



ICPS

International
Centre
for Policy
Studies

Office 10, 14 Instytutska St., Kyiv, Ukraine, 01021
Tel.: +38 (044) 253-44-82 | Fax: +38 (044) 253-44-82
www.icps.com.ua | office@icps.kiev.ua

INSIDE UKRAINE

February 23
2017/ #64

Content

Public Policies:

- 1. Referendum on Ukraine's accession to NATO.....1
- 2. Donbas blockade.....4

Economic Analysis:

- Challenges and threats to be faced by SMEs in 2017.....6

Political Competition:

- Prospects for the establishment of the Liberal Forces' Coalition.....8

Public policies



1. Referendum on Ukraine's accession to NATO

The recent statement by the President of Ukraine Petro Poroshenko on NATO referendum highlights a desire of Ukrainian leadership to use the NATO issue in domestic political competition and reaching tactical foreign policy goals. By means of referendum, Petro Poroshenko seeks to consolidate pro-Western electorate and narrow Donald Trump's room for maneuvers with Russia. Though a majority of Ukrainian population support joining NATO, a positive decision at the referendum will not influence the prospects of Ukraine's NATO membership and will facilitate unrealistic public expectations from Western assistance in countering Russian aggression.

The President of Ukraine Petro Poroshenko, who on February 2, 2017 told about his intent to hold a referendum on joining NATO, stirred up a discourse on feasibility of NATO membership and exploitation of foreign policy issues in domestic political goals .

The statement by Poroshenko stirred up a discourse on NATO membership.

Poroshenko promised to do all his best to achieve NATO membership if Ukrainians vote for that. In response, the Secretary-General of NATO Jens Stoltenberg said that NATO membership is a sovereign right of each nation to decide on to which security structure it should belong.

Raising the issue of NATO membership at a referendum shall be regulated by the Constitution of Ukraine and respective law. As prescribed by Articles 72 and 74 of the Constitution of Ukraine, an all-Ukrainian referendum regarding any issue (except for taxes, budget and amnesty) is initiated by the Verkhovna Rada of Ukraine, by the President of Ukraine or called upon popular initiative. As laid down in Article 4 of the Law of Ukraine 'On All-Ukrainian Referendum', the results of expressed people's will in an all-Ukrainian referendum are obligatory.

Though Ukraine-NATO relations have always been Ukraine's important foreign policy direction, Kyiv have changed its position on Euro-Atlantic integration three times for recent 14 years.

In 2014 Ukraine resumed the course of Euro-Atlantic integration.

The latest changes happened following the Revolution of Dignity and early Russian aggression when Ukraine announced its refusal from non-alignment policy and resumption of Euro-Atlantic integration. In late 2014 there were amendments to the Law of Ukraine 'On the Principles of Domestic and Foreign Policy' that provide for 'deepening cooperation with the North Atlantic Treaty Organization in order to meet criteria necessary for membership in this organization'. According to the National Security Strategy of 2015, Ukraine's long-term purpose is to join common European security system that is based on NATO. In its turn, the Military Doctrine of Ukraine specifies the areas of cooperation between Kyiv and the Alliance, namely 'a priority objective of deepening cooperation with NATO is to achieve a full interoperability between the Armed Forces of Ukraine and respective forces of NATO member states until 2020'.



For recent 2.5 years, Ukrainian leadership has repeatedly made statements that it is necessary to join NATO given that this idea has witnessed a rapid increase in its popularity.

Russian aggression increased a number of NATO supporters threefold.

According to a survey by the Democratic Initiatives Fund named after Ilko Kucheriv and the Razumkov Centre, a number of Ukrainians supporting NATO membership has increased from 13% in April 2012 to 44.1% in December 2016. Meanwhile, a number of Ukrainians favouring a non-aligned status has decreased from 42.1% to 26.4% for the same period. Moreover, 62.2% of respondents would take part in a referendum on NATO membership. Among them, 71.5% would vote for joining the Alliance.

However, there are still significant regional differences in public attitude towards NATO membership.

Western and Eastern Ukraine still perceive NATO membership differently.

