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Ukraine: the West issues an ultimatum to the corrupt elites

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On 11 January, the IMF's Mission Chief for Ukraine sent a letter to the Presidential Administration criticising the presidential Anti-Corruption Court bill presented to Verkhovna Rada in December 2017. The document specifies a number of regulations which the IMF claims undermine the independence and effectiveness of the future institution and contradict Ukraine's obligations. The establishment of an independent Anti-Corruption Court is the main condition for the IMF to continue its co-operation with Ukraine. Several days later an analogous letter was sent by the World Bank, which threatened to withhold a loan guarantee worth US$800 million. The presidential bill has also been criticised by the European Commission.

Minister of Finance Oleksandr Danylyuk was the only high-ranking representative of the Ukrainian government to comment on the threat. He stated that halting reforms will result in the co-operation with the IMF coming to an end. He ruled out signing a new programme with the fund, noting that its conditions would remain unchanged. In turn, the deputy head of the National Bank of Ukraine, Dmytro Solohub, stated that if Ukraine did not receive an instalment by the end of the second quarter of this year, this would really mean ending the programme of co-operation with the IMF (formally it would have expired only in the first quarter of 2019).

Commentary

- After the Revolution of Dignity Ukraine was on the verge of bankruptcy, but received loan support from several sources; the most important ones being the IMF and the EU. The four-year Extended Fund Facility (EFF) programme signed with the IMF in March 2015 envisaged providing a credit line worth US$17.25 billion. So far, US$8.7 billion has been paid in four instalments. The EU's support as part of Macro-Financial Assistance (MFA) programmes reached €2.81 billion at that time. In both cases Ukraine received the first instalments unconditionally, while the availability of the next ones was made dependent on a number of reforms being conducted, including those aimed at combating corruption, and the conditions set by the EU were complementary to those of the IMF. Over the past few months, both institutions began intensifying their pressure on conducting reforms linked to combating corruption and above all to creating an independent Anti-Corruption Court. The first serious sign of the West's growing impatience was the decision passed by the EU to refuse to make available to Ukraine another instalment worth €600 million as part of the MFA and also the lack of binding declarations on continuing supporting

Kyiv as part of another programme.

- The system of institutions in charge of combating corruption created after 2014 is incomplete. The National Anti-Corruption Bureau (NABU) and the Special Anti-Corruption Prosecutor's Office operate as part of it, but the proceedings conducted by them against senior politicians and officials have failed to result in them being sentenced because the justice system is still dependent on the government. The establishment of an independent Anti-Corruption Court would mean the creation of a complete system and would enable corruption to be thoroughly tackled at the top levels. This is required not only by the West but also by most of the post-Maidan activist circles. In all public opinion polls, Ukrainians indicate corruption as their country's main problem, while in the opinion of business circles this is the most serious barrier to improving Ukraine's economic situation.
- There is enormous resistance among the Ukrainian political elite to the creation of an effective mechanism for combating corruption. Even the institutions in charge of this have to resist constant attempts of depriving them of independence. One example of this was the draft amendment of the NABU Act presented in December 2017 by the chairmen of the two factions which form the government coalition (the Petro Poroshenko Bloc and the People's Front) stipulating for example, that the procedure to dismiss the head of the bureau should be simplified. Ultimately, the vote was cancelled due to strong international pressure, above all from Washington and Brussels. The Ukrainian ruling class was renewed only to a small extent after 2014, and almost all its members treat the establishment of an independent Anti-Corruption Court as a serious threat to their interests. One effect of this is an extensive consensus among the government and a major section of the opposition that the court should not be established or should be established in a form that will make it dependent on the government and thus prevent an effective struggle with corruption on the top levels.
- The West is the only creditor of Ukraine, and Ukraine still needs financial support. Another problem is the fact that 2018–2021 will be a period of intensified foreign debt repayment. Kyiv will have to pay back around US$12 billion (this being the equivalent of 12% of GDP). Furthermore, the state-controlled company Naftogaz has to pay US$2 billion to Gazprom, and a London court is considering the case of a US$3 billion debt owed to Russia (so-called 'Yanukovych's debt'), which Ukraine will likely have to pay back. On top of that, oligarch Ihor Kolomoyskyi has brought a petition to the Arbitration Court in Stockholm claiming damages worth US$4.7 billion from the state. Given this situation, the government in Kyiv has very small room for manoeuvre, while obtaining funds from other sources (financial markets) in conditions of suspended co-operation with the IMF will be extremely difficult, and impossible in the longer run. This is especially true, if we take into account the fragile stability of the Ukrainian economy which has generated small growth over the past two years (2.3% in 2016 and around 2% in 2017) after the deep crisis in 2014–2015.
- The Ukrainian government has met most of the conditions as part of the co-operation programmes with the IMF and the EU; the costs of this have been paid by the public. The most unpopular moves include the price hikes for electricity, gas and heating, and the pension system reform. Resistance against the IMF was noticed among the government

only in the context of its requirements concerning combating corruption because this will adversely affect the government elite. In this situation, the government in Kyiv will find it difficult to convince public opinion that it is defending the country's sovereignty against the 'Western dictate' though such attempts have already been made. Much seems to indicate that Kyiv will try to play for time, excessively extending the procedures or attempting to establish an Anti-Corruption Court bereft of the possibility of real action. However, the West seems to be determined not to ease the pressure on Ukraine, which is a result of the conviction that without genuinely combating corruption, further reforms will be ineffective.