



OCTOBER 8, 2015

# THE ECONOMIC AND POLITICAL FUTURE OF UKRAINE

SENATE COMMITTEE ON FOREIGN RELATIONS

ONE HUNDRED FOURTEENTH CONGRESS, FIRST SESSION

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### *MEMBER STATEMENTS:*

**Sen. Bob Corker (R-TN)** [no pdf available, see [1:03:40 of webcast](#)]  
Chairman  
Senate Committee on Foreign Relations

**Sen. Ben Cardin (D-MD)** [no pdf available, see [1:07:40 of webcast](#)]  
Ranking Member  
Senate Committee on Foreign Relations

### *WITNESSES:*

**Hon. Victoria Nuland** [\[view pdf\]](#)  
Assistant Secretary, Bureau of European and Eurasian Affairs  
U.S. Department of State

**Ambassador Paula J. Dobriansky** [\[view pdf\]](#)  
Former Undersecretary of State for Democracy and Global Affairs  
Senior Fellow for the Future of Diplomacy Project  
Harvard University JFK Belfer Center for Science and International Affairs

**Hon. Clifford G. Bond** [\[view pdf\]](#)  
Former Ambassador to Bosnia and Herzegovina and U.S. Assistance Coordinator in Ukraine  
U.S. Department of State

### *AVAILABLE WEBCAST(S)\*:*

**Full Hearing:** <http://www.foreign.senate.gov/hearings/watch?hearingid=7218C551-5056-A066-60C7-77CBA7D28D84> – Hearing on Ukraine begins at 1:03:40

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**Testimony of Assistant Secretary Victoria Nuland  
October 8, 2015  
Senate Foreign Relations Committee**

Thank you Chairman Corker, Ranking Member Cardin, members of this committee for the opportunity to join you today and for the personal investment so many of you have made in Ukraine's democratic, European future. Your bipartisan support, your visits to Ukraine, the assistance you and your fellow members have provided are truly making a difference.

This week we celebrate 25 years since Germany's reunification – the first major step on our journey toward a Europe whole, free, and at peace. Today that journey goes through Ukraine. Across Ukraine, citizens are standing up and sacrificing for the universal values that bind us as a transatlantic community: for sovereignty, territorial integrity, human rights, dignity, clean and accountable government, and justice for all. America helps Ukraine because that country's success is central to our own profound national interest in an ever more democratic, prosperous, stable Europe. Ukraine's aspirations are ours.

In the six months since I last appeared before this committee, Ukraine can be proud of the progress it has made:

- Last spring, the IMF approved an augmented four-year, \$17.5 billion economic support program for Ukraine, \$6.7 billion of which has already been disbursed;
- The government has proposed and the Rada has passed legislation to reform the energy and agriculture sectors, strengthen the banks, shrink and modernize government bureaucracy, devolve more authority to the regions, and create oversight structures to clean up corruption;
- Last month, Ukraine reached a land-mark debt-relief deal with its creditors, opening the door for more intensive support;
- The September 1<sup>st</sup> ceasefire in eastern Ukraine is largely holding, the Minsk parties have signed and begun to implement agreements to pull back their heavy weapons, and some IDPs are returning home.

While we welcome this progress, Ukraine still has a long, hard road to travel.

In my remarks today, I will first discuss implementation of the Minsk package of agreements; I will also give an update on the work that Ukraine is doing, with U.S. and international support to reform the country, tackle corruption, and to strengthen democratic institutions; and, finally, I will focus on the tough work ahead to cement Ukraine into Europe and the community of successful democracies.

## **The Minsk Agreements**

The September 2014 and February 2015 package of Minsk agreements remains the best hope for peace, weapons withdrawal, political normalization, decentralization in Eastern Ukraine, and the return of Ukrainian state sovereignty over that part of its border. Yet in the eight months since the February signing of the implementing agreement, Eastern Ukraine has seen almost constant violence all along the contact line, continued weapons shipments from Russia masquerading as humanitarian aid, separatist filibustering and threats at the political negotiating table, and repeated Russian efforts to relitigate basic elements of Minsk.

