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# UKRAINIAN REFORMS TWO YEARS AFTER THE MAIDAN REVOLUTION AND THE RUSSIAN INVASION

UNITED STATES SENATE COMMITTEE ON FOREIGN RELATIONS

ONE HUNDRED FOURTEENTH CONGRESS, SECOND SESSION

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**Testimony of Victoria Nuland, Assistant Secretary, Bureau of European and Eurasian  
Affairs**  
**Senate Foreign Relations Committee Hearing: “Ukrainian Reforms Two Years after the  
Maidan Revolution and the Russian Invasion”**  
**March 15, 2016**

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. Ukraine still has a long way to go to meet the aspirations of its people, but your bipartisan support, your visits to Ukraine, and the assistance you and your fellow members have provided have been essential to our policy.

Before I begin, let us take a moment to honor the sacrifice of Ukrainian pilot and Rada Deputy Nadiya Savchenko, who was seized in Ukraine in 2014, dragged across the Russian border and unjustly held and tried in Russia. Today, her hunger strike continues as the court in Rostov again delays announcement of its verdict. Nadiya’s struggle is a stark reminder of the severe pressures and violence Ukraine continues to face even as it works to build a stronger, more resilient country for its citizens. I thank this Committee for its continued focus on Nadiya Savchenko and all Ukraine’s hostages, and for the passage of Senate Resolution 52. We call on Russia to release her immediately, and return her to Ukraine and to her family before it’s too late.

Like Nadiya, all 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. The United States has a profound national interest in Ukraine’s success, and with it, a more democratic, prosperous, stable Europe.

We have stood by Ukraine for more than two years as Russia has sought to stymie its democratic rebirth at every turn – with political pressure, economic pressure, and with unprecedented military aggression and violation of international law. Any set of leaders would be challenged to lead their country in this environment. Today, however, Ukraine’s European future is put at risk as much by enemies within as by external forces. The oligarchs and kleptocrats who controlled Ukraine for decades know their business model will be broken if Maidan reformers succeed in 2016. They are fighting back with a vengeance, using all the levers of the old system: their control of the media, state owned enterprises, Rada deputies, the courts and the political machinery, while holding old loyalties and threats over the heads of decision-makers to block change.

Against this backdrop, Ukraine’s leaders have been locked for months in a cycle of political infighting and indecision about how to restore unity, trust and effectiveness in the reform coalition, and reboot the government and its program. Every week that Ukraine drifts, reform is stalled, IMF and international support goes undisbursed, and those inside and outside the country who preferred the old Ukraine get more confident. More than 3 months ago, Vice President Biden spoke before Ukraine’s Rada, its President and its Prime Minister and called on all of Ukraine’s leaders to set aside their parochial interests, reminding them: “Each of you has an obligation to seize the opportunity of the sacrifices made in the Maidan, the sacrifices of the Heavenly Hundred. Each of you has an obligation to answer the call of history and finally build

a united, democratic Ukrainian nation that can stand the test of time.”

The ability of the United States and the international community to continue to support Ukraine depends upon the commitment of its leaders to put their people and country first. All those who call themselves reformers must rebuild consensus behind a leadership team and an IMF- and EU-compliant program of aggressive measures to clean up corruption, restore justice, and liberalize the economy. With more unity and leadership, 2016 can and should be the year Ukraine breaks free from the unholy alliance of dirty money and dirty politics which has ripped off the Ukrainian people for too long. Without it, Ukraine will slide backwards once again into corruption, lawlessness, and vassal statehood.

It is precisely because Ukrainians have worked so hard, and come so far already, that their leaders must stay united and stay the course now. And it is because the reforms already taken are cutting into ill-gotten fortunes and cutting off avenues for corruption that the forces of revanche are fighting back. Here’s the good news: since I last testified before this Committee six months ago, Ukraine has largely stabilized its currency and is rebuilding its reserves; seen some modest growth in the economy; passed its first winter without relying on gas from Gazprom; approved a 2016 budget in line with IMF requirements; passed civil service reform to create competition and transparency; recruited a new corporate board for Naftogaz; broke its own record for greatest wheat exports; stood up an independent Anti-Corruption Bureau and Special Prosecutor; and, begun to decentralize power and budget authority to local communities to improve services and policing for citizens.

The very week in February that the current government survived a no-confidence vote, Rada deputies also approved five critical pieces of reform legislation to stay on track with IMF conditions and advance Ukraine’s bid for visa-free travel with the EU, including laws on:

- o Privatization of state owned enterprises;
- o Improvements in corporate governance of state owned enterprises;
- o Asset seizure and recovery;
- o The appointment process for anti-corruption prosecutors;
- o And, mandatory asset disclosure for public officials, which the President just sent back to the Rada with several fixes.

U.S. assistance has been critical to these efforts. Since the start of the crisis, the United States has provided over \$760 million in assistance to Ukraine, in addition to two \$1 billion loan guarantees. U.S. advisors serve in almost a dozen Ukrainian ministries and localities and help deliver services, eliminate fraud and abuse, improve tax collection, and modernize Ukraine’s institutions.

- With U.S. help, newly-vetted and trained police officers are patrolling the streets of 18 cities;

- In court rooms across Ukraine, Free Legal Aid attorneys, funded by the U.S., have regained their credibility and won 2/3 of all acquittals in Ukraine in 2015.
- Treasury and State Department advisors embedded in Ukraine's National Bank and related institutions helped Ukraine shutter over 60 failed banks out of 180 and protect assets.
- The U.S. and our EU partners are supporting privatization, freeing up about \$5 billion in Ukraine's coffers and pushing the largest state-owned enterprise, Naftogaz, to form an independent supervisory board that operates without interference.
- And, since there can be no reform in Ukraine without security, over \$266 million of our support has been in the security sector, training nearly 1200 soldiers and 750 Ukrainian National Guard personnel and providing: 130 HMMWVs, 150 thermal goggles and 585 night vision devices, over 300 secure radios, 5 Explosive Ordnance Disposal robots, 20 counter-mortar radars, and over 100 up-armored civilian SUVs. In FY16, we plan to train and equip more of Ukraine's border guards, military, and coast guard to help Ukraine secure its border, defend against and deter future attacks, and respond to illicit smuggling.

But first, Ukraine, President Poroshenko, Prime Minister Yatsenyuk, and the Rada must come together behind a government and reform program that delivers what the Maidan demanded: clean leadership; justice; an end to zero-sum politics and backroom deals; and public institutions that serve Ukraine's citizens rather than impoverishing or exploiting them.

### **What Ukraine Must Do**

The 2016 U.S. assistance program is designed to support all these priorities. Specifically, we will support Ukraine as it takes steps to:

- (1) Clean up its energy sector by passing legislation to establish an Independent Energy Regulator, reduce unsustainable energy subsidies, and accelerate de-monopolization of the gas market, efficiency of procurement and revenue management, and the unbundling of services;
- (2) Appoint and confirm a new, clean Prosecutor General, who is committed to rebuilding the integrity of the PGO, and investigate, indict and successfully prosecute corruption and asset recovery cases – including locking up dirty personnel in the PGO itself;
- (3) Improve the business climate by streamlining the bureaucracy, moving ahead with the privatization of the largest state-owned enterprises in a manner that meets international standards, and further recapitalizing and strengthening the banking system;
- (4) Strengthen judicial independence, including the certification, dismissal, and recruitment of judges;
- (5) Improve services and eliminate graft in key service areas that affect every Ukrainian: healthcare, education, and transportation; and

(6) Modernize the Ministry of Defense, squeeze out corruption in logistics and supply chains, and move toward western standards of command and control and parliamentary oversight.