According to a survey by the Razumkov Centre in September 2016, a majority of respondents in western (75.6%) and central (51.2%) regions would vote in favour of Ukraine's accession to NATO. At the same time, a majority of respondents in southern (48.1%), eastern (70.1%) regions and in the controlled territories of Donbas (52%) would vote against Ukraine's joining the Alliance.

Meanwhile, there are doubts if Ukrainian public is aware of how Ukraine's accession to NATO is unrealistic under current conditions and how NATO is unwilling to enter a conflict with Russia because of Ukraine.

The Ukrainian public is mostly unaware of NATO membership feasibility.

The Ukrainian public highly approves NATO membership as it wishes that the warfare would end as soon as possible and perceives NATO as an instrument that could establish peace in Ukraine.

Even if the Ukrainian public approves NATO membership, this voting would not bring Ukraine closer to a membership in the Alliance. Ukraine is unable to join NATO in the near future due to international circumstances that are poorly dependent on decisions by Ukrainian authorities or public.

1. A lack of unity among NATO member states on Ukraine's accession. According to Article 10 of the North Atlantic Treaty, NATO member states may, by unanimous agreement, invite any European state in a position to further the principles of this Treaty and contribute to Euro-Atlantic security to accede to the Alliance. As a result, a disagreement by one out of 28 NATO member states would be enough to put a legal obstacle in Ukraine's accession to the Alliance. Thus, France and Germany blocked granting a Membership Action Plan (MAP) to Ukraine and Georgia at the 2008 NATO Summit in Bucharest. Nowadays there are much more NATO member

states that are skeptical of Ukraine's accession due to their unwillingness to upset relations with Russia.



2. Ukraine's incomppliance with certain criteria for NATO membership.

Though Ukraine expends 5% of GDP on security and defense sector and gradually adopts NATO military standards, the country has not met some important membership requirements yet provided for in the MAP. In particular, due to Russia's annexation of Crimea and armed conflict in Donbas Ukraine is currently unable to settle international disputes, external territorial disputes and internal jurisdictional disputes by peaceful means.

Ukraine will not join NATO prior to conflict settlement with Russia.

3. Unprecedented crisis of mutual trust within NATO between the US and European countries.

On the one hand, the US have rigidly demanded that European allies should make a larger contribution to Euro-Atlantic security since Donald Trump came to power. In particular, 26 European countries in NATO totally cover 34% of US basing costs. Moreover, only five (US, UK, Greece, Poland, and Estonia) out of 28 NATO member states meet recommendations regarding military expenditures at 2% of GDP. On the other hand, NATO member states on eastern flank (Poland, Romania, Baltic countries) are unsure if their allies will provide assistance in case of Russian invasion. Subsequently, conceptual disparities within NATO make Ukraine's accession inactive in the near future.

Currently, NATO is in a conceptual crisis.

As Ukraine's accession to NATO is impossible in the near future, there is a question on which foreign policy goal Poroshenko pursues by

means of such referendum. Poroshenko is likely to give a signal to Trump that Ukraine does not intend to refuse from Euro-Atlantic integration despite a possible normalization of US-Russia relations. According to Poroshenko's intentions, this signal may narrow Trump's room for dialogue with Russia and obstruct a 'Big Deal' contrary to Ukraine's interests.

However, Poroshenko may reach much more tangible goals in domestic policy than in foreign policy by means of NATO referendum. Raising a popular idea at the all-Ukrainian referendum may help to distract public attention from current problems. According to the survey by the Democratic Initiatives Fund named after Ilko Kucheriv and the Razumkov Centre, 67.1% of Ukrainians believe that events in Ukraine are developing in a wrong direction.

NATO referendum will cool down public discontent.

Amid total public mistrust to the president, government, parliament, political elite and state institutions such a referendum may partially defuse public anger and reduce a risk of social protests.

Furthermore, NATO referendum may also help Poroshenko to consolidate power. This referendum will be an important instrument to promote Poroshenko and BPP before next parliamentary and presidential elections. The president who initiates the referendum will try to gain as much as possible of electoral votes in western and central regions of Ukraine where there is an overwhelming support for Euro-Atlantic integration.

Summing up, a referendum on Ukraine's accession to NATO is the latest example of how foreign policy issues are exploited in domestic political competition.

Ukraine should stir up the discussions on national security models.

