

Date: 25 February 2009

Domestic Political Developments in Ukraine and Possible Implications for SIDA's Programmes

Executive Summary

- Ukraine entered 2009 facing a period of exceptional economic and political uncertainty and since the start of the year, the situation has deteriorated further;
- Ukraine's current coalition of Bloc Yulia Tymoshenko, Our Ukraine-People's Self Defence and the Lytvyn Bloc looks set to survive in the short- to medium-term purely because the formation of another coalition is likely to prove impossible;
- Public discontent with the institutions of state in Ukraine and politicians has reached near-record highs. Popular protest seems unlikely *at present* although the public's appetite for authoritarian populist politics that promise to improve living standards is increasing;
- Elections are almost one year away although the declining popularity of Yulia Tymoshenko across the whole of Ukraine makes Viktor Yanukovych the present favourite for President, although given his inability to reach out to a wider community of voters beyond eastern and southern Ukraine it is not clear that there is a single catch-all candidate – which Tymoshenko was until recently. Yatseniuk is a potential compromise candidate, but since elections are still a year away it is impossible to state with any accuracy who might win;
- Despite the extreme fragility of the political and economic situation in Ukraine, in theory, international donors should now have even greater leverage.

Introduction

Ukraine entered 2009 facing its most testing political challenges since the seminal presidential elections of 2004 that led to the Orange Revolution. Presidential and parliamentary elections should take place within the next 12 months and the risk of the reemergence of authoritarian-populist politics is palpable. Ukraine's relatively weak democracy faces these exceptional difficulties as a result of the potentially very severe effects of the global economic crisis that have begun to be felt in recent months on which a recent SIPU/JMWEN special paper was produced, 'Ukraine's Economy: the Economic Situation and Outlook' (18 February 2009). Whilst it remains very unlikely that the Ukrainian democratic system will revert to the 'managed democracy' or 'virtual politics' that characterised President Kuchma's term in office from 1995 to 2005, this is the first occasion in the recent past that commentators have begun to speculate about the survival of the present rudimentary democratic system based on a free media and the principal of free and fair elections. For the moment, however, whilst the political situation is certainly fragile, there is not yet cause for alarm.

The aim of this paper is to review recent developments and to analyse what these may mean for SIDA's programme of assistance to Ukraine. Section I looks at the prognosis for the

present government. Section II looks at the impact of the economic crisis on state policy. Section III looks at public opinion. Section IV looks ahead to the elections at the end of this year. Section V considers the potential implications for SIDA.

I. The Government is Fragile but Still Stable

The current government of Ukraine led by Yulia Tymoshenko and based on the parliamentary coalition of the Bloc Yulia Tymoshenko (BYT), Our Ukraine-People's Self-Defence (NUNS) and the Lytvyn Bloc (BL) is fragile but may survive until the end of 2009. The main risk to government stability is the lack of a majority in the parliament. The sum of the votes of the parliamentary parties and blocs constituting the governing coalition is 248 out of 450, but in effect the government can count on only around 214-218 votes. This is because not all the NUNS deputies are equally loyal to the coalition.

Initially, the coalition was created with the support of the Communist Party (CPU), which cast its 27 votes for the election of Volodymyr Lytvyn as the new Speaker of the Verkhovna Rada.¹ After some hesitation, NUNS supported the establishment of the new coalition in mid-December 2008, but the respective decision of the group was adopted by a majority of just one vote: 37 out of 72 members supported NUNS joining the coalition. The remaining 35 deputies reflected the position of President Victor Yushchenko who was against keeping Yulia Tymoshenko on as Prime Minister. Nevertheless, the faction of deputies most loyal to the President within NUNS consists of about 10 members gathered in the United Centre group created by the Head of the Presidential Secretariat, Victor Baloha.

As a result of NUNS' decision to support the coalition, the leadership of the group in the parliament has changed: deputies Viacheslav Kyrylenko and Roman Zvarych who had been defending the President's line resigned. It means that the President has no dominant influence over NUNS anymore. The current group head Mykola Martynenko openly criticizes the President.