### **Minsk Agreements**

Of course, Ukraine's greatest challenge remains the ongoing occupation of its territory in Crimea and Donbas, and its efforts to restore sovereignty in the East through full implementation of the September 2014 and February 2015 Minsk agreements. These agreements remain the best hope for peace, and we continue to work in close coordination with the "Normandy Powers" -- Ukraine, Russia, Germany, and France -- to see them fully implemented.

The last time I came before this Committee, Ukraine was in a better place. The September 1 ceasefire had largely silenced the guns, and some Ukrainians were even returning home to Donbas. But today, things are heating up again. In recent weeks, we have seen a spike in ceasefire violations, taking the lives of 68 Ukrainian military personnel and injuring 317. In February alone, OSCE monitors reported 15,000 violations, the vast majority of which originated on the separatist-controlled side of the line of contact. And, there were more recorded ceasefire violations in the first week of March than at any time since August 2015. And despite President Putin's commitments to the Normandy powers last October, combined Russian-separatist forces continue to deny OSCE monitors access to large portions of Donbas and to harass and intimidate those who do have access.

At the last meeting of Normandy Foreign Ministers in early March, Ukraine supported concrete steps to pull back forces on the line of contact, increase OSCE monitors and equipment in key hotspots, and establish more OSCE bases deeper into Donbas and on the border. Taking these steps now and releasing hostages will greatly improve the environment for compromise in Kyiv on election modalities and political rights for Donbas. In the meantime, neither Moscow nor the self-appointed Donbas authorities should expect the Ukrainian Rada to take up key outstanding political provisions of the Minsk agreement, including election modalities and constitutional amendments, before the Kremlin and its proxies meet their basic security obligations under Minsk. Although the U.S. is not a party to the Normandy process, we maintain a very active pace of diplomatic engagement at all levels with Kyiv, Moscow, Paris and Berlin to facilitate implementation of both the security and political aspects of Minsk, and to help the parties brainstorm solutions.

Here again, with will and effort on all sides, 2016 can be a turning point for Ukraine. If security can improve in coming weeks, if hostages are returned, if the parties can finalize negotiations on election modalities and other political issues, we could see legitimate leaders elected in Donbas by fall, the withdrawal of Russian forces and equipment, and the return of Ukraine's sovereignty over its border before the end of the year. We will keep working with Ukraine to do its part to implement Minsk, and working with our European partners to ensure Russia stays under sanctions until it does its part -- all of it. And of course, Crimea sanctions must remain in place so long as the Kremlin imposes its will on that piece of Ukrainian land.

Mr. Chairman, Mr. Ranking Member, members of this committee, we knew Ukraine's road to peace, sovereignty, clean, accountable government and Europe would be difficult and rocky.

Today, the stakes are as high as ever. With strong, unified leadership in Kyiv, 2016 can and should be a turning-point year for Ukraine's sovereignty and European future. If and as Ukraine's leaders recommit to drive the country forward, the United States must be there to support them, in our own national interest. At the same time, we must be no less rigorous than the Ukrainian people themselves in demanding Kyiv's leaders take their responsibility now to deliver a truly clean, strong, just Ukraine while they still have the chance. 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.

I look forward to your questions.

**UNITED STATES SENATE COMMITTEE ON FOREIGN RELATIONS**

Hearing: Tuesday, March 15, 2016

Ukrainian Reforms Two Years After the Maidan Revolution and the Russian Invasion

Prepared Testimony of Ian J. Brzezinski  
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Chairman Corker, Ranking Member Cardin, Members of the Committee, I am honored to participate in this hearing addressing the progress of reform in Ukraine following the Maidan Revolution and Russia's invasion of that country.

Two years ago, the course of history in Ukraine was transformed by those two events. The Maidan Revolution, also known as the Revolution of Dignity, was a powerful demonstration of popular demand for governance defined by democracy, transparency, and rule of law. That demand's articulation also underscored Ukraine's desire for full integration into the Western community of democracies.

The second event, Russia's unprovoked military invasion of Crimea and eastern Ukraine, stands among the most dramatic actions in Russian President Vladimir Putin's sustained campaign to reestablish Moscow's control over the space of the former Soviet Union. A central objective of this campaign has been to reverse Ukraine's western orientation and re-subordinate the country to Moscow's dominion.

We should have no doubt that this aggression has profound implications for the security interests of the transatlantic community, including the United States.

President Putin's seizure and continued occupation of Crimea and eastern Ukraine violates the principles of sovereignty that have sustained peace in Europe since World War II.

Second, this invasion shattered the 1994 Budapest Memorandum in which the United States, the United Kingdom, and Russia committed to respect and protect the territorial integrity of Ukraine in return for Kyiv giving up the significant nuclear arsenal it inherited from the USSR. Moscow's aggression, thus, is a serious blow to the efforts to curb the proliferation of nuclear weapons via international accords.

Third, President Putin has justified the invasion of Ukraine on his assertion of a unilateral right to redraw borders to protect ethnic Russians. This reintroduces to Europe the principle of ethnic sovereignty, a dangerous principle that provoked wars and resulted in countless deaths in earlier centuries. We had all hoped it had been relegated to the past.

Fourth, Russia's incursion into Ukraine is a direct threat to the vision of an Europe, whole, free, secure and at peace. For the second time in a decade, Putin has invaded a country simply because it wanted to join the West. If allowed to succeed, his ambitions will create a new confrontational divide in Europe between a community defined by self-determination, democracy, and rule of law and one burdened by authoritarianism, corruption, hegemony and occupation.

It is in this context that that Ukraine launched its most aggressive effort at comprehensive economic, political and legal reform since attaining independence. This undertaking has been made both more challenging and more urgent by Russia's military aggression. The invasion of eastern Ukraine caused over 9,000 Ukrainian deaths, left countless wounded and traumatized, and generated 1.6 million internally displaced persons. Russia today occupies some 9% of Ukraine's territory, including some of the latter's most important industrial and tourist zones. These tragedies, needless to say, impose significant burdens upon the nation's struggling economy.

In recent weeks, the military standoff in eastern Ukraine – which despite the Minsk agreements has one been of sustained low intensity warfare -- has deteriorated. We are once again seeing an increase in active combat featuring sniper, mortar and artillery fire and other aggressive Russian operations along the line of contact. EUCOM Commander General Phillip Breedlove recently testified that that Russia has moved over 1000 pieces of military equipment into the occupied areas over the last twelve months.

Since its occupation, Crimea has experienced a steady and significant build-up of Russian military forces. It is being steadily transformed into the hub of an anti-area/access denial zone extending deep into Ukraine-proper and much of the Black Sea region. Large-scale Russian snap "exercises" in its Western Military District and the Black Sea remind Ukrainians that their country remains at risk to deeper aggression.

