

YEAR OF BIG RESHUFFLE IN UKRAINE: CHANGE OF PRESIDENT AND CABINET OF MINISTERS IMPLICATIONS FOR PLANNING GR EFFORTS

On April 21 2019, the second round of the presidential election took place in Ukraine. Actor and showman Volodymyr Zelensky gained the victory. After processing 100% of ballot papers, Zelensky earned 73.22% of votes, while his competitor, current President Petro Poroshenko, received only 24.45%.

The change of Head of State will entail substantial changes at the level of the key institutions of power – Government, Parliament, Presidential Administration, local authorities and other stakeholders relevant to major companies that operate in Ukraine.

The importance of such changes stems from the fact that the foreign and defence policies are under the direct supervision of the President. The President also has an impact on executive branch (submits a candidate for the position of Prime Minister to the Parliament, appoints, in consultation with the Parliament, heads of some state bodies, heads of regional state administrations, etc.).

The victory of actor and showman Volodymyr Zelensky may completely change the power architecture in Ukraine, as neither he, nor the political force behind him (Sluga Naroda (Servant of the People) extra-parliamentary party) are part of the existing political system. This factor may trigger the scenario that involves the weakening of the presidency institute by delegating a substantial part of powers to the Government and the Parliament.

Furthermore, these elections will have a significant impact on the subsequent parliamentary elections (autumn 2019) and local elections (autumn 2020). The potential weakening of the presidency institute and predictably complicated relations inside the parliamentary coalition will facilitate further decentralisation – transfer of powers and financial resources to regions. In addition, the lack of parliamentary representation of the “Servant of the People” party may lead to the early dissolution of the Parliament and extraordinary parliamentary elections to be held in July-August 2019.

These key trends are crucial for shaping government relations strategy in Ukraine for the coming years.



During this period, the work of governmental bodies will be driven by the election logic. For businesses and GR specialists, it involves certain risks of operation in Ukraine:

- Short planning horizon of stakeholders during the election period:
 - It will be difficult to implement long-term projects, as almost all ministries and agencies are expecting potential resignations of their heads. The acute political struggle provides no space for economic reforms that bear risks for the authorities.
- Possible changes of the key stakeholders at the central (President, Speaker of Parliament, Prime Minister) and regional (mayors of cities, members of local councils, heads of state administrations) levels will “reset to zero” the existing contacts of the business and will require establishing new contacts.
- Increase in populist and high-profile initiatives from all key stakeholders: 1. members of the current Verkhovna Rada with expiring powers (they will be driven by the need to increment recognition to ensure re-appointment or election to the Verkhovna Rada); 2. members of the Cabinet of Ministers of Volodymyr Groysman (need to increment recognition to ensure re-appointment or election to the Verkhovna Rada); 3. public officials newly appointed through President’s personnel powers or a quorum (need to increment recognition to ensure that the President’s force – Sluga Naroda party – is elected to the Verkhovna Rada and conquers more extensive authorities in the new power system).

Upon completion of the presidential and parliamentary elections, the importance of external support from the U.S., EU and international financial institutions (IMF, etc.) to Ukraine will increase.

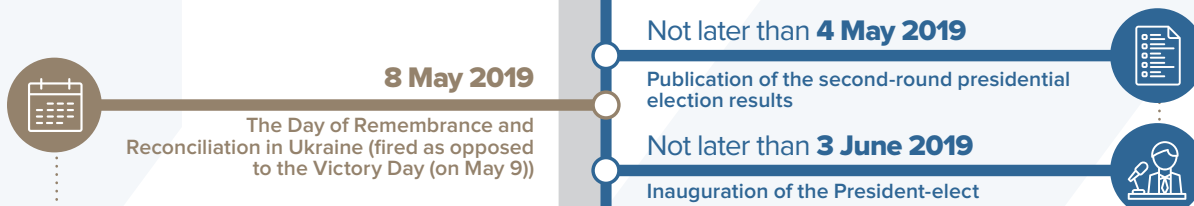
It may have the following implications for the business:

- Increased role of the existing foreign business associations (European Business Association, American Chamber of Commerce, etc.) and creation of new ones.
- Foreign investments advisory bodies may be formed under the Government, some ministries and agencies.
- Positions of advisors to the President, Head of Government, certain heads of ministries and other agencies held by foreign citizens (e.g., Chairman of the Strategic Group of Advisors under the Cabinet of Ministers of Ukraine Ivan Miklosh, ex-Deputy Head of Government of Slovakia) may become an important resource.
- Representative bodies, such as the U.S. embassy, EU Delegation to Ukraine, etc. may still remain the most effective resources.
- Furthermore, the Supreme Anticorruption Court will start its operation during the post-election period (judges who were selected with participation of foreign experts were sworn in April), and the powers of the National Anticorruption Bureau (financed by the U.S.) will likely be expanded. These agencies may be used as a leverage to influence high-ranking officials in Ukraine.