On September 1<sup>st</sup>, however, the guns largely fell silent. And on October 2<sup>nd</sup>, in Paris, President Putin agreed to put a stop to the separatists' threat to hold another round of fake elections. Instead, he committed to Presidents Poroshenko and Hollande and Chancellor Merkel to withdraw heavy weapons, allow full access to the OSCE all the way to the border, and to negotiate modalities for real elections in Donbas under Ukrainian law, safe conditions, and observation by OSCE's ODIHR.

If these commitments are kept— if weapons are pulled back and stored, if the OSCE gets in, and legal, monitored elections are negotiated and held— Ukraine will once again have unfettered access to its own people and its territory in the East. That's what Minsk promises: peace, weapons withdrawal, political normalization, then a return of the border.

As President Obama did with President Putin in New York, we will also keep pushing to complete other unfinished aspects of Minsk— the return of all hostages, including Nadia Savchenko, Oleg Sentsov, and those held in Russia; full humanitarian access for UN agencies, Ukrainian NGOs, and government relief agencies; and the removal of all foreign forces, weapons, and landmines.

We understand why — after almost 2 years of violence, war and lies — many Ukrainian patriots and some in the West doubt Russia and its proxies will ever allow full implementation of Minsk. But Minsk implementation remains a goal

worth fighting for because the alternatives are bleak: at best, a frozen conflict in which Donbas becomes an unrecognized gray zone for the foreseeable future; at worst, a return to the war that has already claimed too many Ukrainian lives— and Russian lives, as well.

So we will keep supporting Ukraine as it does its part to implement Minsk. Along with the Normandy powers, France and Germany, we will keep pushing Russia and its proxies to demonstrate equal good faith. As the President and Secretary Kerry have repeatedly said, we will judge Russia and the separatists by their actions, not their words. We will work with the EU to keep sanctions in place until the Minsk agreements are fully implemented. And of course, Crimea sanctions remain in place so long as the Kremlin imposes its will on that piece of Ukrainian land.

## **Reforms Update**

While 7% of Ukrainian territory remains under threat, the other 93% is fighting a different battle: to build a democracy that is closer to its people; an economy where what you know matters more than whom you know; and a society where law rules rather than corruption and greed.

The electoral, judicial, financial, and anti-corruption reforms already put forward by the government and enacted by the Rada are impressive in their scope and political courage.

Here are just a few examples:

- With generous U.S. support, newly vetted and trained police forces are now patrolling the streets of Kyiv, Odesa, Lviv, and Kharkiv, with another three provinces to be covered by year's end. By the end of 2016, every Ukrainian oblast will have them;
- A new National Anti-Corruption Bureau is being stood up and will work with a new special anti-corruption prosecutor once the latter is appointed;
- With U.S., EU, and UK help, new local prosecutors are being hired, old ones are tested and retrained, and all will now submit to periodic performance evaluations to root out corruption and malfeasance;

- Ukraine is closing loopholes in its pension system to help reduce the system's \$3.7 billion annual deficit;
- It is working hard to increase energy efficiency, cut subsidies for state-owned gas producers, and establish a market-oriented model;
- And, with the help of the IMF, the government is rebuilding its financial sector, closing insolvent banks and strengthening protection of depositors' rights.

These efforts and more are beginning to bear fruit:

- The latest IMF forecasts released this week predict Ukraine's economy will grow by 2% in 2016.
- Ukraine exported a record-breaking 33.5 million tons of grain in 2014, and in 2015 will increase agricultural exports by 6 %;
- And, Ukraine's foreign reserves have increased to \$12.8 billion, up from a low of \$5.6 billion in February.

### **What the U.S. is doing**

With Congress' unwavering support, the United States has committed to provide over \$548 million in assistance to Ukraine since the start of this crisis, in addition to two \$1 billion loan guarantees. With continued progress on economic reforms and as conditions warrant, we will ask you to work with us on a third loan guarantee of up to \$1 billion. U.S. economic and technical advisors advise almost a dozen Ukrainian ministries and localities. Our \$69 million in humanitarian support helps 2.4 million displaced Ukrainians through international relief organizations and local NGOs.

Because there can be no reform in Ukraine without security, \$266 million of our support has been in the security sector. This includes sending: 130 HMMWVs, 150 thermal and night vision devices, over 300 secure radios, 5 Explosive Ordnance Disposal robots, and 20 counter-mortar radars.