Ukraine should stir up discussions on national security models rather than promote cliental sentiments that provide for counting on international assistance to counter Russian aggression. Instead, Ukraine may not join NATO until the Ukrainian-Russian conflict is resolved.

As Ukraine is unable to join NATO in the short term, it is reasonable to choose the Swedish model of security policy that provides for a close Euro-Atlantic cooperation and achievement of NATO military standards without formal membership in the Alliance. Moreover, Ukraine should initiate a new European security architecture that would minimize a risk of Russian aggression against the country.

2. Donbas blockade

The blockade of Donbas significantly exacerbated the internal political situation in Ukraine, demonstrated a deep gap between various social and political groups, political elite and the society in general. Social tensions are caused not only by the lack of the consistent reintegration policy as regards the uncontrolled territories in Donbas. On the one hand, the incumbent government uses an aggressive rhetoric regarding the conflict settlement and on the other hand, it continues the practice of using non-transparent schemes in the energy sector. To settle the blockade issue and to prevent such actions in the future, the dialogue between the government and society, as well as the termination of rental and corrupt practices in the economy are needed.



On January 25, 2017 the representatives of nationalist forces, former military participants of ATO with the support of unaffiliated MPs and members of the "Samopomich" faction launched the trade blockade of uncontrolled territories in Donbas. As the result of these actions, the supplies of anthracite coal, used by Ukrainian TPPs and metallurgical plant, were stopped. The sharp coal depletion has led to the government's introduction of the

emergency measures in the electricity market that envisage energy savings for enterprises and citizens. If the government doesn't resume the coal supplies until mid-March, Ukraine, in one way or another, can expect an energy crisis and standstill of the heavy industry enterprises with around 500 thousand of employees.

Experts estimate that without the coal resumption from the occupied territories of Donetsk and Lugansk regions it will be enough coal reserves in Ukraine until late March 2017

The government stated that the Donbas blockade is unlawful and that such actions lead to economic and energy threats to the state security. Petro Poroshenko, in turn, noted that the government is taking urgent measures to diversify the coal supplies, but in the case of the blockade continuation, the government will be forced to use power tools for deblocking of transport and railways.

The Donbas blockade has become one of the main internal political problems with the continuing sharp public debate. The sharpness of discussions and public reaction to the blockade have become a natural result of the aggressive rhetoric recently used by the country's leadership and the lack of a comprehensive state policy on conflict resolution and reintegration of non-controlled territories of Donetsk and Luhansk regions.

The blockade and its effects on energy and economic security also demonstrated that despite the verbal statements of political leadership, an alternative for energy supplies from conflict zones was not found and the industrial complexes in the controlled territory are operating in a single production chain with the companies located in uncontrolled areas. Moreover, the attempts to break these ties are likely to have negative consequences for both sides and primarily for Ukrainian citizens residing on both sides of the contact line.

However, despite the challenges for the energy security, the greatest threat to the country is the option for unblocking with the use of force. The security services are ready to start the unblocking process. It is possible that the respective decision has not been taken by now

only due to the surge of social activity for the period of commemoration of the Heavenly Hundred victims.

The TV picture showing the security forces beating the blockers may lead to an explosion of public outrage and lead to unpredictable consequences.

The option of the use-of-force scenario may lead to political destabilization.

Thus, the authorities are actively seeking for the ways to avoid the use-of-force scenario. There is also a media campaign observed and aimed at discrediting the organizers of the blockade and accusing them of undermining the economic sovereignty.

So far, the organizers of the blockade remain unknown. They explain their actions with exclusively patriotic motives. At the same time, the level of organization, political and media support show that there are political actors directly or indirectly interested in the blockade.

There is a very common opinion in the expert circles that the blockade was organized by Ihor Kolomoiskyi in order to put pressure on the Akhmetov's business group, as the Dnepropetrovsk oligarch is in old corporate opposition to Rinat Akhmetov.

The most common version on the causes of the Donbas blockade is the political confrontation between Ihor Kolomoiskyi and Rinat Akhmetov.

Some experts believe that the blockade is caused by internal contradictions in the Opposition bloc and is being an instrument of pressure between its 'shareholders groups'.