Ukraine's reform efforts are not only challenged by these military incursions, they are undermined by Russia's decades old campaign of subversion, one that has only intensified over the last two years. Moscow has conducted an aggressive disinformation effort intended to disillusion Ukrainians with their own government, independence, and their aspirations to become part of the West. This "full spectrum" campaign includes: energy embargoes and gas price escalations; economic and trade sanctions; and terrorist and cyber-attacks, among other elements.

Despite these challenges, Ukraine has made progress in reform since the Maidan revolution. Its government has taken measures to improve tax collection, its pension systems and the transparency and fairness of its procurement systems. New, vetted, and trained police forces have been introduced in major cities, including Kyiv, Lviv, Odesa, and Kharkiv. Anti-corruption and public asset

disclosure laws have been passed, and a government austerity program is being implemented that features a significant reduction in energy subsidies and social benefits.

With that said, the process of reform is far from complete, is not moving fast enough, and remains easily reversible. Significant challenges remain, including systemic corruption, oversized state-owned enterprises, powerful oligarchs, and a weak judicial system lacking robust prosecutorial institutions. Political dysfunction, as evidenced in recent weeks, reflects the endemic character of these impediments.

However, as we assess Ukraine's progress it is useful to compare how its situation today differs from that of Poland, one of Central Europe's post-Cold War success stories. When Poland emerged from Soviet domination, it was warmly received by Europe and the United States. Its aspirations to join NATO and the European Union were robustly embraced, encouraged, and supported. Its aggressive "big bang" reforms were undertaken in a geopolitical environment that was by and large benign. It faced no real force that was capable of actively undercutting its independence and integration into the West.

Ukraine has faced a different context. Its initial pursuit of independence generated warnings of caution against national extremism. After attaining independence in 1991, its expressions of interest in NATO and the EU membership were largely dismissed. And, it was confronted by a Russia that refused to recognize Ukraine as an enduring reality. From day one of Ukraine's reemergence as an independent nation, Moscow worked to undermine its government, its sovereignty, and its ties to the West. These efforts increased as Russia's economy and military became more robust, particularly over the last decade and a half, the period corresponding with President Putin's rule.

The transatlantic community, including the United States, has a significant stake in assuring Ukraine's trajectory as a modern, democratic and prosperous European state. A strategy to assist Ukraine in accomplishing that objective must integrate a set of immediate and longer term initiatives that will impose greater economic and geopolitical costs on Russia for its aggression, enhance Ukraine's capacity for self-defense, and assist Kyiv's efforts to reform its political and economic institutions, and integrate the nation into the Euro-Atlantic community. These initiatives should include:

**Increased economic sanctions against Russia:** Current economic sanctions imposed on Russia have proven insufficient. For two years, Moscow has refused to withdraw from Crimea and eastern Ukraine. In fact, it has used that time to consolidate its control over those regions and has sustained, if not increased, its other coercive activities against Ukraine and other nations, including Georgia and Moldova. Today's sanctions may be hurting the Russian economy in the context of low oil prices, but if their intended outcome has been to deter Russian aggression, they have failed by that measure.

Instead of debating whether or not to sustain sanctions against Russia, the West should move to escalate those measures from targeted sanctions aimed against specific Russian individuals and firms to broader and more comprehensive sectoral sanctions against the Russian financial and energy sectors.

One step in that direction that should be taken is to target Russia's vulnerable refinery industry. While Russia is a top producer of oil, its refining capacities are antiquated, have little spare capacity and are dependent upon Western, particularly U.S., spare parts. Former Under Secretary of State for Global Affairs Paula Dobriansky proposed to this committee that the West impose an embargo of exports to Russia of such equipment, including pumps, compressors, and catalytic agents<sup>1</sup>. Such an embargo would significantly impair a key sector of the Russian economy from which Moscow derives revenues to sustain its military operations, including those conducted against Ukraine.

**A more robust NATO posture in Central and Eastern Europe:** Today, NATO's response – including that of the United States - to Russia's assertive military actions across Central and Eastern Europe remains underwhelming. When Moscow invaded Crimea, it deployed 20-30,000 troops and mobilized over 100,000 on its western frontier. Since then Russia has conducted “snap” exercises in Europe involving 50,000 and more personnel. Western counter-deployments to Central Europe have involved primarily rotational deployments of company level units. Their limited character been unnerving to our Central European allies and have yielded no constructive change in the operational conduct of Russian forces.

NATO should increase its military presence on its eastern frontiers, including through the establishment of bases in Poland and the Baltic states that feature permanently positioned brigade and battalion level capacities, respectively.

These steps, some of which may be under consideration for approval at NATO's upcoming summit meeting in Warsaw this July, would build a context of greater security and confidence to Ukraine's immediate West. They are reasonable in light of Russia's long-term military build-up in the region and the magnitude of its aggression against Ukraine. They would constitute a geopolitical setback for Moscow's regional aspirations, at least those defined by President Putin

**Military Assistance to Ukraine:** Since the 2014 invasion of Crimea and eastern Ukraine, the Ukrainian military has evolved into a more effective fighting force. This has been particularly evident at the tactical or field levels where Ukrainian units have learned at great human cost how to innovatively and effectively counter Russian tactics and operations.

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<sup>1</sup> Dobriansky, Paula. Testimony before the Senate Foreign Relations Committee: The Economic and Political Future of Ukraine. October 8, 2015.

Training and equipment provided by the United States and other nations have clearly been helpful, used effectively by the Ukrainians, and should be expanded. At the institutional and strategic levels, particular emphasis should be directed to assisting the Ukrainian defense establishment improve its personnel structures, logistics systems, medical capacities, intelligence organizations, and command and control systems.

The time is long overdue for the United States and others to grant Ukraine the “lethal defensive equipment” it has requested. Russia’s large-scale “snap” exercises underscore the challenges the Ukrainian military would face should Putin decide to drive deeper into Ukraine, a possibility that cannot be discounted in light of Moscow’s rhetoric and belligerent military posture.

The provision to Kyiv of anti-tank, anti-aircraft and other weapons would complicate Russian military planning by adding risk and costs to operations against Ukraine. Moreover, the failure of Washington to provide such equipment is not only disillusioning to Ukrainians, it signals a lack of determination by the United States to counter this Russian aggression – particularly when such equipment is shared with U.S. state and non-state partners elsewhere in the world.

**Reinforced Public Diplomacy/Information Warfare:** A key priority must be to counter Russia’s significant information campaign aimed to foster dissension, fractionalization, and turmoil. Russia’s propaganda and disinformation war against Ukraine (and other nations in Europe) is being waged at levels not seen since the Cold War.

Left unaddressed, the campaign threatens political unity in Ukraine, including that necessary to undertake essential and painful economic reforms. There is an urgent need to expand Ukrainian, U.S., and international dissemination of accurate, credible information and news in local languages via all forms of media throughout the country.