Just last week, we notified Ukraine that two more life-saving long-range counterfire radar batteries are on the way. And, in November, we will complete a \$19 million train and equip program for Ukraine's National Guard and begin

training Ukrainian Ministry of Defense forces using \$45 million in European Reassurance Initiative funding.

Ukraine has already put this equipment and training to good use. When combined Russian-separatist forces tried all summer to break Ukrainian lines at Maryinka and Starohnativka, they were pushed back again and again by Ukraine's increasingly professional military, and Ukrainian lives were saved.

### **What Ukraine Still Must Do**

Because the best antidote to Russian aggression and malign influence is for Ukraine to succeed as a democratic, prosperous, European state, the Ukrainian government must continue to live up to its promises to its own people and maintain the trust of the international community.

As I said, much difficult work remains to clean up endemic corruption throughout government and society, at every level; to stabilize the economy; break the hold of corrupt state enterprises and oligarchs; and reform the justice system.

Key steps toward these reforms include:

- Procurement and revenue management reform in the gas sector, and unbundling of services along with the restructuring of Naftogaz by Ukraine's deadline of June 2016;
- Like Ukraine's police force, the Prosecutor General's Office has to be reinvented as an institution that *serves* the citizens of Ukraine, rather than ripping them off. That means it must investigate and successfully prosecute corruption and asset recovery cases – including locking up dirty personnel in the PGO itself;
- The newly created Inspector General's Office within Ukraine's prosecution service must be able to work independently and effectively, without political or judicial interference;
- And, the government must appoint the NABU Anti-Corruption Prosecutor ASAP in order to start investigating these crimes.

Ukraine is well situated to provide products and services to Europe and Eurasia, but must improve the business climate by dismantling thousands of duplicative functions and transparently privatizing approximately 1800 state-owned enterprises, and do more to recapitalize and repair its banking system. Clean governance and business practices that root out corruption are essential to attracting more foreign investment and development opportunities.

Ukrainians also need a justice system that cannot be bought, one that will deliver verdicts, uphold the rule of law, and stop injustice, which was a key demand of the Maidan protests. Currently, only 5% of the Ukrainian population completely trust the judiciary. Inspiring confidence will require passing the constitutional amendments to limit judges' immunity, improve judicial ethics and standards, and rigorously investigate judicial misconduct and enforce disciplinary rules and dismissals.

### **What the International Community Must Do**

While Ukraine works through these tough challenges, the United States, Europe, and the international community must keep faith with Ukraine and help ensure that Russia's aggression and meddling can't crush Ukraine's spirit, its will, or its economy before reforms take hold.

We must challenge the false narrative that nothing can or will change in Ukraine. To fight disinformation not only in Ukraine and Russia, but across Russian-speaking communities in Europe, we are joining forces with our partners in the EU to support alternatives to state-sponsored, Russian programming. We are also training foreign journalists and civil society actors in the art of fighting lies with the truth.

Mr. Chairman, Mr. Ranking Member, members of this committee, America's investment in Ukraine is about far more than protecting the choice of a single European country.

It's about protecting the rules-based system across Europe and around the world. It's about saying no to borders changed by force, to big countries intimidating their neighbors or demanding a sphere of influence.

I thank this committee for its bipartisan support and commitment to the sovereignty and territorial integrity of Ukraine and to a Europe whole, free and at peace.

**Testimony**  
**Before the**  
**Senate Foreign Relations Committee**

**Ambassador Paula J. Dobriansky**  
**Former Under Secretary of State for Democracy & Global Affairs;**  
**Senior Fellow, Future of Diplomacy Project at Harvard University**  
**JFK Belfer Center for Science and International Affairs**

**October 8, 2015**

**"The Economic and Political Future of Ukraine"**

**CHAIRMAN CORKER, RANKING MEMBER CARDIN AND MEMBERS OF THE SENATE FOREIGN RELATIONS COMMITTEE, I APPRECIATE THE OPPORTUNITY TO TESTIFY BEFORE YOU TODAY CONCERNING WHY UKRAINE'S ECONOMIC AND POLITICAL FUTURE MATTERS AND WHAT SHOULD BE DONE TO SECURE IT.**

