

REFORMS IN UKRAINE: GOOD IDEAS, BAD EXECUTION?

By Roman Zagorodniy

Back in 2014, the newly appointed Government of Ukraine received a credit of trust to make painful albeit vital reforms. Inspired by the Revolution of Dignity and consolidated by external aggression, Ukrainians realized that groundbreaking changes are the only way to combat corruption and build up a wealthy European state. That is why the majority voted for parties which offered a roadmap to successful rebooting of economy with consequent socio-economic recovery in the foreseeable future. Today, at the onset of the local elections scheduled on October 2015 the recently published polls show that since the last autumn the Government has not been able to meet most of the people's expectations. Let us attempt to analyze what could have gone wrong.

In their parliament election programs, the winner Petro Poroshenko's Block and runner-up PM Yatseniuk's People Front carried a strong pro-European reformistic message. The three other members of future Coalition: Samopomich, Batkivshchyna, and Radical Party presented the remedies to economic downturn and social recovery of Ukraine similar to each other. The parties' programs were filled with proposals for sometimes constructive and coherent; sometimes blurring and very general; and sometimes fairly unrealistic or even populist reforms.

According to the analysis provided by Unian (2015), apart from strong military and National Defense messages, the five Coalition Parties highlighted the following reforms in their programs:

- state administration and public service reform;
- deregulation and "e-governization";
- the decentralization by providing fiscal autonomy and delegating regulatory authority to new local governments called 'hromads';
- adjustment to European standards;
- Judicial and Interior Ministry reform.

The implementation of all these reforms requires strength and determination from the Government as well as support, trust and patience from the society. The results of public opinion surveys together with the analysis of recent Government's activity show that neither Government demonstrates a sufficient level of determination nor the society has enough patience and trust. This unfortunate coincidence leads to serious loss in popular support for the parties in power in general and Prime Minister and President in particular, which in turn may make the successful implementation of reforms questionable.

Table 1. The results of pre-local election polls

Source	(% of those who are going to take part in elections)			
	Centre for Social Research "Sofia"	Ilko Kucheriv's "Democratic Initiatives" Fund & Razumkov Centre	A. Yaremchenko Institute of Sociological Research & Social Monitoring	KIIS (Kyiv International Institute of Sociology)
	24 July – 9 August	22–27 July 2015	4–14 July	27 June – 9 July
N	10 147	2011	3924	2044
Estimated turnout	77%	68%	72%	82%
Solidarity Bloc	18%	14%	26%*	16%*
VO "Fatherland"	12%	7%	12%	17%
Opposition Bloc	11%	8%	11%	5%
Samopomich	9%	9%	11%	8%
Radical Party	9%	7%	9%	5%
VO "Freedom"	4%	3%	7%	2%
Right Sector	-	4%	5%	3%
"Civil Position" Party	4%	3%	4%	3%
People's Front	4%	2%	3%	2%
Communist Party	-	2%	3%	1%
<i>particular candidate</i>	-	16%	-	-
<i>others</i>	13%	3%	4%	2%
Uncertain yet	19%	23%	13%	33%
Sample error**	~1%	~2.3%	~1.6 %	~2.4%

Note: all surveys were conducted by face-to-face interviewing. All samples exclude Crimea and the occupied territories of Luhansk and Donetsk regions. The Coalition members are highlighted (Radical Party quit the Coalition in August)

* These are merged results of 'Udar' Party and Petro Poroshenko Bloc.