Information and public diplomacy operations are also a matter of presence. The international community should increase its physical presence throughout Ukraine, particularly in those regions where Russia’s subversive operations are most active and concentrated. Toward this end, the United States should establish consulates in key cities, including Odesa and Kharkiv. Such a presence would communicate U.S. resolve to support Ukraine’s sovereignty, would help expand this region’s economic ties to the West, and provide greater situational awareness in these regions.

**Ukraine’s Economic Integration into the West:** The US has done well in mobilizing international financial support needed to mitigate the costs of Russia’s military and economic aggression against Ukraine and to assist that the latter undertake challenging and painful economic reforms.

A fundamental objective of this assistance and these reforms should be to facilitate Ukraine's full integration into the European economy. Toward this end, two dimensions of Ukraine's economy warrant focused attention: the energy and defense industrial sectors.

Ukraine has made real progress in reducing its dependency upon Russian energy supplies, particularly gas. Last year, Kyiv began to import natural gas through Poland, Hungary, and Slovakia via pipelines that had been reconfigured for "reverse flow." These imports underscore the powerful potential of linking Ukraine to an emerging Central European North-South Corridor of gas and oil pipelines that will traverse the energy markets that lie between the Baltic, Black and Aegean seas. This network promises to unify what are still-today divided Central European energy markets and integrate them into the broader European energy market.<sup>2</sup>

Establishing a more robust Ukrainian link to the North-South Corridor would further diversify Ukraine's energy supplies, facilitate the integration of Ukraine into the emergent single European energy market, and strengthen Europe's energy resiliency by enabling it to leverage Ukraine's significant gas storage capacities.

A second important dimension of Ukraine's economy is its defense industry. As recently as 2012, Ukraine was the fourth largest arms exporter in the world with total deals valuing \$1.3 billion. Originally built to supply and sustain the Soviet military, Ukraine's defense industry remained after independence heavily focused on the Russian market. Today, the industry, even with the loss of the Russian market and manufacturing facilities seized in eastern Ukraine and Crimea, continues to be a significant element of the Ukrainian economy. With its sophisticated rocket works and heavy equipment and aviation design and production centers, Ukraine's defense industry ranks in the top ten of global arms exporters.

Like the rest of the economy, Ukraine's defense industry suffers from cronyism and corruption, aging, megalithic assets and near total state ownership. A central objective of Western assistance should be to help Kyiv design, promulgate and execute a comprehensive national strategy to restructure that industry so that it becomes more oriented toward the West and better aligned with Western business practices and market structures.

**Supporting Ukraine's Euro-Atlantic Integration:** Finally, assistance to Ukraine and its reform efforts must reflect an embrace of Ukraine's transatlantic aspirations. Those who protested and sacrificed themselves on the Maidan were very much motivated by their nation's aspiration to become a fully integrated member of Europe and its key institutions. Indeed, it is this aspiration that Moscow today is trying to crush.

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<sup>2</sup> Completing Europe: From the North-South Corridor to Energy, Transportation, and Telecommunications Union. The Atlantic Council and Central Europe Energy Partners, November 2014.

That vision serves as a powerful driver of Ukraine's reform efforts. Both NATO and the EU should use their respective summit meetings this Spring and Summer to underscore their support the eventual integration of Ukraine in to their respective communities. The Alliance, for example, should use its Warsaw Summit meeting in July to reiterate its vision that Ukraine and Georgia "will become members of NATO."

## CONCLUSION

The Maidan was a powerful demonstration of the Ukrainian peoples' commitment to democracy and its sovereignty as a European state. That commitment has been challenged by Russian aggression, including the occupations of Crimea and portions of Eastern Ukraine. From this conflict, Ukraine has emerged more unified and more determined to become a full member of the Western community of democracies. They deserve our full support.

The recommendations outlined above are prudent, defensive, mutually reinforcing, and consistent with the aspirations of the Ukrainian people to live in peace, freedom, and under the rule of law and to see their nation become a fully integrated member of the transatlantic community. They, thus, also enhance the prospects of peace in Europe.

US Senate Committee on Foreign Relations  
Subcommittee on Europe and Regional Security Cooperation

Hearing on Ukrainian Reforms Two Years After the Maidan Revolution and the Russian Invasion

March 15, 2016

“The Double Challenge to Ukraine: Kremlin Aggression and Reform”

Testimony

by

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Chairman Corker, Ranking Member Cardin, Members of the Committee, thank you for the invitation to speak this morning. It is an honor.

For over two years, Ukraine has faced a double crisis. The first concerns the war of aggression waged by the Kremlin; the second is the crisis of reform. The two are related because it was the determination of the Ukrainian people, in the face of the corrupt and increasingly authoritarian Yanukovich government, to pursue reform that ultimately led Viktor Yanukovich to flee Ukraine in February of 2014. This, in turn, prompted the Kremlin to annex Crimea in March of 2014 and to launch an increasingly open hybrid war in the Donbas.

In late May of 2014, newly elected reform President, Petro Poroshenko, faced an advancing Russian-led/financed/supplied offensive in the east and economic catastrophe throughout the country. Ukraine’s international reserves dropped steadily through 2014 and reached a low of \$5 billion in February of 2015. Today, there is a largely stabilized line of contact in the east between Russian forces and their proxies in the occupied territories and Ukrainian troops to their west.

Ukraine’s economic decline of nearly 10 percent in 2015 bottomed out in the third quarter, with zero growth in the fourth quarter and actual growth projected for 2016. And thanks to a raft of reform legislation that passed the Rada, Ukraine’s parliament, in early 2015, the International Monetary Fund, the European Union, the United States and other countries provided \$5 billion in economic assistance to buttress Ukraine’s foreign reserves. As of today, Ukraine’s reserves are \$13 billion. The IMF is expected to release the next tranche of its \$17.5 billion package in the coming months.

In short, whether looking at the war, the economic condition of the country, or the state of reform, Ukraine has pulled back from the brink of disaster, but its circumstances remain difficult. Still, the understanding of Ukraine’s circumstances and the West’s interests in Ukraine remain rudimentary—although much better in Congress than in many European capitals.

## **THE MILITARY SITUATION AND MINSK**

For a year and a half, the Minsk process has been a key factor in the military situation in the east. To understand the present situation in the Donbas, it is useful to review briefly the origins and evolution of the war.

The problem starts, of course, with the Kremlin's decision first to seize Crimea and then to launch a covert war in Ukraine's east in April of 2014. The Kremlin believed that it would be able to turn much of the east and—from Luhansk in the north to Donetsk and Kharkiv to its south and all the way to Odesa in the southwest—into a zone of influence by providing leadership, money, and arms for an uprising against the reform government that took office after Mr. Yanukovich fled Kyiv. This ambitious effort to create a “Novorossiia” failed as the residents of the area were not interested in fighting against the government in Kyiv. Indeed, polls taken in the Donbas in January of 2014 showed that no more than 25 percent of the population favored either independence from Ukraine or joining Russia (similar polls in Crimea at that time showed that no more than 40-43 percent of the population there favored those options).

