

Ukraine's Fragile Reform Prospects amid Ongoing Russian Aggression

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Ukraine is at a new level of vulnerability. Russia's military is the highest since 2014, the coronavirus pandemic is taking its toll, anti-corruption achievements are under threat, rule-of-law reforms remain blocked, and the economy is struggling.

President Volodymyr Zelensky and his Servant of the People party have reached the point of reform stagnation, with key transformations stalling, anti-democratic forces activated, pro-Russian groups empowered, and oligarchs shaping the public agenda.

Ukraine's leadership cannot afford to further derail reforms steps, particularly now that it is again at the center of global attention, including from a new U.S. administration that strongly supports its territorial integrity and Euro-Atlantic aspirations.

The transatlantic partners must continue to provide Ukraine with military and non-military assistance and accelerate its NATO membership process to discourage Russia's continuous destabilizing efforts in the country and the larger region.

Ukraine is going through 2021 at a new level of vulnerability. Russian military aggression in the country's east, the Black Sea, and Crimea has just been marked by the largest escalation since 2014. A third, deadlier wave of the coronavirus pandemic is taking its toll on the country, revealing the failings of its health-care system. Anti-corruption achievements are under serious threat, while rule-of-law reforms remain blocked. Furthermore, Ukraine's economic stability is at risk due to restricted access to foreign funding, including from the IMF, conditional on the progress of reforms.

After a short period of fast-paced state-building efforts following President Volodymyr Zelensky's election in 2019, Ukraine is again stuck in endemic corruption, which is dominating the public agenda and watering down the achievements since the 2014 Revolution of Dignity. However, unlike in the latter part of 2020 when efforts by the government to stall reforms threatened the country's democratic progress, today unblocking key transformations in the face of the new wave of Russian aggression is an existential matter for Ukraine.

Today, in the face of the new wave of Russian aggression, unblocking key state-building transformations is an existential matter for Ukraine.

Ukraine's leadership cannot afford to further derail the steps that are critical for the country's survival, including combating corruption, establishing the rule of law, and curbing vested interests, particularly now that it is again at the center of global attention, including from a new U.S. administration that strongly supports its territorial integrity and Euro-Atlantic aspirations.

To make the most of the broad international support currently offered to Ukraine and to further integrate with its allies in the West, Zelensky and the government should immediately address the country's internal challenges, respond to the immense

demand for change in society, and prove themselves to be truly committed to a democratic future. Ukraine's transatlantic partners, for their part, should continue to provide military and non-military assistance and accelerate its NATO membership process to discourage Russia's continuous destabilizing efforts in the country and the larger region.

Military Escalation

Russia's calculated aggression in eastern Ukraine and its illegal occupation of Crimea continues to take a toll on the lives of Ukrainian military, communities, and civilians. The Kremlin through proxies seeks to aggravate Ukraine's turbulence, prevent its democratic transformation, and cut off at the knees the country's Euro-Atlantic integration prospects. After nearly six months of the ceasefire being observed in Donbas—the longest since the war started in 2014 and something seen by over half of Ukrainians as among the government's major accomplishments in 2020¹—Ukraine recently faced the largest buildup of Russian troops in seven years. Between January 1 and May 17, 2021, the country lost at least 44 servicemen.²

There is still speculation about the motives behind Russia's recent escalation and whether it may have been intended to test the Biden administration.³ It could also have been aimed at derailing the new round of the peace talks on Donbas, at addressing the worsening water-supply crisis in the Crimea, or at punishing Zelensky for banning Russia's propaganda TV channels and sanctioning the Kremlin's key agent in Ukraine, the oligarch Victor Medvedchuk. Some believe that the escalation was an opportunity to distract the Russian public from the Kremlin's challenges at home, including the detention of the opposition leader Alexei Navalny.

1 Rating Group Ukraine, "[Ukraine in Quarantine: Monitoring of Public Sentiment \(December 12–14\)](#)," December 17, 2020.

2 Channel 24, "[War in Donbas: How Many Servicemen Have Already Been Killed in 2021](#)," May 7, 2021 (updated on May 27, 2021).

3 Andrew E. Kramer, "[Fighting Escalates in Eastern Ukraine, Signaling the End to Another Cease-Fire](#)," New York Times, April 22, 2021.