**THIS HEARING IS BOTH TIMELY AND ESSENTIAL. WHILE RUSSIAN AIRSTRIKES IN SYRIA HAVE PROPERLY CAUSED THE GLOBAL COMMUNITY TO FOCUS ON EVENTS PLAYING OUT IN THE MIDDLE EAST, ATTENTION HAS UNFORTUNATELY BEEN DIVERTED FROM THE GRAVE SITUATION IN UKRAINE. RUSSIA CONTINUES ITS ILLEGAL OCCUPATION OF CRIMEA AND HAS EMBARKED ON A VARIETY OF MEASURES, DESIGNED TO FINALIZE ITS UNLAWFUL ANNEXATION OF THAT PORTION OF UKRAINE'S TERRITORY. MEANWHILE, MOSCOW-LED AGGRESSION CONTINUES UNABATED IN EASTERN UKRAINE, IN VIOLATION OF THE MINSK CEASEFIRE AGREEMENT. MORE THAN 6,400 UKRAINIANS HAVE LOST THEIR LIVES AND MORE THAN 1.5 MILLION HAVE BEEN DISPLACED BECAUSE OF RUSSIA'S INVASION.**

**AT THE SAME TIME UKRAINE IS FIGHTING A WAR ON ITS EASTERN FRONT, THE KIEV GOVERNMENT SEEKS TO RE-VITALIZE ITS ECONOMY AND SECURE NEEDED WESTERN AID. THEIR CIRCUMSTANCES ARE EXTREMELY DIFFICULT, AS MOSCOW CONTINUES TO DESTABILIZE UKRAINE BY ADDING**

**TO ITS WAR COSTS, KEEPING ENERGY PRICES ARTIFICIALLY HIGH, RESISTING EFFORTS AT DEBT RESCHEDULING OR REDUCTION, BLOCKING UKRAINE'S TRADE AND INHIBITING FOREIGN INVESTMENT THERE. DESPITE THESE MAJOR CHALLENGES, THE UKRAINIAN GOVERNMENT HAS ACHIEVED SOME NOTABLE PROGRESS: PARTIAL DEBT RESCHEDULING, IMPROVED TAX COLLECTION, REDUCED GOVERNMENT PROCUREMENT, PASSAGE OF ANTI-CORRUPTION LAWS, DISCLOSURE OF ASSETS OF MEMBERS OF PARLIAMENT, AND CURBED ENERGY SUBSIDIES. CHANGE AND SUBSTANTIAL REFORM IN UKRAINE WILL TAKE TIME -- BUT IT IS AN EFFORT WHICH IS BOTH IN UKRAINE'S INTEREST AND IN OUR NATIONAL SECURITY INTEREST. ACCORDINGLY, IT DESERVES OUR STEADFAST, LONG-TERM SUPPORT.**

**MOSCOW'S AGGRESSION AGAINST UKRAINE IS A COMPONENT OF PUTIN'S STRATEGIC VISION, WHICH HE HAS LAID OUT OPENLY IN A SERIES OF SPEECHES, NOT ISOLATED MISBEHAVIOR. CLEARLY UNDERSTANDING HIS DESIRE TO REVERSE THE CONSEQUENCES OF THE SOVIET UNION'S COLLAPSE AND A REJECTION OF THE EXISTING INTERNATIONAL SYSTEM'S LEGITIMACY IS CENTRAL TO UNDERSTANDING WHY LONG-TERM SUPPORT FOR UKRAINE IS SO CRUCIAL.**

**THE ATLANTIC COUNCIL HAS OUTLINED THE TASK AT HAND - - "SECURE EUROPE'S EAST - - SUPPORT UKRAINE". THEIR EXPERTS CALL FOR THREE (3) BASIC STEPS: 1) STOP PUTIN THROUGH ENHANCED ECONOMIC**

**SANCTIONS, 2) SUPPORT UKRAINE THROUGH INCREASED U.S. ECONOMIC ASSISTANCE AND MILITARY AND HUMANITARIAN AID, AND 3) STRENGTHEN NATO.**

**WHAT HAPPENS IN UKRAINE IS NOT JUST EUROPE'S CONCERNS. BOTH THE UNITED STATES AND EUROPE HAVE A STAKE IN SEEING A DEMOCRATIC, ECONOMICALLY STRONG UKRAINE.**