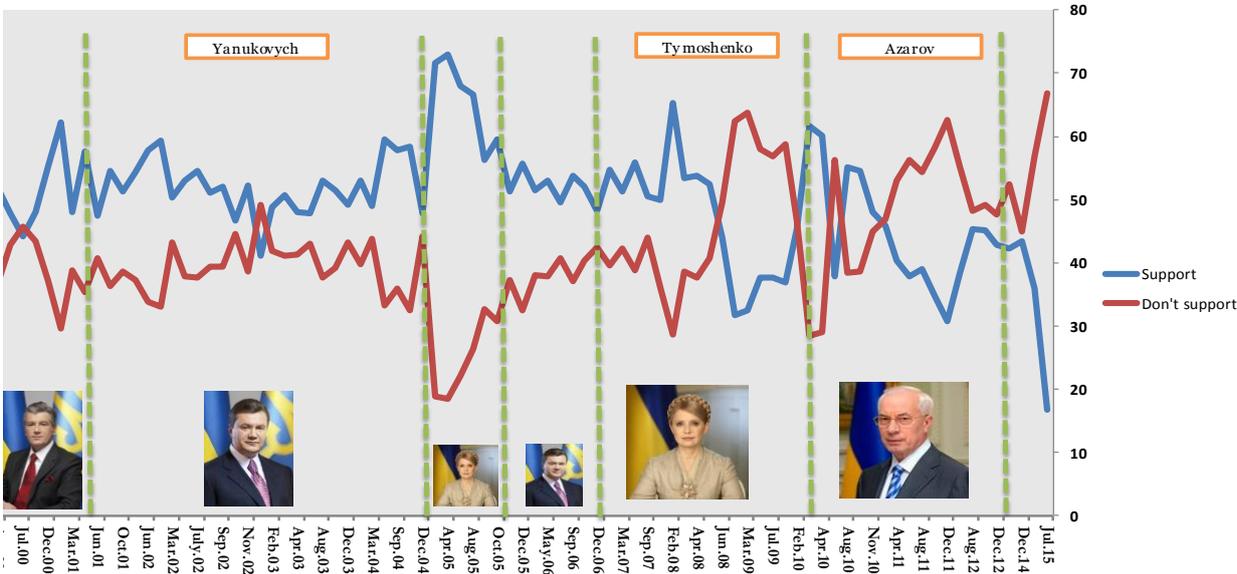
**Sample error means the maximum length of confidence interval (with 95% confidence level)

Recently, Mr. Yatseniuk's People's Front suffered the most severe fall in support, despite the fact that it has the most coherent and more or less realistic program of economic development based on the EU Association Agreement and external macro financial stabilization. This year's July polls also show that if the election was held on the day of survey, People's Front would be unlikely to score even 5% threshold. This is a drastic decrease comparing to the result of Parliamentary elections. What is more, according to other surveys, published by IRI (2015,

p.41) 84% of respondents do not approve the actions of Cabinets of Ministers – a body responsible for implementation and execution of reforms.

We should not forget that drop in support after the election is a well-known phenomenon tested in domestic politics in many democratic countries (see e.g. Koepke 2006), Ukraine is not an exception: the support for governing parties goes down after the election. This trend is visible in Figure 1. The matter is, however, how long the party or politician is able to maintain the election-day level support and how deep the inevitably coming decrease in support is. In today’s Ukraine, its current level is the lowest in the country’s modern history, “outperforming” even Tymoshenko’s Cabinet during Russia-Ukraine “gas-wars” in 2009 (see figure 1). And these are the outcomes of one year in office only.

Figure 1. The dynamics of support of Prime Ministers of Ukraine (2000-2015).

