



**ICPS**

International  
Centre  
for Policy  
Studies

14 Instytutska, office 10, Kyiv, 01001, Ukraine  
Phone (380 44) 279-88-23 | [office@icps.kiev.ua](mailto:office@icps.kiev.ua) | [www.icps.com.ua](http://www.icps.com.ua)

# Inside Ukraine

**October 23, 2015**  
**Nº52**



<b>The Government Policy .....</b>	<b>1</b>
The HR-company called "Ukraine" .....	1
The adoption of the anti-corruption legislation vs its implementation .....	2
<b>Economic Situation.....</b>	<b>5</b>
Reform of the State Fiscal Service: the main challenges .....	5
Naftogaz reform without the liberalization of natural gas market .....	6
<b>Political Competition.....</b>	<b>8</b>
Challenges of local elections .....	8
Potential winners of the local elections.....	9

# The Government Policy

The implementation of the anti-corruption strategy for 2015-2017, adopted in October 2014, is proceeding very slowly. In this regard, the parliament demonstrates better efficiency than the Cabinet of Ministers, although the adoption of several anti-corruption laws has faced a wave of criticism due to their poor quality.

The parliament, the government and the presidential administration are responsible for the failure of public service reform, which is one of the cornerstones of the fight against corruption in the state apparatus and in the implementation of reforms in all other sectors.

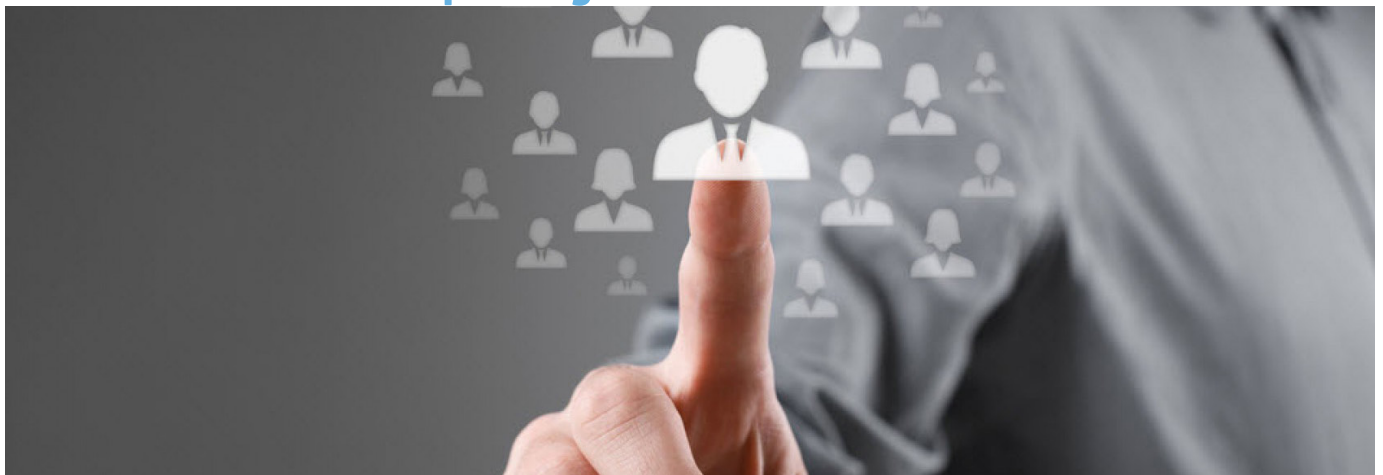
Although the National Agency for Prevention of Corruption was supposed to be launched in June 2015, the public will most likely find out the names of its five members only in November. Regardless of Poroshenko's optimistic statements about the same deadline for the appointment of the anti-corruption prosecutor, the submission of applications finished only this week. A serious challenge for local prosecutors' offices is that most candidates are acting prosecutors who do not have the trust of the public.

A common problem for all these new bodies is that it is extremely hard to find so many high-quality candidates at one time. Further, the government

does not invest enough efforts in the promotion of their recruitment among the public, and civil society is unable to ensure adequate supervision over these processes.