Following a wave of transatlantic and international reactions, President Joe Biden's frank conversation with President Vladimir Putin, and new round of U.S. sanctions against Russia,⁴ as well as talk about NATO membership at the highest echelons of Ukraine's government, Russia announced the withdrawal of troops from the border and from Crimea.

What triggered Putin's decision to pullback remains in question. However, this is not the time for Ukraine's leadership to lower its guard. Although a full-fledged invasion seems to have been avoided for the time being, the pace of withdrawal of Russian troops from the border and Crimea is very slow, ceasefire violations continue, and the threat of a new escalation is ever-present. As stated by the head of Ukraine's security service, Ivan Bakanov, Russian forces deployed along the border and in Crimea amount to about 100,000 troops, and 65 percent of the border remain vulnerable.⁵

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"While the possibility of a full invasion remains in question, the escalation along Ukraine's border will continue. We are back to the trench war, which is the new normal," according to political analyst Maria Zolkina.⁶ With no tangible progress in the peace talks on Donbas for years, ending Russia's aggression in Ukraine's east and its occupation of Crimea remain distant prospects. The academic Taras Kuzio argues that Zelensky "would have never gone after Medvedchuk's TV channels or established the Crimean Platform, an international forum to facilitate the end of

the Russian occupation of Crimea, had he believed he could achieve a peace deal with Putin."⁷

Two Years of Zelensky's Presidency

Ukraine continues to struggle with significant domestic challenges, including some that are purely self-made. Two years since Zelensky was elected president, he has reached the point of reform stagnation sooner than his predecessor, Petro Poroshenko. His Servant of the People party in the parliament and the government it appointed have gone from an appetite for reform, accompanied by the parliament's initial "turbo mode" of rapid passage of bills, through stalling key transformations and activating anti-democratic forces, to the comeback of anti-reform and openly pro-Russian groups. There has been a rapid backsliding into pre-revolution conditions.

According to a recent poll, two-thirds of Ukrainians say the country is moving in the wrong direction.⁸ Since his election in May 2019, Zelensky's support has fallen from 73 percent to 46 percent,⁹ and the president was identified as the key disappointment of 2020 by 42 percent of Ukrainians.¹⁰ That said, he continues to top the list of most trusted politicians, which suggests that his team is still getting away with honest mistakes as well as with deliberate damage to the progress of reform.

Despite Zelensky's electoral promises of curbing corruption, Transparency International ranks Ukraine 117th out of 180 in its Corruption Perception Index.¹¹ Freedom House recently cited endemic corruption as a key concern as classified the country it again as "partly free."¹²

4 The White House, "[FACT SHEET: Imposing Costs for Harmful Foreign Activities by the Russian Government](#)," April 15, 2021.

5 Ivan Bakanov, "[Bakanov: Russia's strike group on border with Ukraine numbers about 100,000 troops](#)," Ukrinform, May 11, 2021.

6 German Marshall Fund, "[Briefing on Russian Aggression in Ukraine's East](#)," April 12, 2021.

7 Ibid.

8 The Rating Group Ukraine, "[Two Years of President Zelensky: Citizens' Assessment](#)," May 20, 2021.

9 Ibid.

10 Sociological Service, "[Ukraine 2020: Unjustified Expectations, Unexpected Challenges. Results of the Year in the Mirror of Public Opinion \(December 2020\)](#)," Razumkov Center, December 16, 2020.

11 Transparency International Ukraine, "[Corruption Perceptions Index – Ukraine](#)," n.d.

12 Freedom House, "[Freedom in the World: Ukraine](#)," 2021.

Parliamentary Dynamics

The parliamentary environment does not provide grounds for reform optimism, despite the need for the legislature to pass key reforms without further delay. The politics in the parliament and its ability to act are as murky as ever. There is no actual majority in it, even though in 2019 Servant of the People started out with 254 MPs compared to the 226 necessary for passing most legislation—a historic record. Today, with 244 MPs formally remaining in the presidential faction, some of the most high-profile bills lack dozens of votes to pass, forcing the ruling party to seek support from the opposition. Servant of the People MPs admit that sporadic joint voting with the pro-Russian Opposition Platform—For Life and other oligarch-controlled groups has gradually turned into close cooperation with them. Notably, this has not changed since Zelensky signed a decree in February enacting sanctions on the Opposition Platform—For Life leadership. Servant of the People refuses to form a coalition with one of the democratic opposition parties, which could bring it closer to a stable majority.

