assistance to those in need. I am convinced that having a neutral state is useful. And I don't think that neutrality means being silent or indifferent. Neutrality means that Switzerland has the right and the duty to speak out when international norms are violated. Everybody understands that when we say that, there is no hidden political agenda, but an assessment of the state of events.

Switzerland is often criticized for being used as a haven for corrupt money, including from politicians who become sources of instabilities in various parts of the world. However, Switzerland has been changing its transparency and financial reporting rules to respond to these accusations. Where is the process now?

Indeed, Switzerland, just like many other countries, has had the banking secrecy system. But the country is also attractive because of its political stability and good bankers who can provide good return on the money. This banking secrecy model is now over, and not only for our country as there is huge pressure to end this practice. However, the consequences of former policies will remain for a while. We still have to be vigilant and monitor the situation.

In our own recognition (albeit some in the country opposed this), that model was not a healthy one. So Switzerland has put in place the most progressive law on money laundering and asset recovery.

We worked well with the Ukrainian authorities, for instance, to detect such assets. Together with Austria, we were the first country to freeze the money of certain individuals in order to identify the crimes that were committed leading to the theft of that money. This process is a long and complicated one as there are adverse forces, and as the rule of law has to be respected.

The first freeze was for three years in 2014. We extended that freeze for another year in the end of 2016, and will continue to do so as necessary in order to allow Ukrainian authorities to find the crimes and culpability of those individuals. We have good examples with Nigeria, Haiti, and Angola where we had frozen and identified stolen money. This money could then be repatriated thanks to good cooperation with the state concerned. But the process is long. This should be understood by the media and the public.

Let's move to the relations between Switzerland and Ukraine. There is a strategy for the cooperation through 2018. Could you give more details?

As we celebrate 25 years of diplomatic relations this year, we also celebrate 20 years of technical cooperation with Ukraine. It means that twenty years ago we decided to establish with the Government of Ukraine the framework into which we will bring technical assistance. This is re-



SWITZERLAND WAS FIRST TO BRING ORGANIC FARMING ELEMENTS IN FOOD PRODUCTION IN UKRAINE. WE HELPED SMEs IN AGRICULTURE DEVELOP ORGANIC STANDARDS, FOOD AND LABELS, AND BRING THEM INTO EXPORTS

discussed every four years, the latest strategy running until 2018. There is a cooperation budget approved by the Swiss Parliament, including roughly USD 100mn for Ukraine. We have a Cooperation Office in Kyiv focusing on four main directions: governance and peace building, health, sustainable energy management and urban development, sustainable economic development and humanitarian aid.

Energy efficiency is very important for the independence of Ukraine, as well as for the environment. Another one is decentralization: We strongly believe that the more people are in direct contact with their authorities and vice versa, the less corruption happens. We work a lot in the health sector and cooperate very well with Acting Health Care Minister Ulyana Suprun. For 12 years, we've been working actively on maternal health, childhood and young mother elements. Now we focus more in the area of non-communicable diseases, promoting healthy lifestyle as part of preventive medicine.

Interestingly, Switzerland was first to bring organic farming elements in food production in Ukraine. We helped SMEs in agriculture develop organic standards, food and labels, and bring them into exports. These enterprises have now grown a lot and are more self-sufficient as they have access to the EU through the labels that can be recognized. It's a great success story and a successful example of cooperation.

Also, since the conflict in the East of Ukraine already began in 2014 when we drafted our strategy, peace promotion is part of it.

What would you list as the most visible outcomes of technical assistance implementation?

The example I will give reflects the spirit and philosophy of the assistance. One area where Switzerland and German speaking countries are quite progressive is vocational training. It is based on the idea that young people do not all need to go to university, but that technical work is very important and can be a sound basis for successful career. It requires good cooperation between the state, schools and companies. This works great in Switzerland as kids at the age of 14-15 may decide that they don't want to go to high school and then university, but prefer to work and learn in parallel. They find a place in a company which agrees that this person will go to school part-time 2-3 days a week. The school, in turn, offers a specialized program that meets the needs of that company, and, at the same time, enables the apprentice to increase his or her general knowledge.