Electoral Cycle and Important Events in Ukraine 2019-2020



PRESIDENTIAL ELECTION



ELECTION TO THE VERKHOVNA RADA



LOCAL ELECTIONS





I. Scenario Planning 2019-2020

Given the proposed scenarios of the presidential and parliamentary election campaigns, the following implications are possible:

- Changes in the Government, Parliament and other power institutions.
- Implementation of factors and risks impacting the business environment.

We consider the scenarios for the following time spans:

1. During the electoral cycle (2019);
2. Following the electoral cycle (2019-2020);
3. Long-term scenario (2020).

Scenarios for the electoral cycle period:

- Potential changes in the Government after the presidential election – “targeted” staff reshuffles or resignation of the Government and reformatting of its composition.
- Potential redistribution of power and influence from the President to the Government and Parliament at the central level, and from the centre to regions at the regional level.
- A crisis scenario is also likely to unfold. The crisis scenario involves a new stage of political instability due to the potential aggravation of the economic situation (external debt payments, potential deterioration of the situation in major export markets, likely country’s default etc.).

Scenarios based on electoral cycle results:

- In the economic sphere – recommencement of reforms postponed for the electoral cycle period (land, tax, and energy sector reforms, etc.), increasing relevance of the responsible ministries and Parliament committees.
- In the political sphere – growing dependence on the external institutional and financial support; strengthened role of foreign players in the Ukraine’s foreign policy.

The abovementioned scenarios and their major implications for businesses are discussed in more detail below.

Scenarios for the electoral cycle period

Structural

Following the presidential election, there are two possible scenarios with respect to the Government:

- “Targeted” staff reshuffles in the Government;
- Resignation of the Prime Minister and reformatting of the entire Government.

These scenarios are attributed to the fact that the existing Government is a “coalition” government.

The devastating defeat of Petro Poroshenko (almost a three-fold gap between him and the presidential run winner) argues for the revolt of his key partners – primarily the People’s Front party that forms the basis of the parliamentary coalition together with the Petro Poroshenko Bloc (PPB).

- One of the People’s Front leader, Minister of Internal Affairs Arsen Avakov and his immediate circle came out flat for Volodymyr Zelensky on the eve of the election.

Crisis

The apparent defeat of Petro Poroshenko leaves no space for the crisis scenario immediately after the election (street riots, challenging the election results, etc.).

However, as Volodymyr Zelensky takes up office, various excesses stemming from the transitional period may occur, in particular in terms of:

- the new president gaining total control over the army, diplomatic corps and governors.
- these potential excesses may escalate as participants enter into the parliamentary election campaign, which has already commenced in practice.

Changes following the results of the election in 2019: strengthened role of the Government and the Parliament

Structural

According to our estimates, the basic scenario following the electoral cycle involves redistribution of influence from the President to the Government and the Parliament at the central level, and from the centre to regions at the regional level:

- From the President to the Government and the Parliament, potentially including the constitutional reform:
 - following the election, the majority parliamentary coalition is likely to be expanded. At the same time, the faction loyal to the new President will play no crucial role in the coalition. As a result, the Parliament’s autonomy with respect to the presidential power will further increase.
 - moreover, should there be no systemic agreement between the new President and the new Parliament, the mechanism of the constitutional reform that will enshrine the parliamentary-presidential system in Ukraine not only de jure but also de facto is likely to be launched.
 - the Prime Minister will likely be the key player in the executive branch of power. On the one hand, the Prime Minister will become more dependent on the Parliament, and on the other hand, the Prime Minister will be able to play the card of contradictions existing within the coalition.

- From the centre to regions:
 - Weakness of the central authorities increases significance of local authorities, which contributes to strengthening the trend to fiscal decentralisation and transfer of powers from the centre to regions.
- Relevant changes in the judicial and law enforcement systems fall on 2019:
 - The start of operation of the Supreme Anticorruption Court, and the expansion of powers of the National Anticorruption Bureau are expected (both agencies are de facto established upon the recommendation of the U.S.).
 - Transfer of investigative powers from the General Prosecutor's Office to the State Bureau of Investigation (SBI).
 - These processes may be accompanied with the aggravated confrontation between the national security, defence and law enforcement agencies controlled by different political groups. Such confrontation is risk-bearing in terms of protection of interests of the business at judicial bodies and law enforcement agencies.