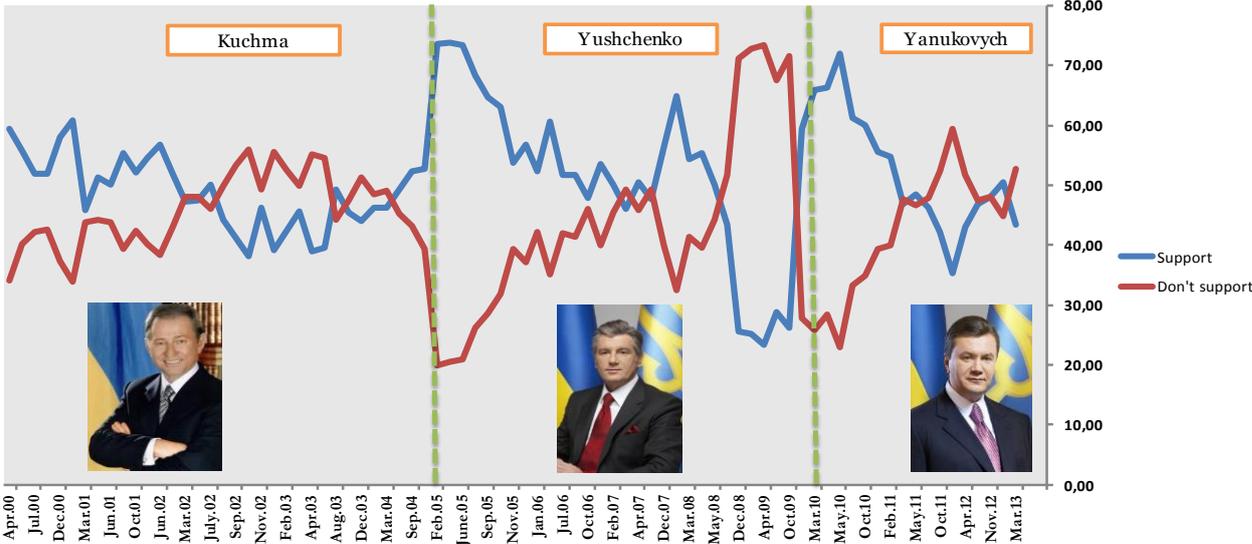


Source: Author’s elaborations based on Razumkov’s Centre surveys

Neither does the President’s approval poll look better. In mid-summer 2015, about 67% of respondents were dissatisfied with his performance (IRI, p. 40-41). Comparing to overwhelming 54% one-tour victory and Party’s moderate success in the Parliamentary elections, this result looks horrible. The President was the one who presented the so-called Strategy for Sustainable Development "Ukraine – 2020" where he outlined 62 reforms that need to be made as well as key indicators Ukraine should reach as a result of them. For instance, the President set an ambitious goal to climb up to the top 40 position (currently: 96) in Global Competitiveness Index and top 30 (currently: 79) in Ease of Doing Business ratings. Mr. Poroshenko also believes that today’s Purchasing Power Parity (PPP) can be doubled to \$16’000 per capita in the next four and a half years.

Since his arrival to Bank Street office in Kyiv, Mr. Poroshenko managed to have six out of eight priority reforms such as anti-corruption and deregulation being worked on in state bodies. On the legislator side, the President used his legislation initiative right by making laws such as “de-centralization” one. The healthcare and tax reform remained underdogs in terms of the implementation and there was no clear policy towards “Global Promotion of Ukraine” state program except from creating a controversial Ministry of Information. This raised many concerns why President, being a supervisor (according to ‘2020’ Strategy) and initiator of reforms, does not make sure they take place.

Figure 2. The dynamics of support of Presidents of Ukraine (2000-2015).



Source: Author’s elaborations based on Razumkov’s Centre surveys

Was everything so bad?

At the beginning, not really. Given the resources, budget capacities and potential obstacles, I reckon the e-government reform is the most promising and efficient tool to fight corruption, optimize budget, and make state deregulation transparent at the same time. It was agreed that the Government should create an e-infrastructure for online activities during summer-autumn 2015. In particular, in I and II quarters the Government concentrated on using modern information technologies in the public sector which would provide digital services platforms for citizens and businesses by the end of the year (ProZorro, 2015).

In August, after 3-month test regime, the new electronic VAT administration system was launched followed by easy-to-pay speeding fee system and other notions such as online MREO mileage vehicle registration or electronic system for selection of school textbooks. From 1 October 2015, the Government also lightened an administrative burden on entrepreneurs by taking away the right from state authorities to demand from their customers to bring various paper extracts and certificates of information from the State Register of Ownership of Immovable Property and from Legal Entities and Individuals Register of Ukraine. From now

on, the local and municipal authorities should connect to an integrated e-database of Ministry of Justice for that purpose.

The volunteers also contributed their IT knowledge to create iGov portal – a kind of webstore where anyone can track, check, and order the administrative service online. The debatable public procurement process was finally launched, creating an electronic system for all bids which can be used on a voluntary basis from April through December 2015. From January next year the plan is to mandatory switch all agents to central database bid as well as adjust law and various procedures to the EU directives (NRC, 2015).

Sadly, after initial success the progress slowed down. According to Minister of Justice Pavlo Petrenko, “Regional authorities have had more than six months to connect to the e-database registers [...] but this process was sabotaged on the ground, and because of that in late September the Government decided to fine a number of heads of RSA (Regional State Administrations)”. Also, a lot of important laws and amendments either were stuck in the Parliament or have not been developed by the appropriate Ministry yet. In particular, little or nothing was done with regard to legislation framework of promised electronic permits and administrative service centers. Also, various amendments that concern public administration reform have not even started to be processed in the Parliament with just some being lately passed in the first reading.

Even though a number of overlapping and needless departments, such as “exotic” river police units, was removed and the staff of the Cabinet was reduced by 10%, the deregulation remains an issue. Neither did the Government come up with an idea how much of state functions have to be delegated to the market and its agencies nor full audit of regulatory acts was made.