The major components of the anti-corruption strategy include the elaboration of anti-corruption public policy, prevention, punishment and the formation of negative attitudes toward corruption. Thus far, the parliament and civil activists are the parties pushing most for the elaboration of anti-corruption policy. The respective National Council at the presidential administration started its work only in September 2015, and the National Agency is being created only now. Regarding punishment for acts of corruption, the President recently claimed that over 500 civil servants were punished for corruption over the last two months. However, the government discloses neither the names nor the specific cases, which only breeds suspicion among the public. The arrangement of anti-corruption trainings among civil servants and the formation of negative attitudes toward corruption are done exclusively by non-government organizations with the support of international donors, whereas the public knows nothing about the government's own work in the field.

## The HR-company called "Ukraine"



The simultaneous creation of new institutions such as the National Anti-Corruption Bureau of Ukraine (NABU), the patrol police and local prosecutors' offices has transformed Ukraine into one giant HR-company. Dispersed attention negatively

influences the adequacy of supervision by civil society, and the insufficient promotion on the part of government does not effectively attract the most qualified people, who would otherwise compete to raise the overall quality of the institutions.

Only the selection of the patrol police is going smoothly, which can be explained by the simpler requirements for candidates, an intensive PR-campaign and the respective experience of Eka Zguladze, the supervisor of the project. However, the patrol police will not have direct influence on the level of corruption in the country. Its creation is related to the need to restore the public trust in law enforcement agencies in general.

Simultaneous holding of many contests influence their quality.

On October 1, 2015, the first 70 NABU detectives started their work and the call for another 70 positions of a similar kind was announced. The NABU leadership planned to select 100 detectives in the first wave but faced an insufficient number of qualified applicants. On the other hand, the 70 already selected cannot yet fulfill their duties properly before a specialized anti-corruption prosecution is created.

The Prosecutor-General's Office and the President are afraid of getting a disloyal head of anticorruption prosecution.

The delay in the creation of the latter is caused by the fear of the Prosecutor-General's Office and the presidential administration of having unexpected and disloyal individuals taking leadership of such an influential body. After a long-lasting parliamentary debate on the principles of the jury formation, on October 7, 2015, the Prosecutor-General's Office announced an open contest to select the managers of the specialized anti-corruption prosecution (a total of 12 positions, including the head, two deputy heads and heads of departments).

The submission of applications lasts for two weeks. Although Petro Poroshenko claimed that the anti-corruption prosecutor would be appointed by late November 2015, it is highly unlikely that the selection will be held so fast.

On September 5, 2015, a contest was launched to select the heads of 178 local prosecutors' offices, which will replace 639 district, town and inter-district prosecution offices. Although 6,000 candidates sent their applications to fill 700 job openings, Vitaliy Kasko, Deputy Prosecutor-General, is worried about the insufficient number of external candidates, which could mean that the leadership positions will be taken by representatives of the current system. This contradicts the expectations of David Sakvarelidze, also a Deputy Prosecutor-General, who claimed that prosecutors would be renewed by 70% by December 15, 2015.

Many candidates for the heads of local prosecutors' offices represent the current system.

Compared to the selection process for the NABU and the patrol police, the media is paying less attention to the competition for the local prosecution. A respective PR-campaign by the government, more active work among graduates and employees of law schools and a clear statement of financial packages for the new positions could stimulate the interest of individuals who are not currently related to prosecution bodies.

The selection of five members of the National Agency for Prevention of Corruption (NAPC) has reached its final stage. Nevertheless, according to Resolution No. 295, adopted by the Cabinet of Ministers on April 29, 2015, the competition was supposed to end in June 2015. Last week, the selection commission sent the documents of nine candidates for a special check, which may last up to two weeks. Among these candidates, two people work in the law schools, three in the private sector, three in public service (the Cabinet of Ministers and National Agency on Public Service) and one is an incumbent MP. After the special check, the commission will have to select five of the applicants, who will then be officially appointed by the Prime Minister.

The launch of NAPC is delayed by six months.

# The adoption of the anti-corruption legislation vs its implementation



The adoption of a large package of anti-corruption laws on October 14, 2014, became one of the milestones of anti-corruption reform in Ukraine. This package has created a legal framework for the fight against corruption and has determined the founding principles for the new anti-corruption bodies and the public policy in this area for the next three years.

Although the Cabinet of Ministers had three months to develop the implementation plan for the anti-corruption strategy, this document was published only on April 29, 2015. Over the past six months, the government did not meet the deadlines for many important components of the plan, which was adopted only with a delay.