Crisis

Serious macroeconomic and social challenges fall on 2019, namely:

- The local peak of payments on Ukraine's external debts falls on 2019. IMF financing and new free-market borrowings by the Government will help balance the budget and avoid the default.
- However, the major part of the abovementioned funds will be allocated to the repayment of the interest and principal under the previously granted loans. This means that the money will not be injected into the economy.
- Potential deterioration of the situation in the commodity markets caused by the global crisis manifestations will have negative implications for the country's budget and economy, up to announcing the default on foreign liabilities.
- Accelerated inflation, devaluation of hryvna, increased external debt and reduced subsidies against the background of growing tariffs will contribute to the growth in social tension.

In the context of uncompleted electoral cycle, macroeconomic and social instability, important structural reforms – launching the new power energy market module, land reform, etc. – will likely be postponed.

Long-term scenario (after 2020): implementation of reforms

Structural

The completion of the electoral cycle and reformatting of power will enable proceeding to the implementation of postponed reforms. As seen from our analysis, the key reforms for the government will include:

- Tax, land and power energy market reforms.



- Banking sector liberalisation, air transportation market reform, digitalization projects in various fields and the public sector, etc.

The reformatory agenda contributes to the increase in the relevance of certain ministries (Ministry of Economy, Ministry of Agrarian Policy and Food, Ministry of Regional Development, and Construction, Ministry of Justice, Ministry of Infrastructure) and Parliament committees of the corresponding profiles.

During the next wave of privatisation and changes in the regulatory environment in certain markets, the weight of the State Property Fund and the Antimonopoly Committee within the system of governmental bodies will grow.

Growing dependence on the external financial support will contribute to its transformation into institutional dependence:

- The role of representative bodies of foreign states in the Ukraine's domestic policy will increase (EU Delegation to Ukraine, embassies of certain states, U.S. Special Envoy to Ukraine Conflict, etc.).
- The role and relevance of various forms of foreign business associations in supporting legislative and other initiatives will strengthen (influence through stakeholders and direct influence).

The electoral cycle completion, liberalization of certain markets and the next wave of privatisation may foster the growth in interest of large foreign businesses in Ukraine:

- Therefore, not only the participation of foreign companies in privatisation, but also a series of M&A transactions involving Western corporations in the established markets may be expected.

Fiscal decentralisation and transfer of powers to regions may become one method to overcome the permanent political crisis at the central level of power.

The relevance of local authorities to foreign businesses will grow significantly:

- For the business, decentralisation will entail the need for focused monitoring of the local agenda in the regions of companies' presence.
- The scenarios described may only be implemented subject to the non-availability of force majeure: military escalation in eastern Ukraine, separatist actions in regions, global/local financial and economic crisis, etc.

II. Scenarios for the period between the presidential and parliamentary election

Results of the election

According to the Central Election Commission of Ukraine (almost 99.9% of ballot papers have been processed), Volodymyr Zelensky gained 73.23% of votes and Petro Poroshenko – 24.45%.

Furthermore, Zelensky has won in all Ukrainian regions, save for the Lviv Region (63% vs. 34% for Petro Poroshenko).

Based on the election results, the following conclusions may be made.

- With the victory of V. Zelensky, general unpredictability of changes in the political architecture in Ukraine following the big electoral cycle (presidential election – parliamentary election – elections to regional authorities) increases
- V. Zelensky and the “Sluga Naroda” party are a new factor in the Ukrainian political system. Their political background is next to none, which makes the analysis and forecasting of political risks related to them much more complex
- President in office P. Poroshenko and his political force PPB are likely to go into opposition, which would increase the probability of crisis scenarios

Likelihood of keeping Groysman as Prime Minister and Cabinet reshuffle

The official results of the presidential election are to be published before May 4. The inauguration of the new president will take place on or before June 3, 2019, which means that in June the question of changing the government or making individual resignations will be of great importance.

Keeping or dismissing the Prime Minister Volodymyr Groysman depends on the ability of Zelensky's team to transform the current parliament structure as they see fit:

- Zelensky cannot rely on his own political force in the current parliament composition, so he will have to create a coalition from the present factions and independent members of the Verkhovna Rada.
- Without a parliamentary coalition loyal to him, Zelensky will not be able to appoint a new Prime Minister or to dismiss any government officials. So, he might become a 'lame duck president', which can affect his rating in the long term.
- At the same time, the devastating defeat of P. Poroshenko creates conditions for the immediate transformation of the parliamentary coalition, which will no longer rely on the existing union between the PPB and People's front parties. P. Poroshenko's weak performance in the election will likely prompt the Prime Minister to seek arrangements with the new President:

- In this case, Groysman is likely to remain a compromise Prime Minister until the election to the Verkhovna Rada.
- Targeted dismissals of Cabinet members are likely during political bargaining.
- On the other hand, the Prime Minister may not fit into the system of arrangements with President V. Zelensky, under which the Prime Minister's office may go to the political forces that publicly supported him (primarily – to the People's Front and one of its leaders Arsen Avakov who may aspire to the position of the Head of the Government).
- As Ukrainian law does not require the Prime Minister to resign when a new President assumes office (they only resign when a new Verkhovna Rada is elected), Groysman can resign and at the same time launch a new/renewed political project headed by himself.
 - Mr. Groysman has already announced that he intends to participate in the parliamentary elections as the head of his own political force. Thus, the Prime Minister distances himself from the defeated Poroshenko.
 - Earlier this year Groysman received an offer from Poroshenko to head the list of BPP in the upcoming elections to the Verkhovna Rada. The search for a spare "person" is an important endeavor for Poroshenko in case he is charged with a criminal offense.
 - The criminal offence to Poroshenko is a realistic scenario, given that the Prosecutor General's Office already summoned as suspects several persons from the inner circle of the outgoing President – former Head of the National Bank Valery Gontareva, former Head of the Presidential Administration Boris Lozhkin, acting Deputy head of Presidential Administration Alexei Filatov, etc.
 - Whether Groysman resigns on the eve of the parliamentary elections or even earlier depends on sociological polls of his support, as well as his ability to agree with Zelensky's team on the mutual interests in the new Parliament.
- The involvement of Aleksandr Danilyuk (potential candidate for the Minister of Finance or Minister of Economic Development), who is in conflict with the current Prime Minister, in V. Zelensky's team also does not count in favour of Groysman remaining in his office.

Targeted resignations in the Cabinet of Ministers

Based on our analysis, Groysman will most likely remain a compromise Head of Government until the parliamentary elections (to be held as planned or extraordinary ones):

- It is unlikely that an ad hoc Rada coalition (if it is created at all) will allow Zelensky to appoint his Prime Minister:
 - The core parliamentary forces are unwilling to make Zelensky strong quickly since that might narrow the scope of political bargaining.
- At the same time, as part of Zelensky's negotiations with his potential partners, an ad hoc majority can dismiss a number of Cabinet members:

- First of all, Minister of Foreign Affairs (Pavlo Klimkin) and Minister of Defence (Stepan Poltorak) nominated by the President according to the Constitution. Such coalition might let Zelensky change the SBU and General Prosecutor's Office leadership loyal personally to Poroshenko:
 - Zelensky will be able to exercise his direct authority in international diplomacy and defense, but will be limited in influence on the executive branch of the government.
 - The new President will also appoint new governors as some of those regional head loyal to Poroshenko already resigned. This will further support him during the parliamentary elections campaign.
- The situation is risky for PPB quota ministers loyal personally to Poroshenko, first of all:
 - Stepan Kubiv, First Vice Prime Minister;
 - Pavlo Rozenko, Vice Prime Minister for Social Policy;
 - Hennadi Zubko, Vice Prime Minister and Minister for Regional Development;
 - Yuri Stets, Minister of Information Policy.
- Line ministers (Minister of Energy and Coal Industry, acting Minister of Agrarian Policy, Minister of Finance, etc.) are somewhat less likely to resign; the same holds for the Ministers in charge of education and health — domains sensitive in the context of elections:
 - That might affect the sectors managed by those people and cause resentment of the USA (this is especially true for Ulana Suprun, the Minister of Health and a U.S. citizen).

Interaction of the newly elected President and the Parliament in 2019

The period between the presidential electoral cycle (inauguration) and the parliamentary electoral cycle (the beginning of the election campaign) in 2019 will be less than two months. The elected president will interact with the previous composition of the Verkhovna Rada for six months.

In this case, two scenarios are possible:

1. Parliamentary coalition will be reshaped for the new president:
 - With the support of the majority, the new president will be able to appoint the prime minister and form a new government.
 - Coalition support will allow the president to make a number of important appointments: General Prosecutor, Head of the National Bank, Head of the Security Service of Ukraine, Head of the Antimonopoly Committee, Head of the State Property Fund, etc.
 - The implementation of this scenario can suppress the acute phase of the political crisis. Elections to the Verkhovna Rada will be held with a consensus of key players.
2. The president enters into a systemic conflict with the Verkhovna Rada.
 - In this case, the president's capacity to form a government, as well as to appoint the heads of other key departments will be restricted.