What we try to bring in Ukraine now, even if on a small scale, is the same system. We have one good example where a company realized that there are not enough people who can fix their items. The company looked around and found that there is only one school in Kyiv Oblast with two or three graduates each year. And there is huge demand for these specialists. So the company came to us, we looked at schools and together with them we developed vocational education programs around the country preparing kids for those jobs. If we can multiply this example in various sectors, similar to the vocational training system in Switzerland, many will benefit from this.

How do you assess Ukraine's ability to absorb technical assistance?

We don't face problems with this. Even though we are among the top five bilateral donors, we still provide a relatively small sum of around USD 25mn a year. However, this also enables us to be very pragmatic, concrete, delivering results and not only making promises. Here, we know our partners, private or public, national or local. We monitor everything, know the result, can correct things quickly when we see them going in a wrong direction. And frankly we have very good results, as proved by our work in Vinnytsa on energy efficiency, helping the city to win a European award.

Apart from technical assistance, what opportunities do Swiss investors see here?

Swiss investors were early in Ukraine. We now have more than 120 companies operating here. Many of them have state-of-the-art production facilities here. Just to give you one example: not far from Kyiv, a company produces glass bottles. They have two lines working 24/7, producing all kinds of bottles, from soft drinks to alcohol with modern equipment. They export a lot of their produce to Italy, Germany, other countries, and make bottles for local producers. Moreover, the excess heat from the heating system which is necessary to produce glass can be used to warm the city houses. What I'm trying to say is that Swiss companies come not only to benefit from cheap labor, but to produce items of quality with the same state-of-the-art systems they would use at home. They bring a lot of know-how to the country and the workers who learn how to use this machinery. ■



B O O K S T O R E S

LUTSK

vul. Lesi Ukrayinky 30

RIVNE

vul. Korolenka 2

VOLODYMYR-VOLYNSKIY

vul. Kovelska 6

KHMELYNYSKYI

vul. Proskurivska 2

TERNOPIL

vul. Valova 7-9

IVANO-FRANKIVSK

vul. Nezalezhnosti 31

VINNYTSIA

vul. Soborna 89

LVIV

prospekt Svobody 7
vul. Halytska 9
vul. Kostiushka 5 (entrance
from Sichovykh Striltsiv 17)

KYIV

vul. Lysenka 3
vul. Khreshchatyk, 46
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
vul. Vasylkivska 34
vul. Malyshka 2

SUMY

vul. Soborna 44

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vul. Sumska 3
vul. Pushkinska 50/52

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vul. Hlinky 15
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Michael Binyon, London

Why Europe's left are in decline



Fewer words, please. Protesters call on the world to act in Syria as the UK Labour Party leader Jeremy Corbyn speaks of human rights in London. Overall, the left in the West have been criticised for a feeble reaction to the crimes of the likes of Assad and Putin

The collapse of the Left in the French presidential election has been spectacular. Not only did Benoit Hamon, the candidate officially representing the Socialist party of President Hollande, receive a derisory 7% of the votes; the firebrand Marxist Jean-Luc Melenchon, whose lively campaigning saw a late surge of support, was also knocked out of the race. The decisive second round of voting next month will therefore be a contest between the independent centrist, Emmanuel Macron, and the xenophobic and nationalist candidate of the far right, Marine Le Pen, who is campaigning to take France out of the euro and even out of the European Union.

The widespread anger with the French political establishment has led voters to kick out candidates from both the established parties – the conservative Republicans and the Socialists. But

the blow has been especially wounding to the left. The Socialist party may now disintegrate.

The left's troubles are mirrored across the Channel in Britain, where the Labour party's disarray is proving disastrous for traditional left-wing voters. Few election campaigns in Britain have begun with such overwhelming support for the government. Theresa May's Conservative government now enjoys an approval rating of around 50% – higher than the party has seen at any time since the height of Margaret Thatcher's popularity in the 1980s. It is on course to win a landslide victory, with a majority in the 650-seat Parliament of about 100 seats.