Among MPs and the media there is also a version that R.Akhmetov is personally interested in the blockade as he is not satisfied with the existing business incomes at the junction of controlled and uncontrolled territories.

Finally, there is also a hypothesis concerning the interest of Russian Federation in the social division as an element of a hybrid war against Ukraine. Distracting attention from the events on the contact line and shifting emphasis to

the internal problems, as well as playing on the contradictions within the society significantly weaken the position of Kyiv and create conditions for further political division in the country.

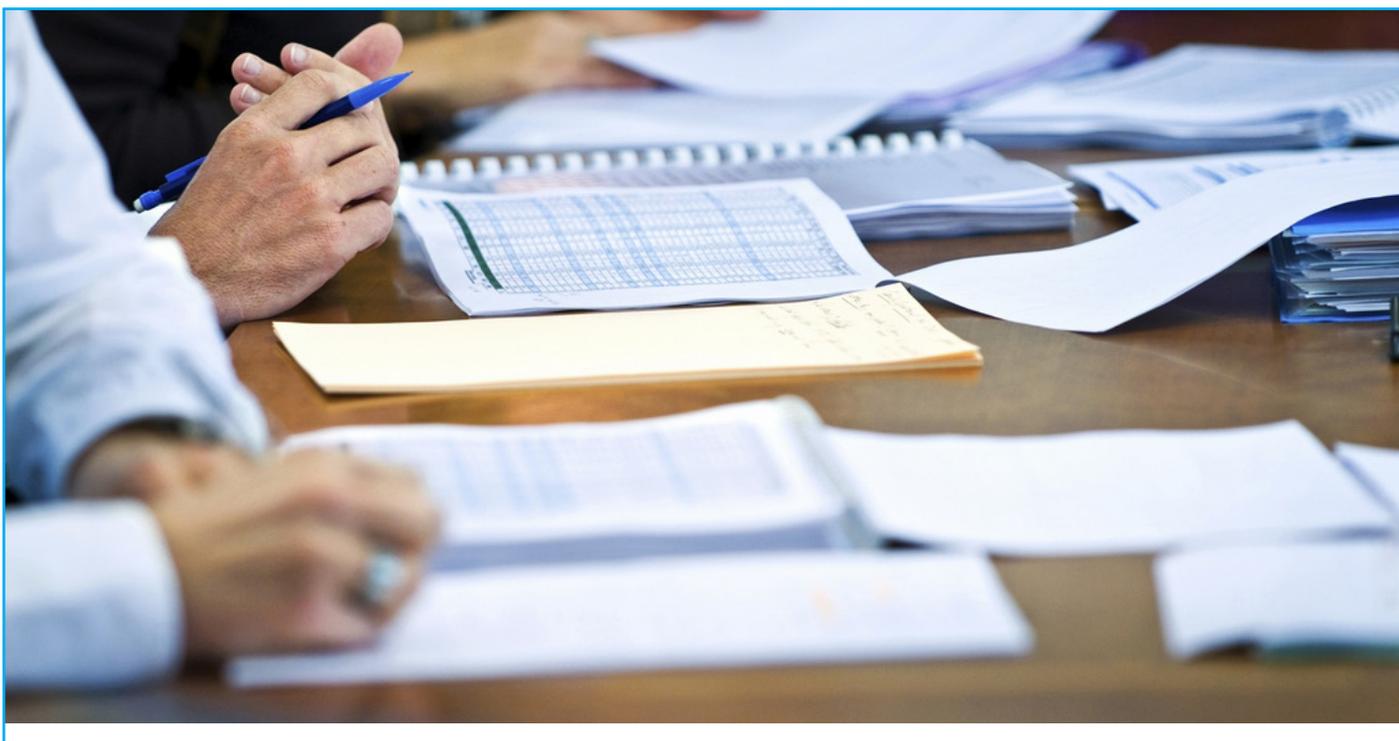
Whoever is behind the blockade, the group of deputies-organizers of the blockade and the parties supporting them, have benefited from the growth of electoral support in view of their criticism towards the authorities for inaction and trade with non-controlled territories.

It can be forecasted that there will be a calm period regarding the blockade until the end of February. However, if there will be no changes in the blockade in March, the use of force to unblock the routes of connection with the non-controlled territories is possible. This scenario will cause disturbance and condemnation from a part of the society.