**RUSSIA'S INVASION OF UKRAINE, STARTING IN FEBRUARY 2014 IN CRIMEA, MARKS THE FIRST ANNEXATION OF ONE EUROPEAN COUNTRY'S TERRITORY BY ANOTHER SINCE WORLD WAR II AND THREATENS THE NORMATIVE ORDER AND GEOSTRATEGIC STABILITY IN EUROPE. OUR VALUES, INSTITUTIONS AND ALLIANCES HAVE BEEN DIRECTLY CHALLENGED. PUTIN ABROGATED THE 1994 BUDAPEST MEMORANDUM AND OTHER AGREEMENTS WHICH HAVE KEPT THE PEACE IN EUROPE FOR DECADES AND BUTTRESS NUCLEAR NON-PROLIFERATION. TO NOT ACT AND LEAVE PUTIN'S AGGRESSION UNCHALLENGED SENDS A SIGNAL TO OTHER AUTHORITARIAN REGIMES THAT THEY TOO CAN COMMIT ACTS OF AGGRESSION WITHOUT CONSEQUENCES.**

**THE CRISIS IN UKRAINE HAS CREATED A HIGHLY DANGEROUS SITUATION IN EUROPE FRAUGHT WITH RISKS OF FURTHER RUSSIAN**

**AGGRESSION. THERE ARE SEVERAL IMPORTANT IMPLICATIONS TO CONSIDER:**

- **FIRST, THIS CRISIS UNDERSCORES THAT THE END OF THE COLD WAR, WHICH SAW THE COLLAPSE OF THE SOVIET UNION AND THE CREATION OF MANY EUROPEAN ECONOMIC AND SECURITY INSTITUTIONS, HAS NOT RENDERED EUROPE IMMUNE TO NEW SECURITY AND POLITICAL CHALLENGES.**
- **SECOND, AS THE DEVELOPMENTS IN UKRAINE SINCE IT BECAME INDEPENDENT DEMONSTRATE, THE PATH TO DEMOCRACY IN POST-COMMUNIST COUNTRIES IS A DIFFICULT ONE FILLED WITH DANGERS, ESPECIALLY IF DOMESTIC PROBLEMS ARE EXACERBATED BY OTHER COUNTRIES. TO SURVIVE, UKRAINE NEEDS LONG-TERM ECONOMIC ASSISTANCE AND TARGETED MILITARY AID THAT CAN AUGMENT THE FIGHTING CAPABILITIES OF THE UKRAINIAN MILITARY.**
- **THIRD, THE UKRAINIAN CRISIS HIGHLIGHTS THE PRECARIOUS SECURITY OF THE BALTIC STATES AND THEIR EXTREME VULNERABILITY TO RUSSIAN PRESSURE AND POTENTIAL MILITARY ACTION. THE FAILURE OF THE WEST TO CONFRONT RUSSIA MORE DIRECTLY IN UKRAINE HAS EMBOLDENED MOSCOW TO TAKE PROVOCATIVE ACTIONS ALONG OTHER PARTS OF ITS PERIPHERY.**
- **FOURTH, NEW THINKING IS NEEDED ON SANCTIONS.**
- **FIFTH, THE ASSUMPTION THAT POST-COMMUNIST RUSSIA HAS BECOME A RESPONSIBLE MEMBER OF THE INTERNATIONAL**

**COMMUNITY SEEKING TO WORK WITHIN THE FRAMEWORK OF EXISTING INTERNATIONAL INSTITUTIONS AND THE RULE OF LAW HAS PROVEN TO BE UNFOUNDED.**

- **LAST, THERE IS NO SUBSTITUTE FOR AN ENGAGED AMERICAN POLICY TO EXERCISE ROBUST LEADERSHIP.**

**LET ME CLOSE BY BRIEFLY ELABORATING ON ECONOMIC SANCTIONS AND MILITARY ASSISTANCE TO UKRAINE. UKRAINE'S PRESIDENT POROSHENKO HAS REQUESTED MILITARY AID AND TRAINING FROM THE WEST. SPECIFICALLY, HE HAS REQUESTED ANTI-TANK WEAPONRY, ANTI-BATTERY RADAR SYSTEMS AND OTHER TYPES OF DEFENSIVE MILITARY EQUIPMENT. WE MUST ACT UPON THIS REQUEST.**