Despite unreliable support within the parliamentary coalition, Yulia Tymoshenko's government has proved to have a relatively stable position. On 5 February 2009, the opposition Party of Regions (PR) failed to call for a no-confidence vote on the Cabinet of Ministers. The PR initiative won the support of only 203 deputies, 23 short of the number required to oust the government.² This was the second unsuccessful attempt to sack Yulia Tymoshenko's government. The first time was in July 2008 when only 174 deputies voted in favour – as such it represented a further weakening in support for the government. Furthermore, the next day, on 6 February, PR could not get the necessary votes to approve the report of the *ad hoc* committee chaired by PR member Inna Bohoslovska that investigated the signing of gas agreements between Ukraine and Russia. Due to the failure of the vote of no confidence, the government has immunity at least until September 2009, as according to the Constitution of Ukraine the Verkhovna Rada can seek a vote of no confidence only once per ordinary session of the Parliament – which in the current circumstances provides a welcome increased degree

¹ In the end, 244 deputies voted for Mr. Lytvyn to be speaker: CPU all 27, BL all 20, 40 out of 72 from NUNS, 156 out of 158 from BYT, and 3 of 175 from PR.

² The decision to adopt the resolution on the government responsibility was supported by 172 deputies from PR (3 deputies did not vote), 20 of CPU (7 deputies, including the party leader, were absent from parliament), 10 deputies (the United Centre group) from NUNS and 1 from BYT.

of stability for the next few months.

Yulia Tymoshenko's government is quite stable as there is no alternative at the moment. Other party coalitions within the current composition of the Verkhovna Rada have been put forward, but have never come to fruition. The potential coalition of PR and NUNS that is favoured by the President has failed to go further than informal consultation. The majority of the pro-presidential faction in the parliament has been always against such an alliance. Furthermore, after December 2008, the President's influence over NUNS weakened.

Another potential coalition between BYT and PR, although it may have a constitutional majority that could overcome Presidential vetoes, is not possible for a number of reasons. First, both political forces see each other as their principal enemies and are reluctant to lose this position on the political map in the run-up to the presidential election. Second, there is a lack of a common position within each bloc about the best option for an alliance (part of BYT deputies has never accepted the idea of an alliance with PR, the same is true of a part of PR). Third, these parties do not share a common view about the future shape of Ukraine's Constitution. Finally – and unsurprisingly – there is a lack of trust between these political forces.

Snap elections are not regarded as an alternative either – which represents a degree of learning from the experiences of the period 2004–07 when elections (parliamentary or presidential) were held every year. An early election had been called by the President in October after the collapse of the BYT-NUNS coalition was postponed by a Presidential decree without a time limit. Three main factors made this election impossible: the economic crisis against a background of voters' deep dissatisfaction and rejection of the idea of another pre-term election; the unresolved issue of how to finance the electoral process; and the lack of consensus among the main political forces about this election. Currently only PR supports the idea of pre-term parliamentary (and presidential) elections, however, the party is aware of its limits. The President is not interested in the snap election given his extremely low level of personal support amongst the electorate. Moreover, the President's power to call for pre-term elections to the Verkhovna Rada expires in June 2009 (according to the Constitution, the President of Ukraine has no right to dissolve Parliament during the last six months of the President's term). Taking into account the deepening economic crisis, PR's leader has a more favourable position for launching his presidential campaign whilst in opposition (see Table 2).

Another reason why Yulia Tymoshenko's government is stable is that the opposition is weak and fragmented. The Communists are partially playing on the side of the government and supporting its initiatives when such support is critical. The larger part of the opposition, the Party of Regions, is weakened by conflicts for influence over the party leadership led by the party's various business groups. The main sponsors – Rinat Akhmetov's group and Andriy Klyuyev's group, another Donetsk businessman who is seen to be a supporter of an alliance with BYT – have fronted Serhiy Lyovochkin-Yuriy Boyko's group representing the interest of Ukrainian businessman Dmytro Firtash, the co-owner of RosUkrEnergo and more recently a big donor to PR. The latter group gained influence in PR after the last election as a result of the worsening relations between Rinat Akhmetov and Viktor Yanukovich. After the liquidation of the intermediary RosUkrEnergo as a result of the new gas deal between Russia and Ukraine the Lyovochkin-Boyko group is seen to have lost influence. Another fiasco for the group was the failure of the attempt to unseat the present government, which it had initiated.