The Labour party, by contrast, is suffering a disastrous decline. Latest polls put it at around 25%. And in some parts of the country, especially Scotland and south-east England, it may win no seats at all. Even the party's MPs are despairing

of any election victory. Many are quietly hoping for a crushing defeat in June, seeing this as the only way of getting rid of Jeremy Corbyn, the left-wing leader who has alienated most of his fellow Labour MPs and is seen as a huge electoral liability. Tony Blair, the former Labour Prime Minister, has even been urging pro-European Labour supporters to vote for Conservative candidates who are willing to push for a more pro-European policy in the Brexit negotiations. Opinion polls show that less than half of Labour's supporters in the country think Corbyn would make the best prime minister.

The question is: where does the left now go in Europe? And if voters are deserting traditional socialist parties, who will benefit? The answer is that no single ideology is picking up the support of disillusioned leftists. But the clear trend is for voters to turn to populists, either on the right or the left, who are offering a break from traditional politics, a curb on globalisation, a more nationalist agenda and an end to austerity programmes. Sometimes new parties picking up votes have been on the far left, such as Syriza in Greece or Podemos in Spain. Sometimes they have been on the right, such as the Front National in France, the Alternatives for Germany in Germany or the United Kingdom Independence Party (UKIP) in Britain.

Sometimes voters have coalesced around single issues, such as the protests against austerity programmes in Greece, Spain and much of southern Europe, or hostility to the European Union, which was a powerful factor in Britain's Brexit vote and gave strong support to UKIP. And in some cases there is no discernible issue or single cause uniting those deserting traditional socialist parties except a general disillusion with all politics and a wish for an anarchist breaking of the mould. This lies behind the populist appeal of Donald Trump in America and the Five Star Movement in Italy, led by Bepe Grillo, a former actor and comedian with no political experience.

But can disillusion be the basis for new parties? And is the traditional programme of left-wing parties now obsolete? For years, analysts in Britain have predicted the decline of the Labour party as more and more people now think of themselves as middle class, rather than identifying with the working class, the traditional basis of Labour support. For almost a century, the left in Britain has had a similar programme: greater state control of private industry (including, in the past, nationalisation), more spending on social welfare, higher taxes on the rich and more interventionist government programmes to boost health and education while cutting defence spending. All this was thought to benefit the working class.

The priorities have changed in the digital age. Many traditional left-wing policies are either irrelevant or unpopular. Few people in the Labour party, or in any European socialist party, are now calling for wholesale nationalisation. Massive social security payments are increas-

ingly unpopular, even with poorer people, who resent the higher taxes needed and who see many beneficiaries of state spending as workshy scroungers who are living on the earnings of others. Trade unions are no longer seen as the defenders of workers' rights, and in a digital age when more and more jobs are part-time or in service industries, the old trade union confrontations with the bosses of big manufacturing industries now seem outdated.

But other issues have become very much more important: the environment, immigration, the future of manufacturing, racial diversity, women's rights and ethical issues such as animal welfare, euthanasia, gay rights and religious extremism. None of these issues which dominate today's headlines fit easily into the category of left or right. Most parties in Western Europe are trying to put forward policies to attract voters preoccupied with all these single-issue campaigns.

In Britain, the big dividing issue now is the decision to leave the European Union. More than a year after the vote, it is still a question that splits the country from top to bottom. The referendum created a host of new alliances and loyalties. It has driven an even deeper wedge between Scotland and the rest of the United Kingdom, and may lead to a new referendum on Scottish independence. It may help revive the fortunes of the small Liberal Democrat party, the only one that is still strongly pro-European. And it is creating deep new divisions within both the Conservative and Labour parties between pro-Brexit and anti-Brexit supporters.



IN A DIGITAL AGE WHEN MORE AND MORE JOBS ARE PART-TIME OR IN SERVICE INDUSTRIES, THE OLD TRADE UNION CONFRONTATIONS WITH THE BOSSES OF BIG MANUFACTURING INDUSTRIES NOW SEEM OUTDATED

This has accelerated the eroding of old tribal loyalties and class-based allegiances which has been going on for years. In 1997, only 13% of voters had chosen a difference party in the previous election but 38% of people switched sides between 2010 and 2015. The number is almost certain to be greater this time.

