

Ukraine's Last Chance

Останній шанс України

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Зараз, коли виборчі баталії на Україні завершилися, а конфлікт в східних областях заморожений, в країні можливий один із трьох сценаріїв: швидке і хворобливе хірургічне втручання в економіку і регуляторну систему, сповзання в задушливі обійми Росії, а також хаос, якщо загони добровольців, повернувшись з східного фронту, почнуть бешикетувати.

Можливість для України вхопитися за перший і найкращий варіант швидко зникає, проте політики б'ються за портфелі, а бюрократи, які прагнуть увіковічнити стару систему корупції, ніби не розуміють всієї відповідальності моменту. На думку нечисленних людей з боку, які прагнуть до швидких змін, бездіяльність стане трагедією.

Now that Ukraine's electoral battles are over and the conflict in the country's eastern regions is frozen, one of three scenarios could unfold: Quick and painful economic and regulatory surgery, a slide into Russia's suffocating embrace, or chaos, as gangs of former volunteer fighters from the eastern war go on the rampage.

The window of opportunity for Ukraine to seize the first -- and best -- option is rapidly closing, but politicians squabbling over portfolios and bureaucrats who perpetuate the old corrupt system seem oblivious to the urgency. To a handful of outsiders who are pushing for rapid change, failure to act would be a tragedy.

One of these outsiders is Kakha Bendukidze, a former business tycoon who engineered Georgia's successful economic deregulation under then-President Mikheil Saakashvili. Bendukidze, along with Massachusetts Institute of Technology professor Daron Acemoglu and other economic luminaries, belongs to an economic advisory group assembled by the Canadian government that was supposed to suggest reforms to the Ukrainian economics minister, Pavlo Sheremeta. The latter recently quit the government in frustration, and the advisory group is in limbo. Nonetheless, Bendukidze still spends a lot of time in Kiev trying to get his views across.

It's a frustrating experience, he said in an interview in the lobby of a Kiev hotel.

"The patient's head is coming off, and there is a bucket of blood next to the bed," Bendukidze said. "What are the relatives doing? They are vaguely worried about what the neighbors might think."

The advisory group laid out its agenda in a recent article in the English-language Kiev Post. It includes cutting government spending to 34 percent of gross domestic product from 53 percent, which would entail eliminating energy subsidies that amount to 10 percent of GDP, and reducing senior public servants' retirement benefits, equal to 4 percent of GDP. Bendukidze isn't optimistic that could happen.

"I tell people in the government about eliminating the energy subsidies, but I hear back that the people won't be happy," he says.

Bendukidze is an advocate of radical deregulation, and believes Ukraine has too many ministries and agencies.

"Who needs them when the government's sole function these days is to take money from the International Monetary Fund and pass them on in payment for Russian gas?" he asks.

Although deregulation was on the agenda of every major political party in the parliamentary elections last weekend, Bendukidze says there's no indication any of them are serious about taking action. Indeed, there have been no meaningful cuts to the number of bureaucrats or agencies since President Viktor Yanukovich's regime fell in February.

Another frustrated outsider, Vitaly Shabunin, who heads the non-governmental Center for Resisting Corruption, says a culture of corruption remains entrenched.

"Under Yanukovich, corruption was a well-organized state system," Shabunin said. "Now, it's like guerilla warfare: It has shifted to a lower level. All the old schemes still exist."

Shabunin's group, which is supported by grants from agencies such as the U.S. Agency for International Development, drafted Ukraine's new anti-corruption legislation -- the only visible reform that has taken place since the regime change. The laws ease access to information on government and state company purchasing tenders, real estate and company ownership. They also set up an anti-corruption bureau of 700 staff members with broad powers to investigate and prosecute graft.

Shabunin and like-minded activists pushed the bills through parliament with the backing of the IMF and other foreign donors. "The laws were only passed for three reasons," he says. "Pressure from the donors, media attention and the election. The politicians needed something to show to voters." Still, he doubts Ukraine's leaders have the political will to implement them fully. There is a real chance, he said, that the new anti-corruption agency will be filled with Yanukovich-era officials who are no better than the bureaucrats they are supposed to catch.

There are worrisome indications that the laws aren't having much effect. President Petro Poroshenko, a billionaire, hasn't acted on his promise to sell his businesses once in office. At the same time, International Investment Bank, of which he is the principal shareholder, has increased its assets by 50 percent since the beginning of the year, even as the Ukrainian banking system as a whole only grew 5 percent. Prosecutor General Vitaly Yarema has been plagued by charges linked to illegal land sales involving one of his closest aides and was accused of nepotism after his 26-year-old son became the head of an important government department.

As bureaucrats keep stealing and politicians keep stalling, the specter of financial collapse hovers closer. Ukraine's economy shrank 5.1 percent in the third quarter, compared with a year earlier, the most in almost five years, as industrial

production and the currency, the hryvnia, slumped, Bloomberg News reported today. If foreign aid is delayed or cut off because the government misses economic-reform or corruption-fighting targets -- and even if the IMF refuses to expand the agreed \$17 billion package -- Ukraine could face a debt default, deep currency devaluation and a budget sequester. Both Bendukidze and Shabunin fear that would push the country under Russia's sway because President Vladimir Putin would be able to set the terms of a rescue.

That is not even the worst that could happen. Bendukidze recalled how, in the 1990s, Georgian volunteer soldiers returning from the war with separatist Abkhazia organized into criminal gangs that terrorized the country for years, at one point even grabbing control of the government. "There are plenty of young guys like that fighting in eastern Ukraine now," he said.

Shabunin, who is Ukrainian, saw glimmers of hope: The post-Yanukovich government is more susceptible to public pressure and its primary motivation isn't to steal, he said. "They want to go down in history as the good guys," he said. "Well, they need a country in which to be the good guys".

We will know by the end of the year whether he's right.