At present, members of Akmetov's and Klyuev's group are discussing initiating the expulsion of Serhiy Lyovochkin and Yuriy Boyko from the party.

The conflict between the President and the Prime Minister is still deep and divisive; however, the President's position has weakened. His popular support has reached its lowest ever ever: it is drifting between 2.3% and 4.5% according to the polls (see Table 2). Viktor Yushchenko has also lost his support abroad. Despite a lack of constitutional powers, the Prime Minister has become the more powerful player in Ukraine's diplomacy in relations with Russia as well as with the European Union and its members. Nevertheless, the President still has enough veto powers: the veto over legislation, control over a part of NUNS, the right to designate the Governor of the National Bank of Ukraine and control over law enforcement bodies such as the State Security Service of Ukraine or the General Prosecutor's Office.

The current government has insufficient support in the Verkhovna Rada and is therefore *de facto* a minority government. Nonetheless, there is no other feasible option other than the current coalition. Thus early parliamentary elections are unlikely to be held before the presidential election, which will take place in late December 2009 or mid January 2010.

Table 1. Ratings of main political parties, %

Parties and blocs	VR election, September 2007	National poll by Razumkov Centre, December 2008	National poll by R&B Group, January 2009	National poll by Sofia Centre, February 2009
Party of the Regions	34.37	27.2	21.6	25.8
Bloc Yulia Tymoshenko	30.71	21.6	18	15.6
Our Ukraine (Yushchenko Bloc)	14.15 (allied with Yuriy Lutsenko's People's Self-Defence)	4.2	2.2	2.7
Communist Party of Ukraine	5.39	8.5	5.5	5.5
Volodymyr Lytvyn Bloc	3.96	6.7	4.6	5.3
Bloc Arseniy Yatseniuk	-	6.6	-	10.4
Against all	2.73	7.8	16.6	5.9
Difficult to say	-	7.6	11.8	.9

II. State Policy in the Shadow of the Economic Crisis and the Forthcoming Election

The Prime Minister has announced changes in the composition of the Cabinet of Ministries. Yulia Tymoshenko is going to dismiss those ministers who do not share her views on government policy during the crisis and she wants the government to reflect the political

composition of the current coalition. It means that the number of ministers from NUNS will decrease at the expense of new ministers representing the Lytvyn Bloc and BYT. Still, such a plan may not be realised as BYT will have problems with NUNS in a coalition. The first to leave was Finance Minister Victor Pynzenyk who opposed the Prime Minister's plan to increase the budget deficit and resigned. Other ministers from the NUNS quota are currently being considered for dismissal, including those responsible for Justice, Emergency, Culture, Youth and Sport and the Vice-Prime Minister responsible for the Euro 2012 football championships.

Even if the changes of ministers are approved by the parliament, there will be no single and coherent government team. A renewed Cabinet of Ministers is also likely to be the result of political bargaining and will be called upon to implement the political programme of the government chief preparing herself for the presidential campaign. Thus, a united team of professional crisis managers in the government will not appear.

Neither the government nor the President's team have an effective anti-crisis public policy plan. Government policy is focused not on crisis management but on seeking funds to ensure the Prime Minister's electoral campaign. The opposition does not offer any alternative anti-crisis plan either. The President's office appears to be busy creating an image of economic chaos caused by the government, which could provoke further panic and distrust among business and the population.