What conclusions may be made based on the story with the Donbas blockade?

1. The authorities, the president, in particular, should finally determine the practical and realistic ways to resolve the conflict in eastern Ukraine.
2. There is a need in a public dialogue and government communication for the conflict settlement and reintegration of the country. Replacement of a dialogue with the aggressive rhetoric, «witch hunts», rejecting the idea of a compromise creates a trap for the government itself.
3. It is necessary to introduce reforms in the energy sector that will allow to de-monopolize and liberalize the energy market, provide access to the maximum number of players to the generation and production of energy resources – up to the sale to the final consumer. Only these steps will prevent the reoccurrence of such blockades in the future. Their absence will continue provoking of certain political or social groups to use similar force actions.

Economic analysis



Challenges and threats to be faced by SMEs in 2017

Small and medium-sized business is one of the main drivers for economic growth and ensures the population's employment. According to the presented strategy for the development of SMEs for the period until 2020, the latest available statistics show that in 2015 there were only 423 of large enterprises in Ukraine (or 0.02% of all business entities).

Most business entities in Ukraine are represented by small and medium-sized businesses

The rest of business entities are SMEs, including 15 510 of medium entities and 1.96 mln of small entities (327 814 of small enterprises and 1.6 mln of individual entrepreneurs). At the same time, SMEs has generated the share of 59.0% in the total amount of products sold.

The end of 2016 has showed that SMEs will face a series of challenges and problems this year:

1) Due to the adoption of the Law of Ukraine dated December 06, 2016 No.1774-VIII "On

Amending Certain Legislative Acts of Ukraine", the minimum wage increased to UAH 3200, which has led to a dramatic increase (doubling) of the tax burden on entrepreneurs. Thus, the single tax for entrepreneurs of the second group grew from UAH 275.60 to UAH 640.00 per month that is UAH 364.40 more than in 2016. In fact, the single social contribution has increased by 100% - from UAH 352.00 to UAH 704.00. When creating at least one workplace the entrepreneur is obliged to pay UAH 3200 salary to a hired worker, while the amount of taxes to be paid to the budget is UAH 1328. Herewith, the social tax benefit is not applicable to such salary as it is the salary bigger than the income limit set for the tax social benefit – UAH 2240.00.

The increase of the minimum wage has created an additional burden on SMEs

Such innovation may adversely affect the operation of SMEs and contribute to reducing the number of officially employed persons, especially in terms of the microbusiness. The SMEs associations are considering a reduction of a single tax for entrepreneurs of the second group from 20% to 10%, which is gradually being introduced in the regions, as a temporary measure of reducing the tax burden.

2) The requirement to pay taxes even when the entity does not carry out the activities has led to termination of more than 200 000 of individual entrepreneurs.

Over 200 000 of individual entrepreneurs terminated their activities within the last few months

Those individuals, who planned to carry out business in the future, but for some reasons have not done it by now, were pushed to abandon the idea. The entrepreneurs, who don't receive a monthly income from business activities, got affected the most negatively. As we see, the number of incentives for business is substantially decreasing because of such decisions.

3) A fine for the actual admission to work of an employee without registration is UAH 96 000; a fine for non-admission of the inspection for detecting breaches in respect of admission to work of an employee without registration is UAH 320 000. Such fines are much higher than, for example, the fines for violations of the legislation on mineral resources, land etc.

The prescribed fines do not seem to be socially fair

Notwithstanding the fact that these fines will encourage SMEs to work transparently, they will primarily affect the activities of micro business in the areas of retail trade, which is being the most vulnerable field to regulatory authorities. In addition, there is a doubt on the transparency of tax authorities' activities regarding this issue, as they are obliged to meet monthly plans for budget revenues. The abolition or a partial reduction of imposed fines may be a solution to this problem. A group of MPs in the Verkhovna Rada even has registered a Draft Law No. 5711 dated January 25, 2017, the aim of which is the establishment of administrative liability exclusively by the Code of Administrative Violations, the elimination of sanctions' disparity for administrative violations, prevention of jobs' destruction in Ukraine and ensuring the reduction of social tensions in the society.