- Under the Constitution, the Cabinet of Ministers automatically resigns to the new parliament, but not to the new president. The acute phase of political confrontation may last until the end of the year.

Prospects of transforming the coalition before the elections to the Verkhovna Rada

Prospects of creating a new coalition in the Verkhovna Rada are highly uncertain.

The situation is aggravated by non-uniformity of several political forces: it is possible to identify interest groups gravitating towards certain figures who, in their turn, are, to varying degrees, close to the incumbent President Poroshenko and the upcoming President Zelensky.

Political forces that can theoretically form the basis for a new coalition are as follows:

- People's Front (part of the faction that is drawn towards Arseni Yatsenyuk, the former Prime Minister, and Arsen Avakov, Minister of Internal Affairs, who provide support to Zelensky).
- The Revival parliamentary group (it is considered to be close to the businessman Ihor Kolomoysky linked to Zelensky).
- PPB members who represent the UDAR party of Mayor of Kiev, Vitali Klitschko (who refused to head the PPB party list in the upcoming elections to the Verkhovna Rada), as well as so called Euro-optimists.
- The Self Reliance group (this group as the eponymous party is on the brink of breakup so some of its representatives might join the coalition).
- The Fatherland faction (this group is likely to join the coalition if Yulia Tymoshenko waives claims for the Prime Minister post).
- The UKROP non-parliamentary party (represented by majority-elected members drawn towards I. Kolomoysky) and other independent members of the Verkhovna Rada.

Composition of the Verkhovna Rada by parties and groups

Parliamentary groups	Seats
Petro Poroshenko Bloc	135
People's Front	80
Opposition Bloc	38
Self Reliance	25

Radical Party of Oleh Lyashko	21
Fatherland	20
People's Will	19
Revival	24
Independent	61

The participation or non-participation of political groups in transforming the coalition depends on the parties' prospects in the upcoming election to the Verkhovna Rada (internal rating measurement):

- Parties that have a high chance of getting to the parliament are less inclined to participate in creating a new 'for Zelensky' coalition.
 - If parliamentary parties support Zelensky as President before the elections to the Verkhovna Rada, that might adversely affect their own ratings (a voter's logic, "why would I support the party that is on the side of the presidential political force if I can support the latter directly?").
- On the contrary, parties standing a low chance of overcoming the 5% barrier in the parliamentary elections are inclined to join a new coalition (People's Front, Self-Reliance and small factions):
 - These political forces see a new coalition as an opportunity to stay in the political system.

Scenario for launching a constitutional reform

An acute political crisis in the period between the presidential elections and the parliamentary elections could trigger a scenario for the implementation of a constitutional reform. As a result, the presidency may be devalued.

One of the leaders of People's Front, Arsen Avakov, mentioned about the development of the draft amendments to the Constitution of Ukraine in the autumn of 2017 (the document was not presented). Amendments to the Constitution are intended to split powers between the president and the Cabinet of Ministers (in favor of the latter).

Avakov (as well as law enforcement and 'street control' with the help of paramilitary formations)¹ put that idea forward once again on April 1, 2019 when preliminary results of the first election round were announced. A statement urging for a constitutional reform can be interpreted as an "offer" of support in exchange for reducing presidential powers made by one of the key representatives of law enforcement.

¹ Unofficial formations financed by government agencies or cooperating with them: Azov Battalion (recognized as a neo-Nazi entity by the U.S. Congress), National Militia, National Corps, etc.

From the business point of view, the implementation of “constitutional initiatives” means a shift in priorities for dealing with stakeholders towards the government and the parliament. The president will retain control over the army and foreign policy, with total non-interference with economic development (not only de jure but also de facto).

Even if the process of amending the constitution is not launched before the parliamentary elections (there might be not enough time for the procedure), the influence that the President has on political processes can be limited by the following instruments:

- Adoption of the law on presidential impeachment
- Adoption of the law on temporary parliamentary committees of inquiry
- Adoption of referendum laws.
- Depriving the President of powers not expressly provided in the Constitution (appointing members of national committees that regulate communications, energy, securities turnover, etc.)

In addition, it may also mean:

- Transforming the work of the National Agency on Corruption Prevention (NACP), National Anti-Corruption Bureau (NACB) and the Anti-Monopoly Committee (their removal from the sphere of presidential influence).
- Reducing the Prosecutor General's Office and SBU and transferring a significant portion of their powers to the State Bureau of Investigation.
- Prohibiting the SBU agencies to investigate economic crimes.
- Other.

Those changes are designed to generally weaken the presidency and the parliament might use that to its advantage when bargaining with the 'weak' president Zelensky.