There is no systemic communication between Servant of the People and reform-minded opposition forces, which struggled with their own fragmentation. Their dialogue is reduced to mere trading of political favors, largely related to budget appropriations and personnel appointments. Moreover, relations between the Office of the President and the Servant of the People faction in parliament are also very complicated, which may explain current attempts at restructuring the ruling party. The two sides are divided on issues, reflecting the opposing interests of the oligarchs and other influential groups they represent.

The current landscape in the parliament, with fractures and heavy oligarch influence, is particularly acute in Zelensky's party. It is estimated that Servant of the People currently includes at least 30 pro-Western MPs, at least ten pro-Russian ones, around 40 controlled by oligarch Ihor Kolomoisky, around 30 controlled by businessman Ilya Pavliuk, who is associated with Ukraine's largest oligarch Rinat Akhmetov, at least ten controlled directly by Akhmetov, around

15 controlled by Interior Minister Arsen Avakov, and a little over 100 with neither specific allegiance nor clear agenda. Oligarchs also work with independent MPs on an ad hoc basis, so the actual number of legislators they rely on is higher than those they directly control.

Despite this fragmentation and instability in the ruling faction, President Zelensky and his office manage to collect the necessary votes for every high-profile bill they seek to push through.

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There are also internal political dynamics playing out in Servant of the People that should be watched. Some suggest Zelensky might want to replace the chairman of the parliament, Dmytro Razumkov, who as of April was Ukraine's second-most-trusted politician after Zelensky¹³ and is pursuing an independent political path with a view to the next presidential election. However, this move is hardly imminent—since there is little interest in the parliament to orchestrate such a reshuffle, and most importantly because Zelensky does not want a political player as strong as Razumkov in opposition to his political and policy goals.

Another factor impacting Servant of the People's ability to govern effectively is the clear lack of experience and little respect for professional expertise in parliament. This is particularly evident in how little influence parliamentary committees have on the decisions that the parliament makes, be it on policy positions or high-profile personnel confirmation votes. While there are notable exceptions, the role of the committees is largely reduced to servicing the agenda of the Office of the President.

Another related—and equally worrisome—trend impacting effective and transparent governance is the further marginalization of civil society as stakeholders

13 The Rating Group Ukraine, "[Socio-Political Mood of the Population \(April 6-7, 2021\)](#)," April 9, 2021.

in policymaking. In the majority of parliamentary committees dominated by Servant of the People, civil society experts, many with critical experience and deep commitment to Ukraine's democracy, Euro-Atlantic future and security, no longer have a place at the table and are often denied the opportunity to provide input. An additional factor is that civil society, for all of its strengths, is at times fragmented, which creates the impression that it has no cohesive agenda. Combined with the lack of interest on the government side, this significantly limits civil society's impact on the reform process, despite its unique expertise that could support the government's efforts.

MPs supporting Ukraine's pro-Western agenda admit that the most effective strategy at the moment, for them and civil society, is one of small steps and protection of earlier achievements. They argue that today's political environment does not allow for large-scale systemic transformations. Furthermore, any attempts to promote such changes pose the risk of worsening the situation as this would make legislation vulnerable to hostile influences intent on rolling back reforms. Thus, it is critical for pro-Western forces in the government and parliament to aim at clearly defined, unambiguous, top-priority policy targets, to synchronize their positions, and to monitor closely every step of the decision-making process.

Foreign sanctions remain a powerful mechanism to improve the political environment and create space for reform.