While this ersatz rebellion failed in most of Ukraine's east and south, with the help of Russian “political tourists” and “volunteers,” it enjoyed some success in the Donetsk and Luhansk Oblasts. For six weeks, with little and ineffective Ukrainian resistance, this rebellion marched westward taking the cities of Kramatorsk and Sloviansk. The Kremlin's objective in conducting this covert war was to produce political changes in Kyiv that would lead to the installation of a government beholden to Moscow; or, if that was too difficult, to destabilize the reform government that replaced Mr. Yanukovich.

Shortly after taking office in late May of 2014, Mr. Poroshenko launched a counteroffensive to halt the advance of Russian forces in the Donbas and to retake lost territory. For two months the counteroffensive went from victory to victory, despite the Kremlin taking increasingly hostile measures to thwart it. These measures included the introduction of T-64 and then T-72 tanks, the dispatch of the “volunteer” Vostok battalion of Chechens, the firing of long-range artillery by Russian forces in Russia, and the deployment of increasingly sophisticated anti-aircraft batteries, including the BUK missile that shot down the Malaysian airliner in mid-July of 2014.

In mid-August of 2014, with Ukrainian troops on the verge of encircling the Moscow-supported forces in Donetsk and Luhansk, several thousand regular Russian troops invaded and defeated the Ukrainian troops within three weeks. The shoot-down of the Malaysian plane and the Russian invasion prompted the European Union to join the United States in imposing sectoral sanctions on Russia—serious measures that the Kremlin had hoped to avoid by keeping hidden its role in Ukraine's war.

Under OSCE auspices, Ukraine and Russia negotiated the Minsk I ceasefire in September of 2014. The agreement called for an immediate ceasefire, an end to offensive operations, the withdrawal of heavy weapons 15,000 kilometers behind the line of contact, the withdrawal of all foreign fighters and equipment from the occupied areas, the passage of decentralization legislation in Ukraine and the holding of elections in the occupied areas, freedom from prosecution for those involved in the

fighting in the Donbas, OSCE monitoring of the ceasefire and the border between Russia and Ukraine, and the return of the border to Ukrainian control.

The senior group for negotiations on the Kremlin's hybrid war in Ukraine is the so-called Normandy format, consisting of German Chancellor Angela Merkel, French President François Hollande, Russian President Vladimir Putin, and Mr. Poroshenko. This format was established in June of 2014, when the four leaders met in Normandy to celebrate the 70<sup>th</sup> anniversary of the Allied invasion of Nazi-occupied France. This setup suits France, Germany, and Russia. Ukraine would prefer to include the United States. But Washington has never insisted on joining the talks.

### **Violations of Minsk I Lead to Minsk II**

The Minsk I ceasefire was violated from the very beginning. While both sides committed violations, it was the Russian-backed side that conquered an additional 500 square kilometers between September of 2014 and February of 2015, when the Minsk II protocol was signed. Indeed, negotiations on Minsk II began as result of the Russian offensive to take Debaltseve in southeast Ukraine, which began in early January of 2015.

The terms of the Minsk II agreement were similar to Minsk I, but worse for Ukraine. Specifically, Minsk II gives the authorities in the occupied areas the right to organize and control their own militia. Mr. Poroshenko's motivation for signing Minsk II may have been to save the Ukrainian army that was defending Debaltseve. It was nearly encircled by Russian forces. German and French officials claim that they put no pressure on Mr. Poroshenko to sign these unfavorable terms, and that Chancellor Merkel even asked him if he wanted to accept these onerous conditions. Ukrainian officials state that the French and the Germans were anxious for Mr. Poroshenko to sign.

It is noteworthy that while Minsk II was signed on February 12, the Russian side insisted that the ceasefire only go into effect February 15. Moscow wanted to use the additional three days to capture Debaltseve. This tactic did not work. On February 15, Debaltseve was still in the hands of Ukrainian forces. So Moscow and its proxies violated the Minsk II ceasefire from its first hours as they continued the offensive to take the town, which required a few more days.

After the Kremlin's minions took Debaltseve, violations of the Minsk II ceasefire continued, averaging 70 to 80 incidents a day. The majority of these violations were committed by the forces in the occupied territories. In September of 2015, Moscow decided to dial down the violence in the Donbas as it turned its military attention to Syria. But even that did not lead to a true ceasefire. Daily firing incidents averaged 30 to 40. Moscow was hoping that by reducing the violence, it might persuade the EU to lift, or at least ease, the painful sectoral sanctions that would be reviewed in December. Moscow's hopes were not fulfilled as the sanctions were renewed for an additional six months.

In January, Moscow chose to up the pressure in the Donbas and the number of daily violations jumped again to over 70. The authorities in the Luhansk and Donetsk Peoples' Republics have continued to hinder the work of the OSCE's Special Monitoring Mission (SMM) in verifying the removal of heavy weapons and in observing the Ukrainian/Russian border. Since the Minsk II ceasefire went into effect, Moscow's forces have taken hundreds of square kilometers of Ukrainian territory, and killed over 375 and wounded over 1,500 Ukrainian soldiers.

The number of Russian troops in the Donbas is a matter of dispute. Ukrainian intelligence has regularly reported that number as between 8,000 and 12,000. In late 2014, Western sources were putting that number at 400-800. But in March of last year, LTG Ben Hodges, Commanding General of U.S. Army Forces Europe, put that number at 12,000. Earlier this month, Assistant Secretary of State for European and Eurasian Affairs, Victoria Nuland, spoke of “thousands” of Russian soldiers in Ukraine.

The Kremlin has devoted much attention and energy to hiding its aggression in the Donbas—just as it did in Crimea until Putin decided to boast about his success in a triumphal documentary on the “return” of Crimea to Russia in March of 2015. At a press conference last December, Putin also publicly acknowledged that the Russian military was in Ukraine. “We never said there were not people there who carried out certain tasks including in the military sphere,” Putin said. But, he asserted without elaboration, this was not the same as regular Russian troops.

In their military operations, the Kremlin was surprised first by the unwillingness of the people in the east, including ethnic Russians, to join the rebellion against Kyiv and then the stubbornness of Ukraine’s defense. That defense has been a source of pride to the armed forces and people of Ukraine. Moscow now has no expectations that it can somehow engineer a sympathetic government in Kyiv. It also understands that it would take a large, conventional offensive involving hundreds of tanks and/or airpower to make a major breakthrough Ukraine’s well dug in lines. That option is inexpedient for domestic and international reasons. But Moscow is still seeking to wear out Mr. Poroshenko’s government by constant military pressure, including small seizures of territory.

### **Minsk and Sanctions**

The terms of Minsk II are weak and unfavorable for Ukraine, but they are adequate as long as the EU insists that the sectoral sanctions imposed on Moscow will remain in place until the terms of Minsk are fully implemented, including the withdrawal of all foreign equipment and fighters, the restoration of Kyiv’s sovereignty over the entire Donbas, and Ukraine’s control of its border with Russia.

Thus far, sanctions have been the most effective tool that the West has used to encourage Moscow to end its war in the Donbas. According to Russian economic officials, the sanctions are responsible for a 1-1.5 percent drop in Russia’s GDP. Sanctions have proved a particular problem for Russian firms turning over debt or seeking new credit. Russian GDP dropped 3.7 percent and Russian wages dropped 9.5-10 percent in 2015. Sanctions were an important reason for this, although the drop in hydrocarbon prices played a larger role. The IMF expects Russian GDP to fall another 1-1.5 percent this year, but other observers think that GDP contraction this year may be the same as in 2015.