The likelihood of early dissolution of the Verkhovna Rada

There is a certain likelihood of dissolving the parliament:

- Such a scenario is likely in the case of failed preliminary negotiations on transforming the parliamentary coalition.
- In the event of conflict with the parliament, the newly elected president will be constrained in his ability to implement his program initiatives. Lack of results in the first months of work (the conventional 100 days of the President) will adversely affect the rating of the political force backing him.



A formal reason for dissolution can be the absence of a parliamentary coalition.

- According to the law, a coalition is created by factions and not by an ad hoc majority of parliament members.
- An additional incentive for dissolution might be People's Front leaving the coalition in case of successful negotiations between the party leaders and Zelensky.

Vladimir Zelensky has already announced that he would like to dissolve the current Parliament:

- The statement should serve as an incentive for the reformation of the coalition in his favour.
- Otherwise, the President-elect will try to implement his threat to dissolve the Verkhovna Rada.

Moreover, the President will have a narrow window of time to declare dissolution of the parliament (the Verkhovna Rada cannot be dissolved six months before its term expires) at the end of May and in early June.

In the event of early termination of parliamentary powers, elections are to be scheduled within 60 days from the date of the decision on dissolution. So, under this scenario elections might be held at the end of June or in August this year.

Possible Members of Zelensky's Team

Volodymyr Zelensky has not yet (as of 22 April) revealed the members of his team — potential top officials of the government, ministries and departments controlled directly or indirectly by the president..

He only introduced a part of his team, most members of which have the status of advisors, or have no formalized status at all.

We particularly refer to the following persons:

- Former Minister of Finance (dismissed after a public conflict with Prime Minister Groysman) Aleksandr Danylyuk.
- Former Minister of Economy in the government of Arseniy Yatsenyuk, Lithuanian citizen Aivaras Abromavičius.
- Former member of the National Agency for Preventing Corruption Ruslan Ryaboshapka.
- People's deputy from the PPO, former journalist Sergey Leshchenko, and other people from so-called "Euro-optimists".
 - He delegated his assistant Marina Bardina dealing with gender equality issues to V. Zelensky's team.

- Paediatrician and popular TV host Yevgeny Komarovsky who has consistently criticised the policy of Minister of Healthcare Ulana Suprun:
 - however, Komarovsky stated that he had no intention to hold the office of Minister of Healthcare if Zelensky is elected the President.
- Political technologist Dmitry Razumkov (potential domestic policy supervisor in Zelensky's team).
- Reserve Colonel Ivan Aparshin (potential Minister of Defence) who has longstanding links with former candidate for President and former Minister of Defence Anatoly Gritsenko.
- People connected with the Ukrainian Institute for the Future that look to the Advisor Head of the Ministry of Internal Affairs Arsen Avakov – Anton Gerashchenko (education and anticorruption policy supervisors).
- Former member of the National Commission for State Regulation of Energy and Public Utilities Andrey Gerus.

However, according to our information, the people listed above are not the persons taking final decisions in Zelensky's team. The real card policy is in the hands of a narrow range of persons that are linked with the political and financial sponsors of Volodymyr Zelensky.

- Those associated with businessman Igor Kolomoisky (represented by Kolomoisky's lawyer Andrei Bogdan).
- People associated with the environment of the Minister of Internal Affairs Arsen Avakov who supported Zelensky during the elections campaign and significant control over government security forces (represented indirectly by Sergei Nizhny, a lawyer associated with Avakov, as well as personnel of the "Institute of the Future").
- The so-called "Kvartal Gang", i.e. the people directly loyal to Vladimir Zelensky (his closest business partners and friends from the show-group "Kvartal 95").
- Delegates (who has not been exposed yet) to Zelensky's team from other sponsors (for instance by Sergei Levochkin, one of the leaders of the opposition platform "For life").

Influence and Interest of Igor Kolomoisky

Igor Kolomoisky is called a key sponsor and lobbyist of V. Zelensky. Popular 1 + 1 TV channel owned by the businessman is the main media platform for promoting a presidential candidate.

The significance of the figure of Kolomoisky in the context of the Ukrainian elections is underlined by the FBI investigation into the businessman accused of money laundering in the United States in early April. This investigation may demonstrate an attempt to find ways to exercise influence on the businessman, and on future Ukrainian President V. Zelensky through him.