Foreign sanctions remain a powerful mechanism to improve the political environment and create space for reform. In particular, U.S. sanctions imposed in January on the sitting MP Oleksandr Dubinskyi, along with other Russia-linked actors in Ukraine, and in March on Kolomoisky sent a strong signal to the parliament and the government at large. "These decisions made it very clear that any political actor working against democratic institutions in Ukraine or

abroad may be held responsible for their actions and no attempt aimed at obstructing the country's transformation will go unnoticed. Most Ukrainian politicians are no longer willing to take personal risks for blocking critical reforms," says Yaroslav Yurchyshyn, an MP from the Holos party, who serves as first deputy chair of the parliamentary committee on anti-corruption policy.¹⁴

State Institutions' Capacity

The government headed by Prime Minister Denys Shmygal that was appointed in March 2020 appears immune from a full-fledged reshuffle in the near term. It is, however, undergoing significant changes on several fronts. In April, the parliament appointed as the new minister of energy Herman Halushchenko, a former vice president of the state nuclear-power operation Energoatom. In May, Minister of Economy, Trade, and Agriculture Ihor Petrashko and Infrastructure Minister Vladyslav Krykliy resigned. As stated by sources in Servant of the People, both resignations were personally requested by President Zelensky. The parliament swiftly accepted these, replacing the two respectively with Oleksiy Lyubchenko—the head of the State Tax Service—who will also serve as first deputy prime minister, and with Oleksandr Kubrakov, the head of the state-owned road-construction enterprise Ukravtodor. Following Prime Minister Shmygal's motion, the parliament also dismissed Health Minister Maksym Stepanov for unsatisfactory progress in coronavirus vaccination and appointed his deputy and Ukraine's chief sanitary doctor, Victor Liashko, as his successor.

This gradual replacement of top figures in strategic areas may be a case of Zelensky yielding to ongoing pressure from oligarch circles to dismiss certain ministers. It also reflects his intention to retain the neutral and unambitious Shmygal in charge of the cabinet while key ministers absorb the political damage from the pandemic, rising utility tariffs, and the potentially

¹⁴ Personal communication with the author.

dire economic consequences of the \$5 billion IMF stand-by program being on hold due to insufficient reform progress. That said, the government at large appears safe unless and until the situation gets critical.

Regarding the overall capacity of the Ukrainian state, some institutions created or rebooted during the period from 2014 to 2019—such as the National Anti-Corruption Bureau (NABU), the National Agency for Corruption Prevention (NACP), or the High Anti-Corruption Court—have increased their competences and continue to demonstrate resilience to attempts at unlawful interference which, in turn, makes them a permanent target of attacks by forces opposing reforms. By the end of May, the parliament is expected to consider several MPs' bills personally endorsed by President Zelensky that implicitly provides for the dismissal of the current NABU director, Artem Sytnyk, and foresees no decisive role for international experts in the selection of his successor, despite recommendations from civil society and international partners. The NACP, for its part, is also under legislative attack and at risk of having its powers limited in response to its actions against the Servant of the People's financial reporting violations.

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The majority of other state agencies remain critically weak and fully dependent on the political will of their leadership. By contrast, the Office of the President, chaired by arguably the second most influential figure in Ukraine, Andriy Yermak, is the most powerful authority in the country, despite its non-elected nature. It has disproportional and decisive influence on the decisions of the parliament and the government, and there are deep concerns in Ukraine about its meddling in the highest-profile anti-corruption investigations. The state prosecution system and Prosecutor General Iryna Venediktova are regularly utilized by the ruling

elites to undermine anti-corruption efforts and discourage the activities of civil society leaders.

Against this background, the view by some that President Zelensky is “well-intentioned but inexperienced” has clearly lost credibility. In fact, the danger of him lacking knowledge, which most feared, has been outweighed by the danger of the president exposing himself to the influence of evidently tainted figures and turning a blind eye to corruption in his immediate circle. While public pressure and the new security threats are gradually shifting this dynamic, Zelensky is still covering up for state officials, including judges, while his office's leadership is being investigated for criminal offenses.

Macroeconomic Stability

Ukraine's economy is struggling despite relatively favorable global economic conditions. This year's state budget foresees a deficit of nearly 5.5 percent of GDP, while the limit set by law is 3 percent. The budget deficit has already caused significant cuts in government spending, including on social programs.

IMF cooperation remains stalled, resulting in EU macro-financial funding and private foreign capital being largely unavailable to Ukraine until it demonstrates the reform progress that the government committed itself to achieving. The IMF mission conducted online from December 2020 to February 2021—a first review of the stand-by program—ended due to the lack of reform progress, with no resolution of the hold placed on the new \$700 million tranche, which was due last September.