The anti-crisis plan for macroeconomic policy management offered by the IMF along with the Stand-By Agreement has been rejected by the government. The government did not agree to review the macroeconomic forecast for 2009 and cut the budget deficit. So far, the second tranche of the \$16 billion IMF loan (\$4.5 billion was paid in November 2008) has been delayed. Both the President and the opposition are pressing the government to amend the budget and reduce expenditure. This would be a very difficult political step for Yulia Tymoshenko whose main pre-election strategy is to avoid unpopular decisions. Keeping social expenditure at the level of December 2008 is a key political task for the Prime Minister when entering into the electoral campaign. In February 2009, the government allowed the State Committee of Statistics not to publish monthly indicators of the macroeconomic performance of Ukraine. So far, Yulia Tymoshenko has tried to loosen the pressure by promising to review the budget in May 2009.

Currently, the Prime Minister is seeking different sources to cover the budget deficit. First, she tried to raise funds by increasing taxes (e.g. through a stricter tax policy towards small and medium businesses, the introduction of a temporary surcharge of 13% on import duty for several products). The policy provoked protests from the interest groups which it hit economically. The government decision regarding small and medium business has been regarded as placing pressure on small entrepreneurs. Yulia Tymoshenko declared that she would not put additional burdens on business. The introduction of import duties will hit consumers and has already provoked a negative reaction from European trade partners and the President of Ukraine who promised to appeal to the Constitutional Court.

Second, the government has asked several foreign governments, including Russia, to grant a loan to Ukraine. The opportunities for new borrowing will also depend on the continuation of Ukraine's cooperation with the IMF, while cooperation with Russia has already provoked

harsh criticism within the country. The Russian loan is a particularly interesting development since it coincides with a wave of Kremlin lending to other former Soviet republics that seems designed to increase Russian influence across the region before the economic crisis reduces the resources available to the Russian government. Although the Russian loan should be viewed with caution, it is noteworthy that previous Russian lending to Ukraine did not buy the Kremlin increased influence. Russian lending becomes more problematic if it comes hand in hand with Russian acquisition of strategic Ukrainian assets, such as parts of the gas pipeline network.

The third option is to raise money from privatisation. The government has reopened talks on the sale of the state telecommunication monopoly Ukrtelecom. Prior to the privatisation of Ukrtelecom, the State Property Fund is expected to sell controlling stakes in regional electricity distribution companies. However, the privatization programme of the government will encounter the Presidential veto as happened in 2008 when Viktor Yushchenko accused Yulia Tymoshenko of spending the money from privatization by paying for the Soviet Oshchadbank deposits (a populist move that partly compensated those who had lost savings in the great inflation post-1991). Besides, it will be difficult to find an investor willing to buy these companies today given the difficulties of raising capital cheaply.

Fourth, there is the risk that a lack of resources to finance budget spending could push the government to finance the deficit through monetary policy (by increasing the money supply – crudely, by printing more money). Yulia Tymoshenko wants to gain control over the National Bank of Ukraine (NBU), but here she also faces the Presidential veto. Viktor Yushchenko has already appealed against the dismissal of the NBU Governor Volodymyr Stelmakh in the Constitutional Court.

It is rather unlikely that the government will be able to implement Yulia Tymoshenko's electoral goals fully as there are limited resources to maintain budget expenditures at the 2008 level and there are veto points in hands of the President, and also within the coalition (NUNS) and opposition. Domestic and international pressure is also growing. The European Bank for Reconstruction and Development, and foreign banks with subsidiaries in Ukraine announced assistance plans for the recapitalization of Ukrainian banks. It is important that such a recapitalization will go in hand with tough fiscal and monetary policies. Thus, it is likely that the government will renew its cooperation with the IMF. At the same time, more international pressure is needed to push the government to concentrate on the anti-crisis programme.

III. Public Opinion: Growing Distrust and Protest Spirit

Public opinion polls show that Ukrainians' distrust of their leadership and state institutions is growing. Such distrust is mixed with an increasing perception of the deterioration of the political and economic situation – and the political situation was hardly optimistic prior to the economic crisis erupting in Ukraine. The level of public protest is growing along with the social demand for a tougher style of government and the need for new political parties and leaders.