In this context, it is important to identify the main areas of interest of I. Kolomoisky in Ukraine:



- Banking sector (interest in appointments to the Ministry of Finance and National Bank).
 - The key issue is the fate of national PrivatBank, which used to belong to Kolomoisky.
- Energy sector (Mienergougol, Naftogaz of Ukraine).
 - The key issue is control over Ukrnafta, in which Kolomoisky is a minority shareholder, as well as possible restrictions on imported petroleum products (imposing import duties).
- Industrial policy (it may concern the re-establishment of the Ministry of Industrial Policy).
 - Interests of Kolomoisky in non-ferrous and ferrous metallurgy.
- Control over the State Property Fund and the Anti-Monopoly Committee (as a tool to influence major business in Ukraine).

V. Zelensky's programme

The key point of V. Zelensky's [election programme](#):

- Focus on accession to NATO.
- Ending the war and recovering the lost territories, compensation for the damage caused (with the support of signatories of the Budapest Memorandum);
- Introduction of the practice of nationwide referendums.
- Removal of immunity from the President, VR deputies and judges.
- Adoption of laws on impeachment of the President and dismissal of a VR deputy
- Economy:
 - replacement of corporate income tax by a tax on capital taken out of the company;
 - the creation of a market for land;
- Transition to insurance-based healthcare services.
- Implementation of a funded pension system.
- Monetisation of benefits and subsidies.
- State support for entrepreneurs.
- Signing of the "Open Sky" agreement with the EU.
- Automation of public processes.

III. Specifics of Key Groups of Stakeholders in 2019-2020

Cabinet of Ministers

“Complication” of the power structure after the parliamentary elections (possible expansion of the parliamentary majority) is likely to lead to the delimitation of the spheres of influence of political forces on ministries and departments. The quota principle of allocating key posts in the government will be maintained and strengthened.

The president’s government will be replaced with the parliament’s government. The prime minister will be dependent on the balance of interests within the ruling coalition of the parliament rather than on decisions of the president.

The post-electoral reform agenda increases the importance of the following ministries:

- Ministry of Finance (tax reform);
- Ministry of Agrarian Policy and Food (land reform);
- Ministry of Regional Development (decentralisation);
- Ministry of Justice (judicial reform);
- Ministry of Infrastructure (air transportation market, etc.).

Launch of the next wave of privatisation will increase the value of the State Property Fund in the system of state power.

Gas transmission system (underground gas storage facilities) is likely to be privatised; separation of subsidiaries from state-owned Naftogaz of Ukraine in terms of production, marketing and transit segments will exacerbate the struggle for control over it and its subsidiaries.

Control over the Antimonopoly Committee as a tool to impact major entrepreneurs who occupy a dominant position in various markets (gas, electricity, coal, telecom, etc.) will be of particular relevance.

Verkhovna Rada

It is highly likely that the number of parties to become members of the parliament will exceed that in the current parliament (6 factions, 2 groups, and non-fractional deputies)².

Increase in the number of parliamentary factions and groups will lead to that the building of relationship with political forces focused on the prime minister and individual ministers will be a key issue for businesses dealing with the parliament.

² The Servant of the People party of Vladimir Zelensky, nationalists (not represented in the parliament today), some other non-parliamentary parties, as well as political projects that will only be developed run for the parliament. Also, the fragmentation of political factions in the parliament is facilitated by the reduction in the threshold (draft electoral code was passed at the first reading in the VR) upon amendments to the electoral legislation.



Post-election agenda will increase the importance of the following VR committees (as well as strengthen the struggle for leadership positions and forming a majority):

- Committee on Agrarian Policy and Land Relations;
- Budget Committee;
- Committee on State Building, Regional Policy and Local Government;
- Economic Policy Committee; Committee for Informatisation and Communication; Tax and Customs Committee;
- Legal Policy and Justice Committee;
- Special Control Commission of the VR on Privatisation

Presidential Administration

The role of the administration after the presidential elections will be largely determined by the following trends:

- degree of conflict between the new president and parliament and hence the decline in the significance of the presidential institution;
- president (whosoever) will be dependent on agreements with other parliamentary forces;
- this may cut the powers of the president and, accordingly, reduce the role of their administration: president may continue to control the foreign policy and defence, but their role in solving economic and social matters will decrease.

IV. Post-Election Government Agenda: Key Economic Reforms

At the end of the elections in 2019-2020, some reforms will be included into the agenda. The following government units will become key matters of the government in the post-election period.

Tax Reform

The tax reform is announced by both presidential candidates. Reducing the total tax burden, abolishing some taxes (VAT, income tax) and replacing them with other taxes (tax on withdrawn capital, turnover tax, etc.), reorganising a simplified tax system will lead to the shortfall in income payable to the budget. As a result, foreign loans and investment will be in higher demand.