**WE MUST ALSO EXTEND AND EXPAND ECONOMIC SANCTIONS, WHICH WILL IMPOSE A HEIGHTENED COST FOR RUSSIA'S AGGRESSIVE ACTIONS.**

**DESPITE MOSCOW'S FAR-REACHING STRATEGIC ASPIRATIONS, RUSSIA IS OPERATING FROM A WEAK POSTURE. THE RUSSIAN ECONOMY CONTINUES TO SHRINK. RUSSIA'S GREATEST VULNERABILITY MAY BE ITS REFINERIES. WHILE RUSSIA IS ONE OF THE WORLD'S TOP ENERGY PRODUCERS, ITS REFINING FACILITIES ARE ANTIQUATED, HAVE NO SPARE CAPACITY AND MUST BE REFURBISHED WITH WESTERN SPARE PARTS ON A CONTINUOUS BASIS. MUCH OF THIS EQUIPMENT IS OF U.S. ORIGIN. IF CONGRESS WERE TO ENACT STATUTORY SANCTIONS, PLACING AN**

**EMBARGO ON EXPORTS TO RUSSIA OF REFINERY PUMPS, COMPRESSORS, CONTROL EQUIPMENT AND CATALYTIC AGENTS, IT WOULD CAUSE WIDESPREAD SHORTAGES OF REFINED PRODUCTS, PUTTING TREMENDOUS PRESSURE OF RUSSIA'S CIVILIAN ECONOMY AND MOSCOW'S ABILITY TO CARRY OUT MILITARY OPERATIONS.**

**IN SUM, THE MOST EFFECTIVE STRATEGY IS TO PROVIDE MILITARY, ECONOMIC, AND HUMANITARIAN ASSISTANCE TO UKRAINE IN THE LONG-TERM.**

**I LOOK FORWARD TO YOUR QUESTIONS.**

Remarks SFRC Hearing October 8, 2015

By Clifford G. Bond

It is a pleasure to appear before the Committee today and join my fellow panelist.

I returned only a few weeks ago from Kyiv where I worked for 17 months on expanding and coordinating our assistance program to Ukraine.

Over those months our assistance grew by more than four times and included a significant security component. I arrived as the aggression was beginning in eastern Ukraine and as a humanitarian crisis developed.

My work was focused on technical and humanitarian assistance, not the security aspects of the program.

I will make some comments on the state of economic reforms and transition in Ukraine that our program is meant to support.

I have past experience in economic transitions. I witnessed a successful transition in Eastern Europe in the early 1990's when I served in Prague during the Velvet Revolution and later worked in Washington implementing our Support for East European Democracy or SEED assistance program. Later in the 1990's I saw a failed transition when I worked at our Embassy in Moscow.

What I have to say now is informed by this experience. It should not be viewed as criticism, but as a hardheaded approach to what needs to be done if Ukraine is to succeed in an economic transition to a well-functioning market economy.

First off, the current Kyiv government is the most reform-minded and technically most competent team in post-Soviet times, but its goals are not ambitious or radical enough, and the process of reform has only begun.

There have been important successes: energy tariff rate increases and meeting other IMF conditions, the recent roll out of a new patrol police in Kyiv, a reform now being repeated in other cities, and agreement on debt restructuring.

But reformers face increasing resistance to change in key areas such as anti-corruption. The Prosecutor General's Office (or PGO) should be ground zero for the fight against corruption, but the PGO has yet to carry out a corruption prosecution against a senior Yanukovich-era figure. The PGO is divided between reformers who want to work with our FBI and DOJ advisors (and need full political support from the top), and an old guard that is frustrating and seeking to intimidate them.

A new Anti-Corruption Bureau is being formed, which will rely on the PGO to prosecute any criminal investigations it concludes. But, as I said, the PGO is not doing its job.

In the Health Ministry efforts to change corrupt procurement practices are being resisted by domestic pharmaceutical interests - even in the face of low levels of vaccination and immunization among Ukrainian children (a direct result of past corrupt practices) and the first outbreak of polio cases in western Ukraine.

In some areas, such as privatization and de-regulation, reforms are only getting started.