It is essential that the sanctions continue. To the Kremlin’s unpleasant surprise, sanctions have been renewed three times. But some EU nations are growing restive with the sanctions regime. When Moscow intervened in the Middle East last September, some prominent European voices spoke of the need to remove sanctions in order to secure the Kremlin’s support for dealing with issues like Syria.

It quickly became clear, however, that Moscow's military campaign was directed almost exclusively against the weak and moderate opposition supported by the West, not against the Islamic State of Iraq and the Levant (ISIL) or other extremist groups. And by the end of the year, even that intervention had not achieved much—it only enabled Bashar al-Assad's regime to recover .004 percent of Syrian territory.

In January, however, the Kremlin took a page from Putin's war in Chechnya in the late 1990s. It began a massive bombing campaign against the secular opposition and the civilian population among whom it lived in the small cities and towns in northwest Syria. This operation has produced large civilian casualties and prompted major movements of people out of these locations. This has had two consequences: It has enabled Assad's forces to take back territory leading to Aleppo, and it has greatly exacerbated the refugee crisis in Europe.

Without a doubt, the refugee crisis is the greatest political issue in Europe today. There is some understanding on the continent that Kremlin policies are contributing to the crisis. For those who do not like sanctions on Russia, this is another reason to lift them—to somehow “trade” this for an end to Moscow's migration-inducing bombing campaign. (Of course, Moscow denies it is conducting such a campaign, so it is not clear that such a deal is possible.)

But for the German Chancellor and others who insist that the sanctions must remain in place until Russia implements its Minsk obligations, Moscow's Syria operation will not, in and of itself, lead to a weakening of sanctions policy. It is true, however, that the Chancellor's political standing is weaker as a result of her policy of accepting migrants from Syria and other hot spots to the south. If she becomes substantially weaker, it could threaten the sanctions policy. The provincial elections in Germany March 13 were a clear set-back for the Chancellor. The impact of the election on here political fortunes and, possibly, sanctions policy will play out in the months ahead.

If this danger appears, it will come in the form of the pseudo-sophisticated argument that neither Russia nor Ukraine are meeting their Minsk commitments; therefore, why should only one side (Russia) be punished with sanctions? Those who dislike sanctions are already pointing out that Ukraine's Rada has yet to pass a local election law for the occupied areas or constitutional reform on decentralization, which would give autonomy to those areas. This argument overlooks the fact that the Russian side is:

- currently occupying Ukrainian territory;
- responsible for the most immediate and important violation of the Minsk agreement—the ongoing fighting in which they continue to advance into Ukrainian territory; and
- hindering the essential monitoring activities of the OSCE.

### **U.S. Policy and Minsk**

The Obama administration has a mixed record in this crisis. On the one hand, it has been a strong and effective advocate for imposing and maintaining sanctions on Russia for its aggression in Ukraine. In encouraging the EU to impose and maintain sanctions, the administration has demonstrated leadership and skill.

At the same time, US President Barack Obama has said famously, and incorrectly, that the crisis in Ukraine is a regional crisis; when a nuclear superpower changes borders in Europe by military force, it is a crisis of global import.

Mr. Putin has not hidden his goal of changing the post-Cold War order in Europe—a vital threat to American interests. As part of his revanchist agenda, Mr. Putin has invoked his right and duty to protect ethnic Russians and even Russian speakers wherever they live—a principle he used to justify aggression in Georgia and then Ukraine. If emboldened, he could use that principle to intervene in Estonia or Latvia, where ethnic Russians total 25 percent of the population. We have an Article 5 obligation to protect our Baltic NATO allies in the face of Kremlin aggression. Therefore, it is in our interests that Moscow's aggression in Ukraine fails. At an absolute minimum, we should make it as painful as possible for the Kremlin.

With this in mind, we should be providing Ukraine with robust military support to the tune of at least \$1 billion a year. We are providing some military training and some equipment and hardware, but more needs to be done. Most importantly, Ukraine needs more units of counter battery radar for long-range missiles. Last September, the Obama administration sent two such units to Ukraine. Washington should send an additional four to six units.

It is also long past time for the Obama administration to send lethal defensive equipment to Ukraine. Russia has seized over 700 square kilometers of additional Ukrainian territory since the Minsk I ceasefire. Their most effective tactic for these offensive actions is the massing of tanks. According to military experts, if we had provided 25 Javelins to Ukraine by January of 2015, Ukrainian forces would have defeated Moscow's Debaltseve offensive.

Providing defensive lethal weapons would either persuade the Kremlin to stop seizing more Ukrainian territory or it would force Moscow to accept more casualties and to greatly escalate to secure territorial gains. But that would be politically risky for Mr. Putin because his public does not want its soldiers fighting in Ukraine and the Russian president has been hiding this fact from them. The bottom line is that providing such weaponry to Ukraine raises the cost of Moscow's aggression and reduces the odds of Kremlin provocations against our Baltic allies.

To help ensure that the Minsk negotiating framework does not disadvantage Ukraine, the Obama administration should be seeking to join as a full partner. It is true that our diplomats keep a close watch on Minsk, but that is not the same as being part of the process. Assistant Secretary Nuland met Vladislav Surkov, a senior Kremlin official responsible for policy in the Donbas, in January. But there was no clear outcome to those talks or announced plans for follow-up meetings.

There is one more reason for a robust American role in thwarting Kremlin aggression in Ukraine. It is especially appropriate to broach this reason now, with a nuclear summit looming in Washington. Moscow's war against Ukraine and seizure of Crimea is perhaps the single-largest blow to the nuclear nonproliferation movement ever.

In 1994, Ukraine, along with Belarus and Kazakhstan, voluntarily gave up its nuclear weapons. In exchange, Russia, the United States, and the United Kingdom provided assurances for Ukraine's sovereignty and territorial integrity. Russia's aggressions violated this memorandum, and various international treaties. Washington's insufficiently resolute response to that aggression demonstrated,

I am sorry to say, the hollowness of our assurances. This whole episode provides a clear and negative lesson to nations on the dangers of denuclearization.

## **REFORM AND THE ECONOMY**

Petro Poroshenko is a Ukrainian businessman and politician who has been successful financially and politically under every government in Ukraine since President Leonid Kuchma. He was a member of the Rada in the Social Democratic Party, which supported Mr. Kuchma. He was a founding member of the Party of the Regions—the party later headed by Viktor Yanukovych. He then became part of President Viktor Yushchenko’s political team and had a number of responsible positions in Mr. Yushchenko’s government. And he had enough political agility to serve in the government of Mr. Yanukovych after that.