In order to resume negotiations, Ukraine is expected, among other things, to strengthen the National Bank's governance, to pass judicial reform legislation, and to ensure the transparent selection of judicial governance bodies. It also must preserve the independence of the anti-corruption institutions and pass legislation on criminal liability for false statements by public officials in their asset declarations. By the end of this year, in addition to nearly \$10 billion to cover the budget deficit, Ukraine has to pay over \$21.5 billion on its external and domestic debts.

May 2021

Meanwhile, the latest poll conducted by the European Business Association demonstrates a significant decrease in investors' assessment of Ukraine's attractiveness.¹⁵ This indicator dropped from 2.95 out of 5.0 in the second half of 2019 to the pre-revolution level of 2.4 in the second half of 2020, with only one out of ten CEO respondents anticipating positive changes in the first six months of 2021. Other surveys show that the main obstacle to doing business in Ukraine cited by investors is the lack of the rule of law, while courts continue topping the list of institutions with the lowest level of public trust.

The Oligarchs Factor

One of Zelensky's main electoral promises was to neutralize oligarchs as a major destructive force in Ukraine's political life. Until recently, there were no signs of progress in delivering on this promise. The three most influential oligarchs—Kolomoisky, Akhmetov, and Medvedchuk—have continued expanding their influence and competing for the most lucrative economic sectors, with energy arguably being among the main battlefields.

However, earlier this year, Ukraine started seeing signs of what may turn into actual “de-oligarchization.” By banning the broadcasting in Ukraine of Russia's three propaganda TV channels controlled by Medvedchuk, sanctioning his 19 enterprises, launching a criminal investigation against him and his wife for terrorism financing, and finally charging him with treason and putting Medvedchuk under house arrest, the authorities have taken the long-awaited steps President Petro Poroshenko failed to take. These measures have dramatically reduced the space for Russia's anti-Western narratives in Ukrainian society and the growing electability of pro-Russian political forces, which has been observed virtually since the start of Zelensky's presidency.

Reportedly, one of the factors possibly linked to Zelensky's crackdown on Medvedchuk was that the

pro-Russian Opposition Platform—For Life had instigated public resentment over high utility tariffs and was ready to call on people to take to the streets. (In a recent poll, the party had the support of 13.2 percent of respondents, behind only European Solidarity with 13.5 percent and Servant of the People with 24.8 percent.)¹⁶

More importantly, Zelensky has clearly decided otherwise to run for a second term despite his electoral promise and contrary to his recent ambiguous comments in this regard. In particular, this decision has been confirmed by the public statements of his party's leadership. He therefore needs a suitable second-round opponent, and his choice seems to have fallen on Yuriy Boiko, the co-chair of Opposition Platform—For Life. By removing Medvedchuk from the political arena, Zelensky is playing into Boiko's hands, channeling Medvedchuk's support to him. Furthermore, by banning pro-Russian TV channels and thus antagonizing his own voters in southeastern Ukraine, Zelensky seems willing to give up some of his own electorate for the sake of running against a candidate whose support is largely limited to the south and east and whose chances of winning are doubtful.

It is crucial that these commendable decisions regarding one of Ukraine's most powerful oligarchs are followed by steps to rein in and hold accountable Akhmetov and Kolomoisky too. This is particularly important now that the United States has sanctioned Kolomoisky on the grounds of his “involvement in significant corruption,”¹⁷ which yet again calls on Ukraine to do its homework in limiting oligarchic influence and bringing to justice some of its most tainted actors.

At the time of writing, however, the cases against Akhmetov and Kolomoisky remain stalled in the courts. On May 20, the prosecution for the fourth time closed the case regarding the notorious

15 European Business Association, “[Only 1 in 10 CEOs Expect an Improvement in the Investment Climate in 2021](#),” December 15, 2020.

16 The Rating Group Ukraine, “[Two Years of President Zelensky: Citizens' Assessment](#),” May 20, 2021.

17 Daryna Krasnolutska, “[Biden Targets Billionaire to Send Ukraine Signal on Corruption](#),” Blomberg, March 5, 2021.

“Rotterdam+ formula” of wholesale electricity pricing that was in force in 2016-2019 and enabled producers, primarily Akhmetov’s enterprises, to sell electricity to end consumers at significantly higher prices. Moreover, a worrisome sign is the appointment of Herman Halushchenko as energy minister. He is thought to have ties with MP Andriy Derkach, who is under U.S. sanctions for alleged links with Russian intelligence. Halushchenko is also criticized for selling electricity significantly below market prices to companies controlled by Akhmetov and Kolomoisky when he was with Energoatom.