Distrust of all the state institutions has reached the highest levels since the Orange revolution. According to a poll conducted by the Razumkov Centre, 71.2% of Ukrainians do not support the activity of the President of Ukraine, 69.3% of the Verkhovna Rada, 62.5% of the

Government, 72.8% of the National Bank, and 65.1% of the Ukrainian judiciary. The negative assessment of political activity of the main politicians in Ukraine is also high with Viktor Yushchenko taking the 'lead' (77% of respondents assess his political activity negatively), followed by Yulia Tymoshenko (57%), Victor Yanukovich (54%) and Petro Symonenko (53%). Ukraine's present political leaders are not emerging well out of the crisis.

Since 2005, the number of people who believe that Ukraine is headed in the wrong direction has been steadily growing and has reached 85% in December 2008 (in comparison with 23% in April 2005). 70% of Ukrainians are not satisfied with how democracy functions in Ukraine. Ukrainians have different views on the most optimal political regime for Ukraine since the economic crisis began. 38% of respondents believe that democracy is the most desirable political regime for Ukraine, while 24% consider that – under some conditions – an authoritarian regime might be better for Ukraine. One third of the population would be ready to see some limitation of their civil rights by the state in exchange for improving economic conditions, while another one third of Ukrainians would not support for such a compromise. Regardless of the preferred type of regime, according to the R&B poll, in January 2009 80% of interviewees responded that Ukraine needed 'a strong hand'.

At the same time, in January 2009 the majority of the population (53%) believed that Ukraine was only just entering the economic crisis. According to the polls, almost every Ukrainian suffered from the economic crisis: only 5% of the population has not felt its influence. Ukrainians experience the crisis as inflation, falling incomes, delay in the payment of salaries, pensions and social benefits. 60% of those interviewed answered that their income had been reduced during the last month. The strongest perception of the crisis was among respondents from Southern and Eastern Ukraine.

Against a background of such distrust in the current political forces and the overall perception of deepening crisis, a growing social demand for a qualitatively new political party (50% in October 2008 and 62% in January 2009) in society can be observed. It explains to certain extent why Arseniy Yatseniuk's (a 35-year old deputy from 'Our Ukraine', ex-Speaker of the Parliament, former Minister of Foreign Affairs and Economics, former Deputy Head of the NBU and the President's Secretariat) personal rating is growing steadily. At the same time, people are not very optimistic about a potential radical change of elite and new leaders being able to help the country get out of the crisis: 32% of interviewees consider this is likely to happen, 28% that it is not and 23% could not answer. Nonetheless, there is a distinct possibility that a new political elite may emerge within 12 months.

While in European countries increasing unemployment and worsening living conditions are sometimes accompanied by a wave of strikes and public protests, Ukraine's situation is quite quiet against the background of one of the deepest recessions in Europe.. According to the Democratic Initiatives Foundation poll, in December 2008 9% of the population were unconditionally ready to take part in the mass rallies, while another 44% would make their readiness dependent on the subject of such a protest. Sociologists from the National Academy of Science say that the current share of those who would participate in mass meetings in any circumstance is lower than during the Orange revolution (then it was 15-16%) but it is still pretty high. The main causes for potential protests are economic ones (e.g. worsening of living conditions or price increases for the most basic products). Sociologists argue that the economic motivation of potential protestors will not lead to mass action, as

different social groups have different economic interests.

In a short term perspective, the R&B opinion poll shows that a spirit of protest is steadily growing. The share of those who would not participate in any action of protest has dropped from 45% in November 2008 to 36% in January 2009, while the number of those who would choose mass demonstration as a form of protest to protect their rights has grown.

Indeed, some protests have already started. In January and February 2009, mass protests of automobile owners demanding the government abandon increased car taxes spread through the largest cities of Ukraine and culminated in a blockage of the main government street in Kyiv. As a result, the government has decided to abandon the proposed increases to the tariffs. Next, the protest of the van drivers demanding credit relief developed into an all-Ukrainian strike. Under pressure from small enterprises the government had to cancel the December decision involving stricter tax policy. Kyiv citizens gathered in the capital city to protest against the mayoral policy of increasing communal and transport tariffs and the introduction of new taxes. Smaller protests took place in different parts of Ukraine initiated by the employees of an indebted factory, miners demanding their wages, as well as the employees and clients of troubled banks and so on. So far the protests are rather sporadic and of low scale, however, as the crisis deepens, protests will likely become more frequent and popular. According to the polls, the highest expectations of mass riots are in the Southern and Eastern regions which suffered from the crisis the most.