It is much easier for the Ukrainian political elite to adopt legislation than to consistently put it into practice. The implementation of reforms requires political will, a comprehensive vision of changes, team unity and the knowledge and skills of how to transform political decisions into administrative procedures.

The government does not follow the schedule of the Anti-corruption strategy implementation

It is much easier for the Ukrainian authorities to adopt laws than to implement them.

According to the state program on the implementation of the anti-corruption strategy, the National Agency had to start its work in June 2015, and a public council and a website were to appear in August 2015. The Cabinet of Ministers expected that as early as in October-December 2015 the National Agency for Prevention of Corruption would sign the memorandum on cooperation with the public, especially in the sphere related to creating negative public attitudes toward corruption. So far, such projects are implemented exclusively by NGOs, including ICPS, with the support of international donors and without any assistance from the Ukrainian authorities.

It was assumed that in August-December 2015 the National Agency for Prevention of Corruption would hold anti-corruption trainings among representatives of local self-governments.

In fact, employees of HR departments at the local authorities received additional new functions but did not take any training courses on how to implement them.

The anti-corruption strategy mentions another law enforcement body – the State Bureau of Investigations (SBI), which will take some responsibilities from the Prosecutor-General's Office and the Security Service of Ukraine and will deal with

The government does not carry out educational activities among state officials regarding fight against corruption.

corruption crimes which are not within the competence of NABU. The respective law was scheduled to be adopted in June 2015, but in July 2015 it was repeatedly sent for second readings. Its text requires serious revision and compliance with other applicable anti-corruption laws. In the case of its adoption, it will be hard for the authorities to clarify to the public how the cases are divided between NABU and SBI, as well as the reasons why corruption cases at the lower level cannot be investigated by the criminal police.

One of the priorities of the anti-corruption strategy was the adoption of the laws «On public service» and «On service in local government bodies» with the government implementation deadline of May 2015. The parliament merely succeeded in voting for the law «On civil service» in the first reading, but then it was forgotten. Over six months at the National Council for Reforms, the President claimed that it was impossible to pass the second reading of the law as it stood. This led to a huge wave of criticism from the public and foreign partners. Despite the influence of the public service reform on all the other

The coalition, the Cabinet of Ministers, and the presidential administration are responsible for failure of public service reform.

reforms, the reform has been sabotaged by the Cabinet of Ministers, the presidential administration and the coalition.

However, the parliament has exceeded in some areas of implementation of the anti-corruption strategy. On October 8, 2015, a number of laws were adopted in the first reading, including those on political party financing and special confiscation. It was expected that these laws will be adopted only in December 2015, but the efficiency of deputies was affected by imminent local elections and the requirements of the visa liberalization action plan. The law on state funding of political parties will have an impact on the level of political corruption only in the mid-term and the long-term, and its efficiency will depend on the general political culture and activity of civil society. Criticism of the law on special confiscation lies in the fact that the latter may be applied to any deliberate crime, not only corruption cases. This creates possible conditions for violations of human rights and abuses by law enforcement bodies at a time when the public trust in these agencies is extremely low.

The law on special confiscation has been heavily criticized.

## Economic Situation

The State Fiscal Service reform has been heavily discussed recently. This is due to the IMF requirements regarding reform and the bad shape of the business climate in Ukraine. However, the government's statements have not been transformed into real actions.

The government's plan to reform corporate management in "Naftogaz of Ukraine" NJSC may increase political influence in the company. The lack of progress in the separation of the extraction, transportation and sale of gas will hamper the liberalization of the gas market.

### Reform of the State Fiscal Service: the main challenges



Meticulous attention to the tax reform could be explained by several reasons: first, the state enters an active phase of the budget process, and it is unclear what tax basis the state budget for 2017 will be formed on; secondly, the institutional reform of the State Fiscal Service is one of the conditions for Ukraine to get the third IMF tranche under the EFF program; thirdly, the industrial recession in 2014-2015 showed the need to improve the business climate, primarily through tax changes.