In France, the voting pattern showed an even more striking diversity. The victories of both Le Pen and Macron were based on millions of people voting for parties and policies that did not exist a decade ago. The same is true of Syriza, Podemos and the nationalists who now control the governments in Poland and Hungary. But the one clear trend in all this is the decline of traditional left-wing parties. The fall of the Berlin wall spelled the end of communism in Europe. The laptop and the internet promise to end the dominance that traditional socialist parties have had in European politics until today. No one can yet be sure where these lost votes will go. ■

A tradition traduced

Neglecting the State Department does real damage



Early days. In 1778, Benjamin Franklin and his French counterpart signed the Franco-American Alliance. This was one of the first accomplishments of America's diplomacy

Few Americans would have known it, but on New Year's Eve their diplomats probably prevented scores of killings in central Africa, and perhaps a war. President Joseph Kabila, Congo's long-stay autocrat, had refused to leave power, as he was obliged to do. Angry protesters were taking to the streets of Kinshasa and Mr. Kabila's troops buckling up to see them there. Yet through a combination of adroit negotiating and the high-minded pushiness that comes with representing a values-based superpower, Tom Perriello, the State Department's then special envoy for the Great Lakes, and John Kerry, the then secretary of state, helped persuade Mr. Kabila to back down. The resulting deal, brokered by the Catholic church, committed Mr. Kabila to a power-sharing arrangement and retirement later this year. That would represent the first-ever peaceful transition in Congo. But it probably won't happen.

Three weeks later, Donald Trump became president and the State Department's 100-odd political appointees, including Mr. Kerry and Mr. Perriello, shipped out. That is normal in American transitions. But the most senior career diplomats were also pushed out, which is not. And only Mr. Kerry has so far been replaced, by Rex Tillerson, a well-regarded former boss of Exxon Mobil. He had no ambition to be secretary of state—or knew he was being interviewed for the job—until Mr. Trump offered it to him. Now installed as the voice of American foreign policy, he has maintained, notwithstanding his undoubted qual-

ities, an oilman's aversion to public scrutiny. He rarely speaks to journalists or visits American embassies on his trips abroad. He appears absorbed by the ticklish task of arranging a 31% cut in his department's budget, which Mr. Trump will shortly propose to Congress.

The vacant positions—in effect, almost the State Department's entire decision-making staff of under-secretaries, assistant secretaries and ambassadors—are being covered by mid-ranking civil servants, who lack the authority, or understanding of the administration's plans, to take the initiative. America's diplomatic operation is idling at best. A sense of demoralisation—described in interviews with a dozen serving and former diplomats—permeates it. “I went to a policy planning meeting the other day and we spent half the time talking about someone's bad back,” says a diplomat. “We've never been so bereft of leadership,” says another. A third predicts a wave of resignations.

BEN FRANKLIN'S HEIRS

To allies, the fallout from this neglect is less obvious. American diplomacy has become more passive than bungling. The American ambassador is still the most powerful foreign diplomat in just about any country, says a senior European politician. Still, there are costs to the administration's mismanagement of the State Department, including, for example, in Congo. After America went quiet on him, Mr. Kabila sabotaged the power-sharing agreement, renewing the prospect of violence.

The scale of the assault Mr. Trump has launched on the State Department is unprecedented, yet consistent with a decades-old trend. The National Security Council, which has swollen from a staff of 20 in the late 1960s to over 400 under Barack Obama, has supplanted it as the primary instrument of foreign-policy-making. Spending on diplomacy has been slashed in relative terms; in 1950, when American diplomats were overseeing the reconstruction of Europe and a propaganda war against the Soviet Union, it was half that of the defence budget; now, at less than 1% of the federal budget, it is only a tenth as large. This diminution is in part the result of large forces, including globalisation and communications technology. Most federal agencies, including the Treasury and the Department of Homeland Security, now communicate with their foreign counterparts directly, not, as they once did, through diplomats. “Foreign policy has become an all-government affair—every department is doing diplomacy and it’s not clear that the State Department is the most influential,” says Jeremy Shapiro, a former State Department adviser now at the European Council on Foreign Relations. The result is a diplomatic cadre in reduced circumstances and exposed to political attack—yet which still performs, as Mr. Perriello’s brief triumph in Congo illustrates, important feats that no other agency can.