The Ministry of Economic Development and Trade has presented a Strategy for the development of SMEs until 2020

The Ministry of Economic Development and Trade with the support of international organizations has developed a Strategy for the development of small and medium-sized business for the period until 2020 aimed at addressing many issues related to SMEs. This strategy solves most of the SMEs problems, including the creation of conditions of a favorable legal, institutional and operational environment for SMEs, favorable conditions for prompt access of SMEs to financial sources, simplification of tax administration for SMEs, promotion of entrepreneurial culture and development of a competitive human capital and entrepreneurial skills, promotion of export/internationalization of SMEs in terms of DCFTA, enhancing competitiveness and innovation potential of SMEs.

Despite the urgent tasks and goals described in the document, fulfillment of its institutional capacity and funding remains the greatest challenge. In the context of institutional capacity, there is a concern related to the necessity of establishing another state agency - the Agency for the development of small and medium-sized business and its financing from the state budget. If support of SMEs won't become a priority issue for the government in the coming years, the financing of the program from the state budget may face problems.

Since Ukraine gained its independence, the business has faced low incentives for entrepreneurs' activities, high tax burden, and lack of the strategic vision. The innovations introduced in late 2016 continue to impair the development of SMEs in Ukraine. The model for reforms implementation chosen by the government cannot be called as attractive one. First, it introduces additional sanctions, increases the burden on business and only then offers the development strategy, which in fact may be considered as non-binding like the majority of policy documents in Ukraine. Currently, it is necessary to increase economic freedom by reducing the burden on SMEs. If these problems are not resolved, it may influence the economic growth and lead to the rise of unemployment in Ukraine.

Political competition



Prospects for the establishment of the Liberal Forces' Coalition

The possibility of early parliamentary elections in 2017 is one of the most debated issues in Ukrainian political circles. The geopolitical uncertainty in respect of Ukraine, the existence of social and political contradictions on the conflict in Donbas, corruption and bad economic situation only warm up public sentiments concerning the necessity of the Parliament's reboot.

In case of early elections, the political architecture will not likely to change. The agenda will be formed by three main political forces: pro-government forces («BPP» with the satellite parties and a part of «PF»), Yuliia Tymoshenko's party «Batkivshchyna» and the «Opposition Bloc». There is a high probability that while maintaining the old game rules, new early elections will not lead to the fundamental renewal of the political class, and will only cause a further conservation of the existing system.

Pro-government forces, «Batkivshchyna» and «The Opposition Bloc» can count at least on 60% of the electoral support.

These three political blocs altogether can count on the support of about 60% of the electorate according to the closed opinion polls obtained by the ICPS. In the case of unification of the right-wing parties of Ihor Kolomoyskyi (UKROP, Svoboda), Oleh Lyashko's Radical Party and the liberal forces represented by «Samopomich» will share the remaining 40% among themselves.

Simulating the possible future coalition in the Parliament we came to a conclusion that Yuliia Tymoshenko has a better chance to form a new government than Poroshenko's pro-government party and his satellites. «Batkivshchyna» could form a coalition using the liberal forces (Saakashvili-Sadovyi-Hrytsenko), with the conditional «Ukrainian right wing» of Ihor Kolomoyskyi (Svoboda, UKROP) or with the Opposition Bloc (Akhmetov, Lyovochkin) if by the time of the elections it won't fall apart into two separate projects.

In the case of early elections, Yuliia Tymoshenko has great chances to form a new government.

Given the existing balance of forces, Petro Poroshenko might be able to rely on the part of the Opposition bloc focused on Akhmetov or give the position of Prime Minister to Lyashko's

Radical Party or to Ihor Kolomoyskyi.

Political discredit of Andriy Sadovyi related to the «trash» problem in Lviv, uncontrollability of the processes in the party structures and parliamentary faction have already led to a significant drop of «Samopomich» ratings. However, despite the crisis in Sadovyi's party the liberal electoral niche is free, as well as a socialist one, while the public demand for the new faces is still in force. In addition, the middle class and civil society are expecting the appearance of new liberal parties which will stand for the fight against corruption and systemic reforms. Therefore, due to intensification of discussions on possible early elections, the negotiations on creation of the liberal forces' coalition have intensified as well.