Besides, Ukrainian media report that Borys Kolesnikov, who was minister of infrastructure during the presidency of Victor Yanukovych and is a former MP of the Opposition Bloc and Yanukovych’s Party of Regions, will imminently launch a new party—Ukraine Is Our Home. The party is allegedly to be controlled by Akhmetov as he tries to capitalize on the state crackdown on Medvedchuk and lure his electorate.

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Some cautious optimism can still be derived from the recent progress in the case of three former top managers of PrivatBank, which Kolomoisky previously owned, suspected of embezzling UAH 8 billion. Furthermore, following an initiative of the Office of the President, the Cabinet of Ministers has approved for further parliamentary consideration amendments to the tax legislation that will allegedly target Akhmetov’s enterprises. The bill is expected to be brought before the parliament very soon.

Moreover, Zelensky has instructed the National Security and Defense Council to develop a draft law “on the status of oligarchs”. Although it is yet to be seen what this entails, and despite the scepticism of reputable media that have analyzed the bill, the initiative

suggests a long-overdue acknowledgment of the problem.¹⁸ According to the council’s estimates, 13 persons in Ukraine can be identified as oligarchs.¹⁹

Rule of Law and Corporate Governance

Despite a strong push and assistance from civil society and international partners, including explicit emphasis on the need to implement critical reforms by U.S. State Secretary Antony Blinken and Under Secretary for Political Affairs Victoria Nuland during their visit to Kyiv earlier this month, President Zelensky and the parliament continue to hold off on a comprehensive rule-of-law reform that would provide independence and transparency in the selections to judicial governance bodies and ensure their integrity. According to a recent survey, even among Servant of the People supporters, only 8 percent of respondents see the courts reform as successful.²⁰

There are concerns that Zelensky, aware of weakened public support, wants to secure control over the judicial branch through his quota and parliament’s quota of judicial appointments. This, however, is not the whole story. The president “lacks understanding of the proposed judicial ‘reform’ and is reluctant to confront the leadership of his office thought to have ties with top officials of President Yanukovych and seeking to guarantee the status quo to the court system’s bosses,” says Halyna Chyzhyk, head of judicial programs at the Anti-Corruption Action Center and a former coordinator of the Public Integrity Council.²¹

Whatever Zelensky’s rationale, by demonstrating no political will for judicial reform he sends the wrong signal to the parliament, discouraging it from promoting this much-needed transformation, particularly the reboot of the tainted judicial governance

18 Dzerkalo Tyzhnia, “[The draft law on oligarchs: key provisions and main expectations](#),” May 27, 2021.

19 National Security and Defense Council of Ukraine, “[Security Council Says Ukraine Has Thirteen Oligarchs](#),” KyivPost, May 11, 2021.

20 The Rating Group Ukraine on behalf of CISR and IRI, “[Public Opinion Survey of Residents of Ukraine](#),” May 21, 2021.

21 Personal communication with the author.

bodies. In February, Zelensky filed in parliament a bill securing immunity for the current composition of the High Council of Justice. On May 19, the draft successfully passed the first reading. In early March, the parliament also supported in the first reading a bill paving the way for the creation of a loyal High Qualification Commission of Judges and enabling the decisive influence of the unreformed High Council of Justice on the selection of nearly 2,000 new judges, thus leaving them controlled by the “court mafia” and oligarchic clans. The bill may be heard in the second reading as soon as by the end of May. Most experts agree that both draft laws constitute a phony court reform and blatantly ignore the recommendations from civil society, the Venice Commission, the EU, and the G7. Neither bill foresees open competitive appointments to judicial governance bodies with participation by trusted international experts.

