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Ukraine: A new government, as a result of a compromise between the President and the oligarchs

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On 14 April, the Ukrainian parliament approved a new government led by Volodymyr Hroisman, as well as his programme (in a separate vote). In this way, nearly three months of the governmental crisis was brought to an end, and the prospect of early general elections was dismissed. But this does not mean the end of the political crisis, as nothing indicates that the parliament's work will get any better, nor that the new government will enjoy stable parliamentary support. Thus early elections, in the spring or autumn of 2017, remain a real possibility.

The new government was formed thanks to a confidential agreement between President Poroshenko and the oligarchs, and the support of the parliamentary parties under their control ensured a majority for the government. The oligarchs' influence on the government and parliament will not fade, and indeed may even increase. Therefore we should not expect Hroisman's cabinet to give any real impetus to the pace of the reforms expected by the IMF, or to threaten the interests of the oligarchs. This applies in particular to the process of de-monopolisation and the fight against corruption. Hroisman's rise to the premiership means the *de facto* assumption by the President and his party of full responsibility for the state.

The governmental crisis and its solution

Volodymyr Hroisman had already been President Poroshenko's candidate for prime minister in 2014, but the Popular Front won the parliamentary elections and its leader Arseniy Yatseniuk had to lead the government. Hroisman became the speaker of parliament, and the former mayor of Vinnitsya became more widely known as a politician. Since the beginning of 2016 Poroshenko sought to remove Yatseniuk, whose government had lost its parliamentary support. However Yatseniuk, with the support of some of the oligarchs (as well as Washington for quite some time), ably defended himself. In mid-February he made a compromise with the President, as a result of which the motion of no confidence against his government was lost, despite parliament's rejection of his cabinet's annual report. After the vote, two parties left the parliamentary coalition, namely Yulia Tymoshenko's *Batkivshchyna* and the *Samopomich* party of Lviv mayor Andriy Sadoviy (the coalition's other partner, Oleh Lashko's Radical Party, had already left the coalition the previous autumn). The other two factions, the Petro Poroshenko Bloc and the Popular Front, did not have the required majority (at least 226 seats, or an absolute constitutional majority in the parliament), and the coalition should have been dissolved. Poroshenko chose not to, however, and the

coalition was continued by the use of legal tricks and the recruitment of deputies from outside the factions.

It was clear to all participants in the political game that these developments would eventually lead to early general elections. However, no-one wanted this to happen (perhaps with the exception of *Batkivshchyna*, which was gaining in the polls). For the Poroshenko Bloc and the Popular Front, which were losing support, the prospect of elections was a threat (the Front has no chance of passing the 5% electoral threshold). The other parties were not interested in early elections either, because they were not prepared organisationally or financially. It was thus with great relief that they accepted the solution agreed upon by Poroshenko and the oligarchs, which lifted the threat of elections in June, and pushed them back to this autumn at the earliest.

During the consultations various possible candidates for Prime Minister were named, although it seems that Poroshenko was betting on Hroisman all the time. Yatseniuk, in turn, initially fought off the prospect of his resignation, and then sought to defend his own interests, primarily by ensuring that the current ministers of the interior (Arsen Avakov) and justice (Pavlo Petrenko) remained in the new government. For reasons of his own ambition, Yatseniuk also demanded that parliament set aside its negative assessment of his government's annual report. The main participants in the behind-the-scenes discussions were representatives of the main oligarchic groups (primarily those of Ihor Kolomoyskiy and Rinat Akhmetov), working to place their own people in the government's economic departments in order to ensure their key interests: keeping control of the state energy companies and preventing the process of de-monopolisation and any other activities that could undermine the importance of the oligarchs' businesses.

The coalition negotiations were unexpectedly complicated by a dispute between Poroshenko and Hroisman, who did not want to consent to the inclusion in the new government of several of the President's associates (especially the deputy chairman of his administration, Vitaliy Kovalchuk) and eventually insisted on his own people. This means that the new Prime Minister will not merely implement the President's commands, although it seems that there are significant policy differences between them. Future disputes between Hroisman and the President's Administration seem likely (rivalries between governments and Presidential Administrations have a long tradition in Ukraine).