In July-August 2015, the International Centre for Policy Studies conducted an expert survey on the tax reform within the project, «Analysis of quality

[The budget process and the IMF tranche encourage the debate over the tax reform.](#)

of the reforms and their cross-sectoral impact,» supported by the International Renaissance Foundation. 72% of experts responded that the most serious obstacle to the tax reform was the

inefficiency of public institutions. Survey results also showed that those state decisions made in late 2014 and declared as the tax reform essentially had nothing in common with the reform. 52% of respondents believe that the tax burden on enterprises has increased over the last year, and 44% believe that it remained at the same level. 92% of respondents answered that the current tax regime in Ukraine negatively affected the attraction of investments.

[The most serious obstacle to implementing the tax reform is work inefficiency of state institutions.](#)

In August 2015, the Ministry of Finance published a plan to change the structure of the fiscal service in compliance with functional distinctions. According to statements made by the Chairman of SFS, the institutional reform of SFS included two main phases:

1) Approval of the new structure of the central administration of SFS formed in accordance with the recommendations of the IMF;

2) a complete renewal of staff in the central administration.

Attention was also paid to the restructuring of the territorial bodies of SFS. According to the proposals, the number of state tax inspections will be reduced from 311 to 161, which will significantly decrease bureaucratic obstacles in providing services to taxpayers.

Regardless of the statements and Ukraine's commitments towards the IMF, there was no progress in institutional reform of the State Fiscal Service for two months. The problem is aggravated by the fact that the Prime Minister recently focused attention on the selection of new individuals for the large taxpayers office, rather than on institutional changes in most tax inspections across the country. Another factor is that the legislation package does not bring quality changes to the existing system (the package

The Prime-Minister's statements provoke more questions than answers.

includes draft laws No. 2176a, 2177a – on amendments to the Customs Code of Ukraine to improve territorial bodies of the State Fiscal Service – and No. 2178a – on amendments to the Tax Code to minimize influence on tax administration). For instance, it is unclear how the tax police will function in the future and why a taxpayer is unable to challenge the decision of a controlling body regarding the consideration of complaints. Although in July 2015 the decision was taken to transfer the Zakarpattia, Lviv, Volyn and Chernivtsi customs offices under the management of international companies, no changes have taken place since.

Businesses expects radical changes in the State Fiscal Service, aimed at the facilitation of the tax administration, the effective use of electronic services, a decrease in corruption and an improvement in inspectors' professional levels. Thus far, the government bodies do not show that they are ready for such changes. Successful tax reform means partnership between the state and all stakeholders. Constant consultations with stakeholders will mitigate risks and legitimize the course of tax reform. Until the state is ready for that, it is unlikely that the institutional reform of the State Fiscal Service will be socially accepted.

It is unlikely that the institutional reform of the State Fiscal Service will get socially legitimate.

## Naftogaz reform without the liberalization of natural gas market

On October 16, 2015, the government approved the plan to reform the corporate management of "Naftogaz of Ukraine" NJSC. It raised the question whether the priorities defined in the document correspond to the interests of energy market players and provide for the modernization of the national energy sector.

The Naftogaz management underlines the importance of this decision, as Ukraine will

Naftogaz changes are needed to get external financing.

receive USD 300 mln. from the EBRD and USD 500 mln. from the World Bank in order to replenish gas reserves for the heating season. It was emphasized that the necessary conditions must be met to introduce a new high-quality mechanism for the company's public administration. Namely, a new board of directors will be created that will include independent directors and representatives delegated by the government. In particular, it may also include representatives of international financial organizations.

Before the decision was made, the Ukrainian Energy and Coal Industry Minister questioned the expediency to deprive the Ministry of ownership



rights of Naftogaz shares and to transfer the company under the complete control of the Cabinet of Ministers. The Ministry's loss of influence over Naftogaz is supported by the fact that the Ministry of Economic Development was selected as responsible for the implementation of the plan.

Energy and Coal Industry Ministry will lose control over Naftogaz.

As a result, political influence on Naftogaz activities will significantly increase. This will make the company more dependent on the political situation in the country and limit the incentive to transform it into a profitable and efficient structure.

Naftogaz estimates that the company may become profitable in 2016 and the problem of its deficit will be solved by 2017. In 2014, the company's losses made up UAH 88.4 bln., and the capital deficit was UAH 108.6 bln. Over six months of 2015, Naftogas received net losses of UAH 4.5 bln. (over six months of 2014, the figure was UAH 32.4 bln.).

Since 2016 Naftogaz may solve the issue of capital deficit.