The department’s Republican critics accuse it of behaving like a liberal think-tank, wont to lobby for exciting foreign interests, instead of pursuing America’s. “The biggest problem with American diplomats is clientitis—they go native,” says a former ambassador. Yet that view, though indisputably valid at times, takes little account of the slow-moving and densely political nature of much of the department’s work. There are few straightforward “America First” wins in diplomacy. And if more focused agencies such as the CIA and defence department, specialists in catching terrorists and dropping bombs, are easier to explain, they are also frequently prone to short-termism and error. It is doubtful that either could have prevailed with Mr. Kabila; it would not have occurred to them to try. Yet such diplomatic efforts also have security implications for America. As James Mattis, the defence secretary, once noted while admonishing Congress: “If you don’t fund the State Department fully, then I need to buy more ammunition.”

The objective should be to preserve the State Department’s distinctive strengths, while tailoring it to its altered circumstances. A report last year by the Heritage Foundation, a conservative think-tank, included useful recommendations on how this might be attempted. To avoid duplication, it suggested trimming the department’s 68 special envoys and advisers. To obtain better value for money, it proposed a review of State’s contributions to multilateral agencies, an exercise that led Britain to cut its support for four UN agencies. To counter some of the damaging effects of the internet, it recommended increasing public diplomacy—which the State Department could do with in America, as well as abroad, to counter its poor standing compared with the country’s lionised soldiers. To streamline top-level decision-making, Heritage also suggested eliminating one of the department’s two deputy posts, the deputy secretary for management

and resources. Even diplomats who disagree with these suggestions consider them broadly reasonable. While speaking up for the value of the deputy secretary position, Heather Higginbottom, who until recently occupied it, conceded: “But these things happen and it wouldn’t be the biggest loss.” Yet this sort of sensible institutional reform is not what the Trump administration appears to have in mind.

It needs money to fund a promised \$54bn increase in defence spending, and sees the State Department budget as one of the few places it can get it. It appears scarcely to have considered the consequences of its intended raid. “This is a hard-power budget, not a soft-power budget,” was the most Mick Mulvaney, the director of the Office of Management and Budget, had to offer. That is precisely the knuckleheaded trade-off Mr. Mattis advised against—a point since reiterated by over 120 retired generals and admirals, who have urged the administration to rethink.

Mr. Tillerson, who seems hardly to have resisted the proposed cut, has also said little about how he would implement it. His advisers are said to be using the Heritage recommendations as a guide, however, which suggests a lot of top-level job cuts are in the offing. There is also an expectation that unfavoured departments dealing with climate change policy, and perhaps human rights, will be axed or amalgamated. A related plan, leaked to Foreign Policy, envisages cutting aid to developing countries by a third. It would also shrink America’s overseas aid agency, USAID, and roll it into the State Department.

AMERICA’S DIPLOMATIC OPERATION IS IDLING AT BEST. A SENSE OF DEMORALISATION—DESCRIBED IN INTERVIEWS WITH A DOZEN SERVING AND FORMER DIPLOMATS—PERMEATES IT

Congress is unlikely to approve such drastic measures. Lindsey Graham, a Republican senator prominent in foreign affairs, describes Mr. Trump’s budget proposals as “dead on arrival”. Even so, says a well-placed Republican aide, there is an expectation on Capitol Hill that aid and diplomatic spending will take a cut. Meanwhile the running down of America’s diplomacy, a great tradition which brought France into the War of Independence and helped build the international system after the second world war, continues.