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Meanwhile, the constitutional crisis caused by last October’s controversial decision by the Constitutional Court undoing many of the achievements of anti-corruption reforms, remains largely unaddressed. Seven months since the crisis emerged, the parliament now seems to be finally examining this highly contentious issue, albeit with no progress so far in securing the transparent selection of Constitutional Court judges.²² The court remains operational and able to nullify other reform achievements, from revoking the establishment of the High Anti-corruption Court and criminal liability for illicit enrichment to nullifying land market, banking, and language policy reforms, further pressuring civil society or opening the way

for Kolomoisky to resume ownership of PrivatBank, which was nationalized in 2016.

In late April, days before Blinken’s visit, there was also a very concerning development in the field of corporate-governance reform, which is connected to energy-sector reform. Citing UAH 19 billion (\$687 million) losses in 2020, the government dismissed the CEO of state oil and gas company Naftogaz, Andriy Kobolyev, who had served in this position since 2014. He was among the key drivers of the unbundling of Naftogaz in line with Ukraine’s international commitments and led the company to winning a multi-billion-dollar legal dispute with Russia’s Gazprom in 2018. His unexpected replacement with then-acting energy minister Yuriy Vitrenko was seen by reform-minded circles, foreign investors, and G7 ambassadors to Ukraine as undermining corporate-governance reform efforts, likely complicating negotiations with the IMF, and weakening the position of the Ukrainian government as it seeks further strengthening of sanctions on the Nord Stream 2 pipeline.

The Biden Administration’s Agenda

The United States, as Ukraine’s key strategic partner, has a vital role to play in advancing its efforts against Russian aggression and in urging the country’s leadership to accelerate progress on the reform path. The recent visit of Secretary of State Blinken and Under Secretary for Political Affairs Victoria Nuland to Kyiv once again manifested U.S. unwavering commitment to supporting Ukraine.

During Donald Trump’s presidency Congress was a key driver of U.S. policy toward Ukraine. The dynamic in Washington has changed with the new administration now in the lead. President Biden has arguably more knowledge of the country than any other U.S. president has ever had. He is also committed to bilateral relations, having visited Ukraine six times in eight years while vice president and led Ukraine policy during the Obama administration. Since taking office, he has in many ways demonstrated, including diplomatically, through assistance and high-level engagement, his dedication to Ukraine. This commit-

22 Dejure Foundation et al., “[No appointments to the Constitutional Court without a new competitive procedure.](#)” April 24, 2021.

ment has led to direct diplomatic intervention and measures to mitigate the threat of Russia's potential invasion of Ukraine. Congress has also weighed in recently with the Senate Foreign Relations Committee approving the Ukraine Security Partnership Act, which increases annual military aid to \$300 million, including lethal weapons. Furthermore, the Treasury has just announced its decision to sanction 13 vessels associated with construction of Nord Stream 2, despite the Biden administration's recent waiver of congressionally mandated sanctions on the pipeline's operator and its CEO, which some see as part of an effort to enhance ties with Germany.

To strengthen coordination between Kyiv and Washington, it will be important when a U.S. ambassador to Ukraine is nominated that Congress quickly confirm the nominee. It has been almost two years since Ambassador Marie Yovanovitch left Ukraine.

A new Ukrainian ambassador in the United States is now in place. Oksana Markarova is a former finance minister and one of the most respected reformers under whose leadership Ukraine maintained macro-financial stability and significantly boosted the trust of international partners. She is known and respected in the State Department, Department of Treasury, and the IMF. Among her top priorities, Markarova highlighted ensuring U.S. security support for Ukraine and expanding the bilateral military partnership, including the country's progress towards NATO membership. Notably, as stated by Markarova, the Ukrainian embassy in Washington and the U.S. embassy in Kyiv are exploring the possibility of organizing a meeting between Presidents Zelensky and Biden.²³

Joining Efforts with the West

International pressure in recent weeks, particularly from the Biden administration, has arguably won Ukraine the time to consolidate global support against further Russian aggression and to strengthen its internal capabilities on the defense, governance, and

economic fronts. However, Ukraine's government has to deliver on its democratic transformation commitments. In the face of the heightened security threat, the country's leadership is understandably seeking military assistance from the international community. Yet when it comes to domestic reform, the authorities prefer the West to leave them alone, further undermining anti-corruption achievements and protecting vested interests. Nevertheless, these two support fronts are closely interdependent.