Meanwhile, a key issue for the promotion of energy sector reform is separating the extraction, transportation and sale of gas. A clear model of Naftogaz's division is needed to solve this question. It will also cover the separation of Naftogaz assets, the access of private investors to the management of the Ukrainian gas transportation system, pricing and the regulator's role.

In fact, the plan's implementation may improve the system of Naftogaz's corporate management, increase its efficiency and capitalization in order to attract additional investments and introduce shared responsibility for the decisions taken. On the other hand, it may only signify the desire to change the company's management.

The plan will improve Naftogaz management, but it will not ensure the reform to be in line with the Third energy package.

Thus, a statement that Naftogaz will turn into a transparent and efficient company, which will work for the benefit of its final shareholders – Ukraine's citizens – may be another empty promise just to get loans. The agreement with the EBRD is intended to be signed in Berlin on October 23, 2015.

---

# Political Competition

The main challenges in the local elections will be a potentially low voter turnout and the complexity of the new electoral law, which has not been properly explained to citizens. The new electoral system is characterized by its unpredictability, which some political players may try to neutralize through manipulations at the territorial election commissions. That is why the composition of election commissions will play a significant role in the election results.

It is crucial for the authorities to quickly present the results so that the public does not fear that the

announcement of the winners is artificially delayed. Effective communication between the authorities and voters is also essential in light of the fact that some districts will have two representatives while others will have none.

Given the high electoral threshold, the main winners of the local elections will be the parties with parliamentary factions: Bloc of Petro Poroshenko-Solidarity, Batkivshchyna, Samopomich, Opposition bloc and Radical party of Oleh Lyashko. In certain regions, Renaissance, Nash Krai and UKROP may win a significant representation.

## Challenges of local elections



The expected low turnout (approximately 35-40%) can be explained by traditionally lower interest in local elections, the growing disillusionment of citizens because of the lack of reforms and the deteriorating quality of life, as well as the impossibility to vote for the 1.2 mln IDPs. In addition, voting in Ukraine is held at the place of registration and not at the place of actual residence.

The reasons for low turnout include citizens' fatigue from politics and the need to vote at the place of registration, not at the place of permanent residence.

Therefore, a significant number of the economically active population, who have moved to larger cities in search of work, will not go to another city in order to participate in local elections, especially considering weaker ties with communities where they were born.

Under the conditions of low turnout, the parties with the most disciplined voters are going to win. That is why some parties primarily focus on the distribution of food packages, the formation of an extensive network of paid agitators and the use of administrative resources. Such a motivation for voters will lead to these parties getting better results than anticipated in various national polls. Further,

the parties that actively work with vulnerable social groups and senior citizens will have better chances, as these groups are the most disciplined voters.

Parties with the most disciplined and motivated voters are going to win.

The use of national sociological data is not indicative for the local campaigns, as a party can have a rating of less than one per cent at the national level, but the concentration of its voters in one or several towns allows for the gaining of influential factions in correspondent councils. This is why some mayors of medium-sized cities are running for elections as leaders of their own small parties and have high chances of being reelected.

It seems that even the politicians who voted for the amendments to the electoral law do not fully understand its peculiarities. The result of a given party is the sum of the results of all party candidates in a district. Thus, the nomination of weak candidates directly influences the final results. Most of the parliamentary parties have paid insufficient attention to the selection of local opinion leaders and have even introduced a kind of franchise – a possibility to use a party brand for a certain financial reward. If some of these candidates have a negative image within a district, it will negatively influence the result of the whole list.

The nomination of weak candidates will have a direct influence on the party results.

The new electoral system will cause competition not only between candidates from different parties, but also within the same party. At the local level, it may result in intrigues of regional elites, which may try to play their own game, different from the policy of the central party office in Kyiv.

Many young party projects have ignored the need to develop a network of election commission members and observers. Instead, they primarily focused on the national campaign and media coverage of a party brand. For them, a serious challenge on the election day will be to protect their results and prevent any manipulations by competitors.

Another risk of this campaign may be a significant percentage of spoiled ballots, as the authorities did not conduct any awareness-raising campaigns on the specifics of the electoral system and the use of ballot papers.

The trust of political parties and voters in the results of voting depends on how quickly and transparently the count and announcement of winners will be made. However, a small difference between the opponents' results can still encourage the candidates to challenge them in courts and will lead to delays in the announcement of winners in certain cities.