The creation of the new government

Yatseniuk resigned on 10 April, and four days later, the parliament adopted a resolution containing three points: accepting Yatseniuk's resignation; withdrawing the resolution of 16 February on the negative assessment of his government's annual report; and choosing Hroisman for the premiership. After a short period, parliament voted through the new cabinet, and after a few hours the new government's programme was approved, which is the equivalent of passing a vote of confidence. This means that a vote of no confidence cannot be held for one year. During these votes numerous breaches of procedure were committed. The presentation to parliament of the government's programme, which is required by the Constitution, consisted of a 20-minute-long speech containing a collection of vaguely-worded declarations on the activities of a cabinet which had not even met in session yet. 257 deputies voted in favour of the Prime Minister's appointment, 239 for the appointment

of the government, and 243 in favour of its programme (the required majority in each case is 226 votes). However, several coalition members (mostly from the Poroshenko Bloc) did not support the new government, and the necessary support was ensured by the opposition factions *Volya Narodu* [People's Will] and *Vidrodzhennya* [Rebirth], representing the interests of the oligarchs. These parties supported the government of Yatseniuk for a long time, but their formal entry into the coalition was and remains unacceptable to both sides, as they belong to the camp of former members of the Party of Regions.

The coalition supporting the new government is formally the same coalition that was set up in 2014, although the number of parties forming it has fallen from five to two. In this way, the need to draw up a new coalition agreement was avoided.

The new speaker of parliament is Andriy Parubiy, the former first deputy speaker, a representative of the Popular Front, and a commander on the Maidan in 2014 (co-ordinator of defence, in particular), and a former member of the nationalist movement's radical wing. It is doubtful whether he will be able to bring about any substantial improvement of the quality of parliament's work. Parliament will remain the main obstacle to reforming the country, due both to the influence of the oligarchs on resisting reforms, and to the parliament's very poor organisation and working discipline. Due to its very small majority, the coalition will have to win the support of two oligarchic factions, each of which will have its price for every vote. It seems that the main purpose of establishing the new government is to dismiss the prospects of early general elections, which would pose a threat to those currently in power.

The new government: reforms called into question

The new government has 22 ministers, including as many as six deputy prime ministers (Yatseniuk's government had 19 members, including three deputy prime ministers). For the first time, a Deputy Prime Minister for European and Euro-Atlantic integration was appointed (Ivanna Klympush-Tsintsadze). The ministers of defence and foreign affairs remained in their posts (as proposed by the President), which suggests that the existing priorities in Ukraine's foreign and defence policy will be maintained; Deputy Prime Ministers Hennadiy Zubko and Vyacheslav Kyrylenko, and the ministers of the interior, justice, youth & sports, and information policy also kept their posts, and the minister for social policy became a Deputy Prime Minister. Hroisman's appointment as Prime Minister means that the President and his party have *de facto* assumed full responsibility for the state. The costs of the necessary reforms will therefore be reflected in public support for the head of state to a greater extent than before. On the other hand, the whole of the country's political settlement, including with the oligarchs and the West, is now focused in one camp. Hroisman can be expected to intensify actions connected with decentralisation and strengthening local self-government, particularly that of the cities.

The government can count on support from most of the elements within the coalition (the internal conflicts inside the Poroshenko Bloc are becoming increasingly apparent), as well as from the oligarchic anti-reform factions *Vidrodzhennya* and *Volya Narodu*, whose support will need be to negotiated on every important matter. In some cases, the government can count on support from *Samopomich*, while *Batkivshchyna* and Lashko's Radical Party on one hand, and the Opposition Bloc on the other, will remain in clear opposition.