The protests of car owners and small businesses demanding that the government back down from its commitment to increase the amount of tax gathered show that the government is not ready to defend its decisions in the face of popular demand. The initial government reaction to the drivers' protest was to call for police mobilization to deal with 'hostilities' caused by the economic crisis and future elections (First Vice-Prime Minister Oleksandr Turchynov's speech at the college of Ministry of Interior).

The state of public opinion raises alarming signals about possible political developments in Ukraine. People are disappointed and getting more ready to protest actively. They do not always believe that the democratic way is the best way to deal with the crisis. They want 'a strong hand' to govern – although, as ever, it is unclear what this would mean or why it would help. They trust neither the current government nor the opposition. With an expected increase in unemployment Ukraine is facing huge popular unrest, which the current government may not survive.

IV. Perspectives: the Presidential Election and Afterwards

There are two main favorites in the polls for the presidential election. Since 2008, Viktor Yanukovich has led in the polls with Yulia Tymoshenko slightly lagging. Moreover, the Prime Minister's popularity is declining as the crisis develops. It is likely that the main struggle in the presidential campaign will take place between these two candidates. The three different polls show that Arseniy Yatseniuk's popularity is steadily growing and is in third position. The current President Viktor Yushchenko's rating is further decreasing. President Yushchenko may decide not to take part in the next election. He may also decide to declare a state of emergency – but this, at the time of writing, remains only a remote possibility.

Table 2. Ratings of potential candidates for President, %

Candidate	Razumkov Centre, December 2008	R&B Group, January 2009	Sofia Centre, February 2009
Victor Yanukovich	19.8	21.2	24.2
Yulia Tymoshenko	15.8	17.7	15.3
Arseniy Yatseniuk	6.6	11	11.8
Volodymyr Lytvyn	5.4	4.5	5.2
Petro Symonenko	5.3	4.5	4.6
Victor Yushchenko	4.5	2.3	3
Anatoliy Hrytsenko	1.3	n/a	1
Would not vote	11.9	10.2	12.8
Against all	13	13.6	7.9
Difficult to say	13.8	8.3	8.1

So far it seems that none of the potential candidates will be able to win in the first round of election. It is also likely that if the parliamentary election takes place after the presidential, neither BYT nor PR will have a majority. It means that sharp rivalry will continue with no hope for a stable government. Important change can be brought by new candidates, such as Arseniy Yatseniuk. It is too early to make a forecast about his entering the campaign. His main problem is the absence of political organization and finance for his campaign. Other factors may play a role such as the agreements between PR and BYT about changes to the Constitution.

Whoever wins, no change of elite, no government stability, and no increase in 'governability' is expected. This, in essence, is what makes the immediate political future of Ukraine appears so bleak. Without a reform of the Constitution, the executive branch will remain divided. This means continued deadlock in policy-making. Busy with political disputes, the government will not be able to deal with the economic crisis. Against the background of unresolved economic and political crisis, mass protests, should they occur could have profound consequences for Ukrainian democracy.

V. Implications for SIDA

2009 and the coming few years which will be marked by economic and political crisis, which will make the implementation of a coherent and consistent assistance strategy. At the same time, however, during the crisis such foreign help is extremely necessary for Ukraine. International pressure on the government should be strengthened and the leverage of donors should in theory increase. Financial assistance accompanied by external advice, expertise and conditional on the introduction of domestic reforms are the only means for Ukraine to avoid sinking into economic recession and political disorder.

The crisis should be regarded not as an obstacle for donor assistance but as an opportunity to assist Ukraine to restructure its economy, strengthen its civil society and reform its government institutions. Thus, foreign aid should be aimed at assisting the government to

manage the crisis, helping business to invest in efficiency boosting programmes and enhancing the capacity of the civil society so that it becomes more aware of its interests and seeks to defend them in legal ways.