In the last months, the Ministry of Internal Affairs has been the main news-maker. The police reform, initially launched in Kyiv, has widespread over key Ukrainian cities with 4,200 new officers and recruits already working and 3,100 more to come in a strive to fight ingrained corruption and earn trust of citizens. Recently, the Parliament finally passed the long promised Municipal Police bill. It is worth to mention that Ukraine did show some progress in implementing its commitments to internal security and visa-free movement with EU. From January 2015, there were, however, many technical problems with issuing biometric passports, poor infrastructure and confusion with related fees. The ID cards are planned to be issued from 1 January 2016 onward (GOEICMU, 2015).

The question of decentralization reform still remains debatable. After the Law initiated by the President was bloodily passed at first hearing on August 31, it still has to be approved by the Constitutional majority in winter. The Article 142 and 143 of the Law states that new ‘hromads’ would be in charge of designing their own budget and have a fiscal autonomy. And that is a positive signal. However, the preceding Article 144 gives President a powerful leverage to unilaterally suspend the authority of the community, the council of the community, district, regional council and appoint a temporary state commissioner if their actions are perceived as “unconstitutional”. This is the power which even former President Yanukovich did not

possess. Would not that contradict the European Charter of Local Self-Government President claims the proposed Law is in line with?

The financial markets, healthcare, and tax reforms remained mostly the words on the paper. Many military experts such as Alexey Arestovych criticize the President and National Security Council for not creating promised Special Operations Forces. Even though it was declared at least twice, the important counter-hybrid warfare reform was not launched yet.

Needless to say is that the main goal of the reforms was to increase the overall wealth of the people. The latter plays a crucial role when it comes to assessing the outcome of reforms or absence of such. Sadly, the reforms mentioned above did not bring any visible benefits for an ordinary citizen. What is more, from the macro fundamental point of view last year and a half resulted in a severing of economic conditions. Overall, the NBU estimated that in first quarter of 2015 Ukraine's GDP has plummeted by 17.2% with regard to the previous year. At the same time, starting from October 2014 the hryvnia depreciated from 13 to almost 22 units to dollar by early September. These both directly and indirectly affected the purchasing power of ordinary households. According to the State Statistics Office of Ukraine, the monthly average salary increased nominally from 3509 UAH to 4299 UAH in the respective period. However, given the hryvnia depreciation, incomes plummeted from approximately \$ 270 to \$ 195.

The inflation rate has skyrocketed to 58.4 % in May 2015, slightly decreasing to 55.3% by the end of July. This was mainly caused by the increase in energy tariffs such as utilities, gas, and electricity fees; weakening of domestic currency, drop in prices of raw materials, and tax reform (NBU, p. 14). The fees, in particular, hit the ordinary citizens the most. The cubic meter of gas now costs almost 10 times more than it used to a year ago; housing fees rose by 50% and electricity by 23%. And recently announced pension, salary, and scholarships indexation show how little the Government can do to cover up the inflationary pressure.

Summing up the short terms

Ukraine's story of reforming showed that the Government managed to deliver a comprehensive roadmap of what should be done and which indicators they strive to achieve. It is important to remember that nicely written agendas and coherent step-by-step infographics are a good starting point; but, they mean practically nothing as long as you are not able to implement these ideas and coordinate them between state's bodies on the efficient scale.

In return for suffering substantial financial losses, the Government and the President provided their electorate with 'raw', unfinished reforms. Between July and September, it was confusing under which law the new "police" (in fact still being a "militia") is acting; nobody could explain why the bulk of regional state offices sabotaged joining the e-database platforms' and why important bills such as administrative service one are being swapped over departments or legislation bodies etc.

As a result, this autumn it looks like Ukraine is approaching another election (for the local-level authorities) in the state of political crisis with every fifth voter undecided and no clear leader

who would fill the demand gap and consolidate the electorate. This time though the potential candidates should bear in mind that indecisiveness and reluctance to provide the transformation combined with absence of visible results would inevitably lead to the political catastrophe. And in the worst case scenario, the crucial question is would Ukrainian war-torn economy be able to weather the new storm yet again.

Another issue is the level of support and ambiguous attitude for the reforms among the members of diversified Ukrainian parliament. But this is a different story.

Warsaw, 5th October 2015

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