When the political crisis began in November of 2013, with the demonstrations against Mr. Yanukovych’s rejection of the Deep and Comprehensive Free Trade Agreement with the EU, Poroshenko busied himself maintaining ties with the EU. He was not involved in the day-to-day demonstrations. This was a plus for Poroshenko because the mainstream politicians supporting the demonstrators did not burnish their reform credentials. Their instincts were always more cautious than the crowd’s. This was particularly evident at the climax of the crisis in mid-February of 2014, when snipers murdered scores of demonstrators. At that point, politicians like Arseniy Yatsenyuk and Vitali Klitschko were willing to accept the compromise suggested by the EU that Yanukovych would stay in office until the end of 2014, when there would be new elections. A week earlier, that deal would have been acceptable to the protesters. After the bloodshed, it was not.

So Poroshenko’s distance from the Maidan turned into an advantage, as did his work with the EU. He became the near-consensus candidate for the presidential elections planned for late May; and he won a stunning victory, receiving over 50 percent of the vote on the first ballot, which had never happened before in Ukraine’s history. Moreover, he won over 30 percent of the ballot in every oblast in Ukraine, including in the east. He was truly a president of the entire nation, something that Yanukovych or Yushchenko or Kuchma were not. (Yanukovych had very small support in Ukraine’s west, and Yushchenko very little in the east.) Poroshenko ran on a reform, pro-European agenda.

Poroshenko announced, shortly after assuming office, that he would not be able to proceed with a strong reform agenda as long as the old Rada remained in place. Plans were accepted for parliamentary elections in October. Those elections proved to be a stunning referendum for reform. Six parties made it into the Rada, of which four ran as pro-Western reformers. The Poroshenko Bloc won 132 seats; Mr. Yatsenyuk’s People’s Front 82; the Self Reliance (Samopomych) Party 33; and Yulia Tymoshenko’s Fatherland Party 19 – a total of 266 out of 450 seats in the Ukrainian parliament.

While Poroshenko’s party won a large plurality of seats, Mr. Yatsenyuk’s party won the plurality of votes (22.12 percent to 21.82 percent). A large number of Poroshenko’s seats were won in one-man constituencies without party voting. Mr. Yatsenyuk’s strong showing made him the clear favorite to become prime minister, even though the president would have preferred a prime minister from his

own team. With political rival Mr. Yatsenyuk in office, tensions between the prime minister and the president were inevitable. This proved a complicating factor in reform. Like the President, Mr. Yatsenyuk was a very successful politician prior to his becoming prime minister. While only 41, he was Minister of Economy and Minister of Foreign Affairs under Mr. Yushchenko, and Speaker of the Rada.

Both the President and Prime Minister are intelligent and worldly. They know the language of reform that the West values. They campaigned and won office as reformers; but were successful too in the old Ukraine, too. In short, they are classic transitional figures in the move from the old Ukraine to the new, reform Ukraine.

### **The Dynamic of Reform in Ukraine**

Poroshenko and Yatsenyuk represent the best president-prime minister team in Ukraine's 25-year history. They must make the right decisions for reform to succeed. They are encouraged to do so by Ukrainian civil society, by the impressive cohort of young reformers who became ministers and deputy ministers, and by the approximately 40 young reformers who became Rada deputies. These are the core drivers of reform.

There is also a critical foreign element in the reform process. It consists of those providing assistance and advice for reform in the EU, the United States, other Western governments, and the IMF and other international financial institutions. Given the pressures of the old system on Ukraine's top leadership, it was inevitable that young reformers in the Ukrainian government and the Rada, and the country's outside partners would have to be active to keep reform on track. That is how the reform process has played out over the last 15 months.

### **Overall Progress in 2015**

After the October 2014 Rada elections and the formation of a government in December, the reform process began in earnest. The decision to appoint Aivaras Abromavicius as Minister of Economy, Natalie Jaresko as Minister of Finance, Oleksiy Pavlenko as Minister of Agriculture, Andriy Pyvovarskiy as Minister of Infrastructure, and Alexander Kvitashvili as Minister of Health put a solid core of reformers in key spots. Another key appointment had taken place six months earlier—the naming of Andriy Kobolev, a known reformer, as the head of Naftogaz, the national gas company and ground zero for major corruption in Ukraine.

The government budget presented to the Rada in December of 2014 was a major vehicle for change; it was also essential to demonstrate to the IMF that Ukraine was not just pursuing reform, but taking control of its current account and budget deficits. Without that control, the IMF would not likely approve the \$5 billion loan that Ukraine needed instantly to service its international debt obligations. As a result of years of financial mismanagement and the domestic crisis, Ukraine's reserves had shrunk throughout 2014 and fell to \$5 billion by February of 2015.

Efforts to pass a reform budget ran into problems in the Rada both from old, vested interests and from populist politicians, who saw the political value in opposing the cuts in social expenditures and, in some instances, the increased taxes needed to meet IMF requirements. Mr. Yatsenyuk and his

reform ministers lobbied hard for the budget and the various reforms, but it was perhaps the IMF that provided the essential push by simply holding off providing the financial assistance until the budget passed. In March of 2015, the IMF transferred \$5 billion to Ukraine.

The budget that finally passed in February was a large victory for reform. It reduced public expenditures by 9 percent of GDP – almost all of its subsidies -- and cut the budget deficit from 10 to 2 percent. An astonishing achievement. It passed along with legislation moving toward market pricing for natural gas. The law calls for the move to market pricing to take place in tranches over two years; but the important first step went into effect in April. This legislation was one reason for the sharp drop in gas usage in 2015 of 20 percent and the much-reduced dependence on imports of Russian gas. (Ukraine had been the most energy inefficient consumer of natural gas in the world. The destruction of Ukraine’s industry in the east because of Moscow’s war was another reason for the drop in gas consumption.)

March of last year witnessed another a political development with significant, positive reform implications: the firing of oligarch Ihor Kolomoisky as governor of Dnipropetrovsk Oblast. Mr. Kolomoisky was named governor in the spring of 2014 after Mr. Putin began the war in the Donbas. One of Ukraine’s richest men with substantial assets in Dnipropetrovsk, Mr. Kolomoisky was seen as someone who could effectively prevent Moscow’s minions from taking over in Dnipropetrovsk. And the expectations were met as he formed and funded his own battalions that kept his oblast secure. Between his wealth and (battalion-backed) political power, he was widely seen as the most powerful oligarch in the country.

When the Rada passed legislation enabling a simple majority of shareholders to make changes in the management of state owned companies—another reform measure—Mr. Kolomoisky decided to test his power. He controlled 42 percent of the shares of Ukrnafta. Under the old rules, which required 60 percent of shareholders to make management changes, Mr. Kolomoisky controlled the company, even though the state owned the majority of shares. When the new legislation opened the way to changes threatening his control, he sent armed and camouflaged young men to seize Ukrnafta. In the political storm that followed, Mr. Poroshenko sacked Mr. Kolomoisky as governor and affirmed the government’s new control over Ukrnafta. Ukraine’s most powerful oligarch was taken down two pegs.

Other important reform measures were introduced in 2015. The Ministry of Economy greatly simplified procedures for opening a business—and thereby reducing the number of hands looking for a handout from new businesses. The government also introduced a system for government e-procurement known as ProZorro. This transparency is a major impediment to corruption. In 2015, the cleanup of the banking system that had begun in the spring of 2014 continued. This cleanup had led to the closing of 67 insolvent or non-transparent banks out of a total of 180 banks.