In recent times, neither Ukraine's government nor its parliament has adopted the reforms the country needs; the actions that have been taken, however – such as the adoption on the first reading of a law creating an independent regulator for the energy market, on 12 April – have been merely preliminary in nature. This lack of reform has resulted in the IMF suspending the payment of the third tranche of its loan (US$1.7 billion), which in turn has adversely affected the stability of the hryvnia. Ukraine's Central Bank was forced to intervene in the foreign exchange market, which led to the depletion of foreign exchange reserves in the first quarter of this year by about US$500 million. A decision on whether to release the latest tranche of the loan will be taken after the visit of the IMF mission to Kyiv, although it seems this will not be possible without a socially painful decision to raise gas prices for the general public. At the same time the first speech by the energy minister, on the need to renegotiate the increases in energy prices for the public, suggests a desire to suspend the process of marketising municipal charges for households.

Prime Minister Hroisman announced the acceleration of the process of reforming the country, which due to the political crisis has been in stasis for several months. It is no coincidence, however, that the new government has been coolly received by the management of the IMF, which is one of Ukraine's key creditors. The new cabinet will not be able to implement reforms effectively, nor should it be expected to push through the bills relating to the justice system, the decentralisation of the state, the fight against corruption or regenerating the energy sector with any great efficiency. In the first case, the main reason is the presence in the government of politicians and officials who are tied up in business relationships with oligarchs; in the second, because obtaining sufficient support in parliament for specific solutions will also depend on the decisions of the oligarchs. Among the members of the new cabinet, the new finance minister Oleksandr Danyluk – who is the government's main interlocutor with the International Monetary Fund – was associated in the past with the former President Viktor Yanukovych. The choice as Energy Minister of Ihor Nasalyk, an experienced parliamentarian, but also a millionaire businessman in the fuel industry, also raises the question of whether he will work in the interests of the country, and not those of individual businesses.

The resolution of the governmental crisis has not dealt with the roots of the problem, but the prospect of parliamentary elections in October has been dismissed. If the paralysis in parliament recurs, the expectations and demands that, together with early parliamentary elections, early presidential elections should be held will be even stronger than before.

Appendix

Volodymyr Hroisman, the Prime Minister, was born in 1978 in Vinnytsya to a Jewish family who had lived there for six generations. His father Boris (born 1946) was an engineer and worked in local radio-electronics factories, and since 1990 has run his own business; his mother was a school teacher.

Volodymyr Hroisman started working aged 14, even before he had completed middle school, as a locksmith in his father's company. Two years later he became head of the *Yunost* company, which controlled the biggest market in the city, also owned by Boris

Hroisman. He worked in various companies owned by his father until 2005, when he finished his business activities. He was owner or co-owner of eight companies of local importance (including markets, a cement plant and an asphalt company). Since 2005, these have been under the control of members of his family (especially his father, and possibly his wife and brother). Hroisman's assertion that he has not been involved in any business activity since becoming the town's mayor appears seems credible (it has not been publicly challenged), but his family could influence the decisions he may take.

In 2003 he graduated in law from the Interregional Personnel Management Academy (a private college), and in 2010 he completed studies in regional management at the National Academy of State Management for the President of Ukraine.

In 2002-5, he was a councillor of the town of Vinnitsa, then he served as deputy mayor, and in 2006-14 was the mayor. He conducted many activities to improve the functioning of the city during this period, which were financed thanks to international cooperation (with the government of Switzerland) among other means. Under his leadership, Vinnytsya has become one of the best managed and most resident-friendly cities in Ukraine. When he ran for re-election in 2010 he won 78% of the vote; during this time, he was a patron of the marginal local party *Sumlinnya* [Conscience]. Later, he founded the Vinnytsya's European Strategy party, which won the municipal elections in 2015.

While still mayor, Hroisman won the trust of the current President of Ukraine, Petro Poroshenko, the owner of the confectionery plants in Vinnytsya. Since 2010, Hroisman has been one of the vice-presidents of the Association of Towns and Municipalities of Ukraine, and has consistently promoted the greater self-reliance of local urban authorities.