The parties without strong representation in electoral commissions and qualified observers will face a hard task to defend their results.

## Potential winners of the local elections

The results of the last year's parliamentary elections and the latest public opinion polls show that the support for BPP-Solidarity and Samopomich parties is most evenly distributed throughout Ukraine. These political forces have succeeded in spreading their presence more to the South and have even created active branches in Kharkiv.

BPP-Solidarity and Batkivshchyna have the most even support across the country.

The rest of the parties are trying to keep their regional niches: Batkivshchyna – West and Centre, Radical party – Centre and North, Opposition bloc

– South and East. At the same time, new political projects, which seek to use the local elections as a springboard for their appearance at the national level and participation in the future parliamentary elections, are close on their heels.

In the West, Samopomich, BPP-Solidarity, and Batkivshchyna have the highest chances to win strong factions. In addition, Svoboda, Radical party, People's Control and some regional projects may pass the

Samopomich, BPP-Solidarity, and Batkivshchyna are among the top three parties everywhere, except for South and East.

5%-threshold. In the race for the mayor of Lviv, Andriy Sadovyi is an undisputed leader, although the significant number of candidates may be a factor in the dispersion of votes and the need to conduct a runoff.

In central Ukraine, Batkivshchyna, BPP-Solidarity, Samopomich and Radical party are the leaders of the race. Small towns and villages of central and northern Ukraine are the electoral core of Batkivshchyna and Radical party. In some regions there, Svoboda and Nash Krai are likely to pass the 5% threshold.

In Kyiv, Vitalii Klitschko enjoys the highest ratings, whereas his opponents in the second round may be Oleksandr Omelchenko, Boryslav Bereza or Serhiy Husovskiy. BPP-Solidarity, Batkivshchyna, Samopomich and Unity parties will have powerful factions in Kyiv City Council.

There is a struggle for the electorate of the former Party of Regions in the South and East. The positions of Opposition bloc have shaken because of the aggressive campaign of the Renaissance party, which is associated with Ihor Kolo-moiskyi, and Nash Krai, which is associated with the presidential administration.

The Renaissance party relies on the MPs from Kharkiv and Odesa regions with the experience of

Positions of  
Opposition bloc in the  
East will be shaken  
by the Renaissance  
and Nash Krai  
parties.

conducting campaigns in correspondent districts. Also, the Renaissance party has managed to attract Hennadiy Kernes who is the highest rated candidate of the Kharkiv mayoral election.

Nash Krai is an association of mayors who also have a track record of victories in certain cities. This political force includes the mayors of Mariupol, Kher-son and a number of towns of Kyiv region. In the East, the presidential administration was so preoccupied with the creation of comfortable conditions for Nash Krai that it virtually failed to develop the pro-presidential party network. This may play out as a bad joke with BPP-Solidarity, as the loyalty of mayors may be only a one-night stand and they can easily change their camps after the political balance is shifted.

UKROP nominated strong candidates in local elections in Ivano-Frankivsk, Dnipropetrovsk and Zaporizhia regions. The sharpest confrontation is expected between UKROP and Opposition bloc in Dnipropetrovsk.

The main favorite in Odesa is the current mayor Hennadiy Trukhanov which is nominated by his own party "Trust the Deeds". Former member of UDAR Eduard Hurvits, representative of the pro-presidential force Sasha Borovyk and Svitlana Fabrykant from the Renaissance party will be competitors of Hennadiy Trukhanov.

In South and East  
BPP-Solidarity has  
not managed to find  
local opinion leaders  
and will likely have  
to strike a deal with  
regional elites.

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.

© 2015 International Center for Policy Studies (ICPS)

*If citing please give reference on the ICPS*

**Idea of the project:** Vira Nanivska

**Responsible for the project:** Iaroslav Kovalchuk

**Responsible for the chapters:**

The Government Policy — Iaroslav Kovalchuk

Economic Situation — Vasyl Povoroznyk

Political Competition — Iaroslav Kovalchuk

**Team of ICPS experts:**

Iaroslav Kovalchuk, Vasyl Povoroznyk, Angela Bochi, Anatoliy Oktyusyuk, Olena Zakharova,

Vasyl Filipchuk, Vadym Perebyinis

**Proofread** by Patrick E. McGrath