On February 4th, there was a meeting held in Lviv between the head of «New Forces Movement» Mikheil Saakashvili, the leader of «Samopomich» party Andriy Sadovyi and the co-head of the party «Democratic Alliance» Vasyl Hatsko. The negotiations on creation of the liberal forces' coalition involved the following parties: «Civic Position» of Anatoliy Hrytsenko, «People's Force» (Oleksandr Solontay), anti-corruption initiative group «The Wave» (ukr. Hvyliia) (Viktor Chumak, Vitaliy Kaskiv), a public platform «New Country» (ukr. Nova Kraiina) (Valeriy Pekar) and other representatives of civil society. The parties have announced the initiation of a political dialogue between all liberal-democratic parties demanding the adoption of a new electoral legislation and conduction of early parliamentary elections in 2017 .

«Eurooptimists» are mostly involved in political PR rather than party building and work in regions.

In order to study the potential of the conditional «liberal forces' coalition», it is necessary to define the goals and strategic priorities of the stakeholders.

After an active PR campaign under the slogan «The movement for purging» in all Ukrainian regions, losing the parliamentary elections in Georgia and a resonant resignation from the post of the head of the Odesa Regional State Administration in late 2016, Mikheil Saakashvili has announced the establishment of the

political party «New Forces' Movement».

Despite the series of political failures and elimination from the central TV channels, Saakashvili still continues to influence political competition in Ukraine through the National Anti-Corruption Bureau. Saakashvili's close friend - the Deputy Director of NABU Gizo Uglava is being a 'grey cardinal' in the main Ukrainian anti-corruption institution.

National Anti-Corruption Bureau has become a tool of political competition in the hands of Uglava and Saakashvili.



Through Saakashvili's political influence on NABU, the body is criticized for selectivity, politicization and excessive PR in declaring suspicions and initiating proceedings that later fall apart in the court due to the absence of proper evidence base gathered by the NABU detectives. In turn, the NABU management accuses SAPO (Special Anti-Corruption Prosecutor's Office) of unwilling to fight corruption. This is the main reason of the institutional conflict between NABU and SAPO headed by Nazar Holodnytskyi. Therefore, Saakashvili having the direct political influence on NABU is forced to coordinate the anti-corruption vector with the Presidential Administration.

The «Georgian group» has become the backbone of Saakashvili's team led by David Sakvarelidze and initiative group «The Wave» coordinated by Viktor Chumak and Vitaliy Kaskiv. The group of MPs-Eurooptimists who joined the party «Democratic Alliance» may be considered as potential allies of Saakashvili.

Conflict, populism and the failure of Saakashvili in Odesa have led to the drop in his personal ratings.

In July 2016, Vasyl Hatsko's allies held a party congress announcing the renewal of the party management and the creation of a collegiate body with the participation of the MPs: Mustafa Nayem, Svitlana Zalishchuk, Serhii Leshchenko and Victoriia Ptashnyk. However, after the corruption scandal in November 2016 concerning Leshchenko's luxury apartment, Mustafa Nayem, Svitlana Zalishchuk and Leshchenko himself no longer are listed as co-heads of the «Democratic Alliance».



In turn, Anatoliy Hrytsenko's project «Civic Position» goes through a deep systemic crisis. The party has no network, team and capability for the systemic development. Therefore, only Hrytsenko will benefit from the integration of the liberal forces' coalition, as it will allow him to return to the top Ukrainian politics .

The party «Civic Position» of Anatoliy Hrytsenko goes through a deep organizational and human resources crisis

The opportunities for Saakashvili's political maneuvering are severely limited by the current Ukrainian election legislation, according to which he cannot take the elected presidential or MP position. Currently, it is important for Saakashvili to remain in public Ukrainian politics, to lead the integration processes among the liberal forces, to oppose himself to the old ruling elites and to maximize the communication with the West.

Younger allies in anti-corruption activities (Leshchenko, Nayem, Chumak, Hatsko and others) don't like Saakashvili's leadership ambitions, authoritarianism in decision-making and «bonapartism». However, neither of these politicians has such charisma, political experience and the level of informal relations abroad as Mikhail Saakashvili does. Therefore, the representatives of the «Democratic Alliance»

and other small parties and movements with political ambitions have to unite around Saakashvili who is currently playing the role of informal leader of the coalition.