One of the Trump administration’s better ideas was to reduce the power of the NSC, in order to bolster the inter-agency policymaking process, and thereby the agencies themselves. In the case of the defence department, whose vastness and military spine make it less vulnerable to traumatic transitions, this seems to be happening. Mr. Mattis is getting high marks for pushing decision-making down to lower levels. But the State Department, having hardly anyone in place to represent it forcefully in the inter-agency process and little clarity on what the government’s foreign policy is, is ceding even more power to the NSC. It is an astonishingly careless way to treat an institution that, whatever its weaknesses, America needs. ■

May 11-12, 6 p.m.**Silent Films****Dovzhenko Center**
(vul. Vasylykivska 1, Kyiv)

Held for seven years at the Odesa Sea Port, this year's festival is moving to the Oleksandr Dovzhenko Center in Kyiv, a location with the fullest collection of silent films in Ukraine. It has been renovating and researching films by Ukrainian directors that used to be blockbusters in the early 20th century only to be forgotten or banned later. This year, the center will screen a number of movies from the 1920-1930s by directors from Ukraine, Germany, France and China. Live music by contemporary musicians will accompany the screening.

**May 13-14****Kyiv Food & Wine Festival****International Exhibition Center**
(Akademika Hlushkova Prospekt 1, Kyiv)

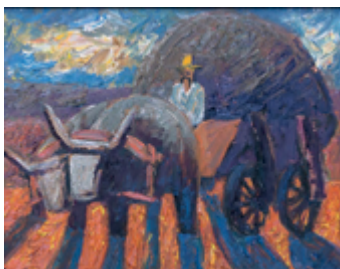
The renovated open-air exposition complex with soviet Neo-Baroque pavilions amidst the springtime park is hosting the 8th wine festival. This one will celebrate the most classic combination of flavors, cheese & wine. In addition to produce from the best vineyards in Ukraine, the festival will discover the local cheesemaking industry that has seen a revival in the past years. If you're up for a glass of good wine, the tasting of cheese recipes from every corner of Ukraine, and a lecture on the history of wine from the makes, this is the place to go.

**May 17-21****Art Arsenal****(vul. Lavrska 10-12, Kyiv)**

The annual International Arsenal Book Festival is a top event in the world of Ukrainian publishing. A cross-section platform, it brings together local and international publishers, writers, translators, editors and curators with their audience through presentations, discussions and exhibitions. This year's focus theme Laughter. Fear. Power looks at how the culture of laughter helps societies muddle through politics and crises. Apart from that, the festival offers exhibitions of illustrations and cartoons, a sci-fi corner, and EM-VISIA, a festival of experimental electronic music.

**Through May 11****The Chumak Way****St. Sophia Museum**
(vul. Volodymyrska 24, Kyiv)

The exhibition titled The Chumak Way, the equivalent for the Milky Way, shows the intersection of the Ukrainian and Crimean Tatar cultures over centuries. The title comes from the old salt trade tradition: the Crimean coast was a destination for trader caravans led by the *chumaks* from mainland Ukraine. While the perceptions of the two cultures have been affected by the Russian presentation of history, this exhibition offers a demythologized look at the way they intertwined through decorations, weapons, costumes and everyday life.

**May 17, 7.30 p.m.****Katya Chilly.**
Concert Under the Stars**Brooklyn Cinema**
(vul. PanasaMyrnoho 1, Kyiv)

Katya Chilly is known for her distinct style that combines folk singing and meditation with electronic and acoustic music arrangements. Accompanied by some acclaimed jazz musicians, including Maksym Sydorenko on piano, Valentyn Korniyenko on double bass and Oleksiy Fantayev on drums, this open-air concert will reveal centuries-old songs and singing techniques in a modern acoustic arrangement.

**May 12, 8 p.m.****Jamala****Sports Palace**
(Sportyvna Ploshcha 1, Kyiv)

The winner of the 2016 Eurovision, the Crimean Tatar singer Jamala presents her new show titled *I Believe in U*. Expected to be the largest in her career so far, the show is based on *1944*, her fourth and most recent album from 2016. The record represents yet another music experiment from Jamala herself, a performer who combines classic opera, jazzy and funky vocals with minimalist electronic beats, acoustic elements and an original style, and her sound producer Yevhen Filatov.





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