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Ukraine's successful path to EU and NATO membership is contingent on the implementation of critical reforms in democratic governance, rule of law, human rights, market economy, security, and defense. While international partners remain determined to support Ukrainians' efforts to combat a Russian aggression, their attempts to keep Ukraine's reforms on track must be matched by Zelensky and the government if any tangible change is to happen. In particular, the Biden administration needs to see its outreach and efforts reciprocated.²⁴ Without a demonstrated demand for democratic transition, it might be increasingly challenging for the country's leadership to retain high-level attention in Washington.

The international community has many ways to urge Ukraine to reform. Arguably the strongest one is offering it clear prospects of a NATO Membership Action Plan, which Zelensky named as Ukraine's top priority. As explained by some civil society leaders, the Membership Action Plan should become a new

²³ Oksana Markarova, "Ukraine's envoy to U.S. elaborates on arrangement of Zelensky-Biden meeting," UNIAN, May 14, 2021.

²⁴ Jonathan D. Katz and Olena Prokopenko, "Biden Administration Support for Ukraine Is Strong but Is There a Partner in Kyiv?," German Marshall Fund, March 31, 2021.

May 2021

version of the EU Visa Liberalization Action Plan for Ukraine, whose reform benchmarks, besides leading to a visa-free regime in 2017, gave a strong push for some of Ukraine's most critical transformations. If combined with a clear implementation timeline, the NATO Membership Action Plan would also serve as powerful leverage to accelerate reform. It would also signal Ukraine's deepening security ties with the West and its unambiguous development trajectory. In the meantime, as argued by former foreign minister Pavlo Klimkin, until Ukraine becomes a NATO member, the alliance could ensure the country's security by providing it with cutting-edge weaponry and placing NATO units and infrastructure on its territory, since "the Alliance's line of defense from the Russian Federation will lie through Ukraine's border".²⁵ These steps should go along with U.S. and EU sectoral sanctions against Russia for further blocking the peaceful resolution of the war in Donbas and ongoing occupation of the Crimea. It is also critical that Secretary Blinken rescind the waiver on the new U.S. sanctions regarding Nord Stream 2.

Another tool Ukraine's partners have is reform conditionality tied to foreign macro-financial assistance. While it is not a panacea and is often manipulated by Ukraine's authorities, assistance conditionality remains a strong lever to influence the country's policy agenda. Ukraine's international partners should use this leverage to ensure its earliest compliance with its commitments to the IMF, thus preventing economic instability and enabling an inflow of public and private funding. They should also employ conditionality to urge Ukraine to resolve the constitutional crisis, defend anti-corruption achievements, push oligarchs away from the decision-making process, and reform the military procurements system, as well as rebooting judicial governance bodies, security service and prosecution agencies.

Personal sanctions on actors blocking reform progress in Ukraine have also already proved to be

an effective measure. They should be preserved and extended as necessary. Furthermore, it is essential that the United States, the EU and other key international partners of Ukraine take a synchronized approach in communicating with its leadership on the policy priorities the country committed itself to implementing.

Finally, it is increasingly crucial for the international community to continue supporting Ukraine's civil society. They need to urge the government to unblock the investigations of dozens of violent attacks on civil society leaders, which have intensified over the past months, and to ensure justice in the cases of activists who are seen as having been prosecuted for political reasons.

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Ahead of the 30th anniversary of its independence, Ukraine continues its struggle for democracy, fighting external and internal enemies, from Russian aggression and the coronavirus pandemic to grand corruption and economic turbulence. While anti-reform groups, including oligarchs and pro-Russian proxies, are seeking to increase their political influence, Ukraine's democratic forces standing up to these much stronger adversaries look to the United States and other Western partners for governance best practices as well as diplomatic, military, and macro-financial assistance.

In 2021, Ukraine's democratic forces are in acute need of support in their efforts to protect hard-fought reform achievements, to make the most of the international aid that Ukraine has received for the past years, and to effectively pursue the EU and NATO membership that society broadly embraces. Ensuring a close, uninterrupted political, security, and economic dialogue between Kyiv and Washington—as well as Western partners at large—has never been more vital for Ukraine's future.

25 Pavlo Klimkin, "[Putin raises rates: our answer](#)," Pravda, April 8, 2021.

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