What the Ukrainian economy needs is fundamental liberalization and de-regulation to include broad privatization of its approximately 2,200 State-owned Enterprises (SOEs).

What economists call the factor markets of production in the economy for land, labor and capital are simply not functioning because of structural impediments and rigidities built into the system or because of corruption, past and on going. This means an entrepreneur or SME finds it extremely difficult to buy the real estate (there is no market in farm land), raise capital (the banks are not lending) or hire the people he/she needs to start up or expand a business.

### **Lack of Macro-Economic Coordination**

Importantly from a macro-economic perspective, there is no overall coordinator of market reforms. Some ministers are out there doing important work, but there is no central figure overseeing and coordinating the process with a strategic vision in mind to pull the pieces together.

In east European transition economies the senior Deputy Prime Minister who was usually double hatted as Finance Minister played this role. Poland's Leszek Balcerowicz and the Czech Republic's Vaclav Klaus were key to the success of economic reform in their countries.

The Prime Minister and President need to empower an individual with real reform credentials to fill this function and step out of the way to let him or her get the job done.

### **Need for Strategic Communication**

Part of the problem is also lack of understanding on the level of the general public and a lack of communication by political leaders of what a market economy is and how it should operate. Public surveys, such as

a recent IRI poll, show that two-thirds of citizens believe investment and job creation are the responsibility of the government. **Less than 10 percent** understand this should be the role of the private sector.

## **Focus**

Early cleanup of the business and investment climate was central to the success of the transitions in Eastern Europe. Poland focused on SME growth. This produced new businesses, jobs and investment, and gave government the political capital to move on to other reforms.

The GoU is focused on meeting the conditions required by the IMF and other donors. These are hard conditions and meeting them is essential to get the money to pay the bills. It is not a substitute, however, for a growth strategy that gets out ahead of the IMF-demanded reform curve.

Energy is an example of the problem. The GoU has done difficult things, like raising energy tariffs as the IMF required, but it has not fundamentally reformed the corrupt Ministry of Energy nor changed the sector, which is not a market, but a battleground of struggling interest groups. (This point was made at a recent Ukraine Foundation conference discussion of reforms.)

## **More International Assistance**

We need to work with reformers to build institutions, fight corruption and create conditions for growth.

This will require a long-term assistance strategy coordinated with our partners and a commitment from Congress to multi-year funding and additional resources.

Visiting Congressional delegations repeatedly told us in Kyiv that they are ready to consider a substantial expansion in assistance to Ukraine.

They understand that our support to Ukraine is important, but is currently insufficient, particularly in comparison to our response to the Georgia crisis of 2008.

Ukraine's success is essential for the wider security of Europe and fulfilling the vision of a continent "whole, free and at peace."

### **How would we use additional money?**

We should consider new forms of macro-economic support and link this to tougher, more market-oriented reforms. Our current use of loan guarantees is costly in terms of assistance dollars and is placing a heavy sovereign debt burden on Ukraine.

We should look to the sorts of things done under the SEED Act in the early 1990s. It will be easier for Ukraine's reformers to be more radical when they have a macro-economic cushion for the economy.

The government badly needs public sector and civil service reform. The current bloated and poorly paid bureaucracy is a brake on reform implementation, and a source of corruption. But this is an enormous and expensive task.

It is not a task a single donor or the Ukrainian government can assume alone. But with additional funding we could work with the EU and other donors to undertake widespread public sector reform.

We also need to support a massive privatization effort with the advisors and technical assistance to do the due diligence to prepare hundreds of state-owned enterprises for transparent privatization process that will attract strategic investors.

In addition to the conflict in the East and fighting for reform in Kyiv, Ukraine faces a humanitarian crisis, largely overlooked in the West.

This involves more than 1.5 million displaced persons inside the country, more than a million refugees outside it and millions more trapped and vulnerable in the area of conflict.

Neither we, nor our European allies are stepping up with an adequate response to the needs of these people, particularly as they face the onset of a second winter.

In conclusion, Ukraine needs to redouble efforts at reform and adopt deeper, more radical market-oriented measures, particularly by cleaning up the business and investment environment. The US and international community need to explain the stakes to their publics and think bigger and more strategically in terms of the level and types of assistance that can be made available.