While Saakashvili, Hrytsenko and the «anti-corruption group» consider the process of uniting liberal forces only as a tactical move that will ensure their place in the parliament, the Lviv Mayor Andriy Sadovyi plays a long game. Sadovyi's purpose is to win the mayoral elections in Lviv in 2020 and then go to the presidential elections at full strength.

The collapse of the parliamentary faction, Andriy Sadovyi's rejection of the position of prime minister in April 2016, and reputational «trash scandal» have significantly shaken the political positions of «Samopomich» leader.

The mayor of Lviv doesn't plan to go out of the Lviv comfort zone to the top political level in the next electoral cycles. The lack of Sadovyi's national political ambitions is also negatively affecting the political attitudes within the parliamentary faction «Samopomich». Currently, the faction of «Samopomich» is divided into two wings - «the Lviv group», which is focused on the party leader, and «the business group», which got into the list through the quota of big business. While «the Lviv group» headed by Oleh Bereziuk remains loyal to Sadovyi, the «businessmen» are starting to be interested in alternative political projects and distance themselves from the party brand .

The parliamentary faction of «Samopomich» is divided into the «the Lviv group» and the «the business group».

Poor manageability of political processes within the faction leads to the fact that political decisions are made in a more difficult way and in some regions, for example, in Chernivtsi the local «Samopomich» faction is on the verge to disband. The complex of accumulated political problems in relations with Poroshenko, constant conflicts within the party and faction force Sadovyi to look for new long-term allies.

However, Sadovyi should divert his attention from the «trash problem» and move the emphasis to the national level. That is why he needs a strong politician-demagogue Saakashvili and

corruption untainted new parties, such as «People's Force» and «Democratic Alliance». In the case of unification, a new liberal coalition can hardly expect for more than 10-15% of the electorate. «Samopomich» as a parliamentary party that has a certain level of regional representation and its liberal electorate will remain the base for a «new movement» for which it will be difficult to compete for voters with «Batkivshchyna», «Radical party» or «the Opposition bloc».

The new liberal coalition can count on no more than 15% of the electorate.

Thus, the excessive political ambitions, different sources of funding, specific relationships with the authorities and the latent connections with oligarchs are being the obstacles for the agreement of the above leaders on the merger into a new political project. However, the main reason that hinders the unification processes in liberal circles is the lack of confidence in whether the early elections will be held in 2017 or not. The parties will reach a consensus as soon as the election campaign is announced.

The aim of the publication is to provide objective information on current political events in Ukraine and thorough analysis of major tendencies in domestic politics. Such analysis will assist in setting priorities in the process of implementing reforms in Ukraine and in evaluating quality of state decisions from the viewpoint of their impact and sustainability. Special attention is paid to evaluation of political competition in Ukraine and ability of key political players to address challenges.

*@2017 International Centre for Policy Studies (ICPS)
If citing please give reference on the ICPS*

Responsible for the project: Anatoliy Oktysiuk

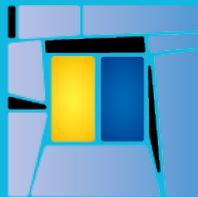
Responsible for the chapters:

Public Policies – Yevgeniy Yaroshenko

Economic Analysis – Anhela Bochi

Political Competition – Anatoliy Oktysiuk

Team of ICPS experts: Vasyl Filipchuk, Anatoliy Oktysiuk, Yevgeniy Yaroshenko, Vasyl Povoroznyk, Anhela Bochi, Iryna Ivashko, Vadym Perebyinis, Sergii Kischenko, Bohdan Banchuk, Yulia Gomeniuk, Iryna Stepanova, Veronika Shygirt, Roman Basalyha, Mariia Veselovska



ICPS

International Centre for Policy Studies

Telephone: +38 (044) 253-44-82

Fax: +38 (044) 253-44-82

E-mail: office@icps.kiev.ua

www.icps.com.ua



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Embassy of Switzerland in Ukraine

The project is implemented with
the support of the Embassy of
Switzerland in Ukraine
The content of the issue is the sole
responsibility of ICPS