Another reform gathering interest and support was the introduction of new traffic police in Kyiv, Odesa, Lviv and other major cities. The new police refrained from the habit of their predecessors and did not seek bribes from motorists.

The year 2015 was a difficult, but ultimately successful one for reform in Ukraine and for Ukraine’s economy. While Ukrainian GDP dropped 11 percent, most of that was in the first half of the year and in the fourth quarter there was no decline in GDP. Despite the expenditures for defense and

the destruction caused by Moscow's aggression, the IMF projects a modest 1-2 percent growth for Ukraine in 2016.

The improvement by the end of 2015 was significant enough to give at least some politicians the thought that they could take a populist approach to the 2016 budget and increase government expenditures and reduce taxes. Once again, the IMF proved an invaluable ally to Ukraine's reformers, letting Kyiv know that only a responsible budget would lead the institution to release the next round of financial aid. A responsible budget passed in January.

### **The Storms Hit, And Yet More Progress**

While reform progress was substantial in 2015, it was not enough for many in civil society and at least some reformers in the Rada and the government. Critics focused on the absence of any real changes in the Procurator General's Office and in the judiciary and claimed that the president and prime minister were not interested in going after these major sources of corruption. Both institutions were known to facilitate corruption. They pointed to the failure of the government—through the Procurator General—to indict any major figures from the Yanukovich administration for corruption. They complained, too, that Procurator General Viktor Shokin was a compromised figure who had served as Procurator General in the Yanukovich administration.

By late fall of 2015, the EU and the United States joined the chorus of those seeking Mr. Shokin's removal as the start of an overall reform of the Procurator General's Office. U.S. Vice President Joe Biden spoke publicly about this before and during his December visit to Kyiv; but Mr. Shokin remained in place.

Early in the new year Mr. Pavlenko, the Minister of Agriculture; Mr. Pyvovarskiy, the Minister of Infrastructure; and Mr. Kvitashvili, the Minister of Health, quietly resigned. This had little impact on the reform debate. But in early February Mr. Abromavicius, the Minister of Economy, resigned and complained that he was tired of fighting corruption. He said that the immediate cause for his decision was an effort by close presidential aide Ihor Kononenko to install a crony as Deputy Minister of Economy with responsibility for the newly-cleaned up Naftogaz. Mr. Kononenko denied the charge, but civil society and other reformers took Mr. Abromavicius' side.

So did the West. The United States, the EU, and eight Ambassadors of other countries expressed regret at Mr. Abromavicius' resignation. So did IMF Managing Director Christine Lagarde. In response to the controversy, Mr. Poroshenko called for Mr. Shokin's removal and for an investigation into the charges against Mr. Kononenko. The efforts to place someone as Deputy Minister of Economy to oversee Naftogaz died. The Rada passed reform legislation that had been blocked for months. This legislation was required by the EU for the implementation of the Deep and Comprehensive Free Trade Agreement.

What is more, Mr. Yatsenyuk engaged with all the reform ministers to bring them back into the government. Kvitashvili, Pavlenko and Pyvovarskiy agreed; Abromavicius did not. Pro-reform Deputy Prosecutor-General Vitaliy Kasko also resigned.

### **The Political Crisis**

The crisis engendered by Mr. Abromavicius' resignation soon became a political crisis when the Fatherland Party and then the Self Reliance Party resigned from the ruling coalition. Both are polling well and believe that they would profit from new elections for the Rada. Mr. Yatsenyuk's poll numbers are in low single digits and he would like to avoid new elections. Mr. Poroshenko's numbers are much better, but he too does not want the distraction of new elections. Mr. Poroshenko's party has been negotiating with some success with the Radical Party and with independents to make sure that it has a majority. But negotiations have not been finalized as of this writing (March 13) because all concerned want to know who will be the prime minister.

The president has to name a prime minister who can gain 226 votes in the Rada AND who is acceptable to the West and in particular the IMF as the head of a reform government. The IMF has been withholding the next tranche of aid pending the outcome of this crisis. That is where we are now.

This whole affair, starting with Mr. Abromavicius' resignation, has been a public relations nightmare for Ukraine. Many observers, including some in responsible positions in the West, read the headlines and assume that reform in Ukraine has not made much progress and is currently moribund. That is simply false. Much progress has been made since Mr. Poroshenko assumed office and even the unseemly tale of the past few weeks has led to the net reform gain discussed above.

Given Ukraine's stage of development, the continuing (but weaker) influence of oligarchs, the ongoing dependency on oligarchs for political funding, and the transitional nature of the country's top leadership, progress towards reform is bound to be uneven, confusing, and ugly. None of this should be surprising nor a reason to say that nothing has changed in Ukraine. The problems of this government are serious, but this is not a repeat of the failures of the Orange Revolution. There is a solid core of reformers in the Rada, at the ministerial and deputy ministerial level in the government, and a sophisticated civil society.

### **U.S. Policy: Plus and Minus**

Washington's approach to reform and the Ukrainian economy is also mixed. On the plus side, the Obama administration understands well the nuances of Ukrainian reform. It recognizes that the government in Kyiv needs outside encouragement and, at times, tough love, to make the right reform choice. Mr. Biden, in particular, has devoted a great deal of time to promoting reform in Ukraine, and he has not been reluctant to tell Mr. Poroshenko and Mr. Yatsenyuk when they have shirked the hard choices that need to be made. This was evident in the conversations regarding Mr. Shokin and the Office of the Procurator General.

The United States has also provided substantial, but insufficient, economic support for Ukraine. In FY 2015, we provided \$361.8 million in economic assistance. The budget that has been approved for FY 2017 reduces that to \$294.9 million. Both are substantial sums, but not sufficient to help in the present crisis and not consistent with our interests.

As Gen. Joseph F. Dunford, Jr., Chairman of the Joint Chiefs of Staff, has stated, Mr. Putin's revisionist policies make Russia the greatest national security danger to the United States. We need to blunt this danger, and the first place to do that is in Ukraine. Moscow's aggression against

Ukraine has greatly increased the burden on that country's economy. We should consider economic assistance to Ukraine as an investment in our security, a point that former Treasury Secretary Larry Summers has made in advocating a Western aid package of \$10 billion.

The United States should shoulder up to \$5 billion of this package. It should consist of loan guarantees, direct budget support grants, and debt swaps, as well as assistance to support reforms in key sectors, such as banking, energy, and the judiciary. It could also be used to encourage investment in Ukraine. Loan guarantees, which have been the preferred method of support approved by Congress to date, should only constitute part of the package. There is a limit to how much debt Ukraine can take on before default. Loans could be paired with direct budgetary support to assist with balance of payments and debt swaps, which have a proven track record of helping sustain young democracies: The United States granted them to Poland in the 1990s.

This aid package is quite large, but not when seen as an investment in our security or a step to meet our obligations to Ukraine under the Budapest Memorandum. Coupled with strong military assistance and the maintenance of sanctions on Moscow, this aid would help Ukraine defeat the Kremlin's aggression and transform itself into a prosperous democracy.