In February 2014, probably at Poroshenko's initiative, Hroisman was appointed First Deputy Prime Minister and minister of regional development in the Yatseniuk government. His duties also included 'crisis management' (he chaired the state commission investigating the crash of the Boeing 777 in the Donbas in July 2014). As Deputy Prime Minister he initiated a number of measures to streamline the activities of the state and decentralise its government. He was also President Poroshenko's chief representative in the government. During this time he joined the Petro Poroshenko Bloc.

In October 2014 he won a parliamentary mandate on the Poroshenko Bloc's list and – rather unexpectedly, as he had been considered as a possible successor to Yatseniuk – he stepped down from the government, so that on 27 November 2014 he could become the speaker of parliament. Also in this position he was primarily engaged in implementing the will of the head of state.

He has openly declared his Jewish nationality, but some of his statements have indicated that he is not religious. His wife Elena is Ukrainian; they have three children.

Stepan Kubiv, first Deputy Prime Minister, minister for trade and economic development.

Born in 1962 in Ternopil oblast. An experienced banker, from 2000 to 2008 he was President of Kredobank (which belongs to the PKO BP Group); after the Euromaidan, he was the head of the National Bank of Ukraine from February to June 2014. He has been active in politics for a decade, in the Our Ukraine, *Batkivshchyna* and Front For Change parties. Before

becoming Deputy Prime Minister he was a parliamentary deputy for the Petro Poroshenko Bloc, and served as the President's representative in parliament. He has good relations with both President Poroshenko and politicians in the Popular Front.

Ivanna Klympush-Tsintsadze, Deputy Prime Minister for European and Euro-Atlantic integration.

Born in 1972 in Kiev. Analyst, journalist and social activist, in 2011-14 was director of the Yalta Cooperation Organisation, sponsored by the oligarch Viktor Pinchuk. Since 2014 she has been a parliamentary deputy for the Petro Poroshenko Bloc, and vice-chair of the Foreign Affairs Committee. Her husband, Arkhil Tsintsadze, is a Georgian military man and diplomat (among other positions he has been Georgia's military attaché in the USA and an interim *chargé d'affaires* in Kyiv), and he currently conducts business in Ukraine.

Oleksandr Danyluk, minister of finance.

Born in 1975 in Grigoriopol (Moldavian SSR). He has an MBA from the University of Indiana (USA), and also worked in the auditing firm McKinsey in its offices in London and Moscow, as well as in investment banking. In Ukraine in 2005-6, he was an advisor to Prime Minister Yuriy Yekhanurov; in 2010 was head of the Coordination Centre for the Implementation of Reforms. This institution was supervised by Serhiy Lovochkin, head of Viktor Yanukovych's presidential administration, and currently a member of the Opposition Bloc. Until 2014 Danyluk was also an advisor to Yanukovych; in that summer the new President Petro Poroshenko nominated Danyluka to the post of President's Representative in the Council of Ministers, and a year later appointed him deputy head of the Presidential Administration.

Volodymyr Omelan, minister of infrastructure.

Born in 1979 in Lviv. An experienced bureaucrat, he worked in the ministries of finance and foreign affairs, among others. In 2014 he was appointed as deputy minister of infrastructure. He has a reputation as a professional and a reformer.

Ihor Nasalyk, minister for energy and the coal industry.

Born in 1962 in Oleksandria (Kirovohrad oblast). He is a millionaire politician and businessman associated with the petroleum sector. A member of the Ukrainian parliament between 1998-2006 and head of the parliamentary subcommittee on the oil industry, then for eight years mayor of Kalush (Ivanofrankivsk oblast); from 2014, a member of the Petro Poroshenko Bloc, and a member of the Committee for the Fuel and Energy Sector. During his business and political career he has worked with both the current President and ex-PM Yatseniuk, as well as with some Ukrainian oligarchs.