Energy Market Reform

Increase in gas and electricity prices for industries and population, harmonisation of regulatory standards with European legislation on the energy market create the prerequisites for foreign companies to enter it. Separation of subsidiaries from Naftogaz of Ukraine in terms of production, marketing, and transit may be accompanied by foreign entities acquiring interests in their capitals.

Land Reform and Land Market Creation

The development of a land bank, cadastre and lifting of the moratorium on sale of land create the prerequisites for expanding the presence of foreign agricultural holdings. In the state agricultural policy, emphasis will be placed on the processing of raw materials (grain, oilseeds, etc.) within Ukraine and export of products with high added value. This will require the attraction of foreign capital and technology.

Liberalisation of the Banking Market

“Cleaning” of the banking market (reducing the number of banks), liberalisation of currency controls create the prerequisites for expanding the presence of foreign banking companies in the domestic market of Ukraine. This will allow European and other foreign banks to operate directly in Ukraine (rather than purchase currency from NBU) with lending business and population at relatively low rates. First of all, it will be the support of industrial capital affiliated with foreign banks.

Airline Market Reform

The expected execution by Ukraine of an “Open Skies Agreement” with foreign companies will “destroy” the monopoly on the airline market (dominated by local company International Airlines of Ukraine), and will facilitate the entry of the European carriers into the market.

Digitisation Projects

The main presidential candidates and their parties declare the digitisation of public services. Probably, projects of digital government, transfer of registries to blockchain and other digitisation projects will be launched. The need for investments and technologies of foreign companies will increase.

V. Increase in the Influence of External Players

At the end of presidential and parliamentary elections, the importance of external support for Ukraine will increase: the USA, European Union and international financial institutions (IMF, etc.).

Business may face the following consequences:

- Increasing the role of existing associations of foreign businesses (European Business Association, American Chamber of Commerce, etc.) and creation of new ones³.

³ In November 2017, the International Council of the Business Associations and Chambers in Ukraine/ICBAC was established. It comprises the U.S.-Ukraine Business Council, Chinese Commerce Association, International Turkish-Ukrainian Business Association, German-Ukrainian Chamber of Industry and Commerce, French-Ukrainian Chamber of Commerce and Industry, and Ukrainian Chamber of Commerce and Industry. The consolidation of NGOs lobbying interests of foreign businesses signifies the formation of more effective channels for communications with the Ukrainian state authorities in the new realities of the pre-election and post-election periods.

- Foreign investment advisory bodies may be established at the government, individual ministries and departments.
- An important resource can be the posts of advisers to the president, head of government, individual heads of ministries and other departments occupied by foreign citizens (e.g., Ivan Miklos, the Chairman of the Strategic Advisory Group at the Cabinet of Ministers of Ukraine, former deputy head of the Slovak government).
- Such representative bodies as the US Embassy, EU Delegation to Ukraine, etc. may still be the most effective resources.
- Also, in the post-election period, the High Anti-Corruption Court will begin its work (in April, judges administered the oath, they were selected by foreign experts); authorities of the National Anti-Corruption Bureau will be expanded (funded by the USA). These structures may be a leverage that can be brought to bear on chief executive officers of Ukraine.

VI. Potential Risks of Cooperation with Government Authorities in Ukraine in 2019

During this period, authorities will work based on the logic of elections. From the business point of view, this has a number of risks associated with the work in Ukraine:

- Short planning horizon for stakeholders during the election period:
 - difficulties with the implementation of long-term projects, since almost all ministries and departments are awaiting possible resignations of their leaders. Acute political struggle virtually excludes economic reforms that expose authorities to risks.
- Possible change of key stakeholders at the central (president, parliamentary speaker, prime minister) and regional (city mayors, local councils of deputies, heads of state administrations) levels will nullify existing business contacts and require building new ones.
- Increase in populist and high-profile initiatives by all key stakeholders: 1. Current deputies whose term of commission at the Verkhovna Rada expires (need to build their awareness for re-election); 2. Cabinet member V. Groysman (need to build their awareness for the reappointment or election to the Verkhovna Rada); 3. Newly appointed officials in the sector of presidential powers or quotas (need to build their awareness for election of presidential party Servant of the People to the Verkhovna Rada and acquisition of more powers in the new system of government).
- Risk of radicalisation of Ukrainian society and, as a result, promotion of populist and radical sentiments by the Verkhovna Rada, members of the Cabinet of Ministers, Security Council, and many activists/NGOs.

Appendix

Role of the Presidency in the Government System of Ukraine

The President is the central figure in the government system of Ukraine. His/her immediate responsibilities include foreign policy and defence issues (Commander-in-Chief) and some executive functions (shared with the Prime Minister). In particular, the President:

- proposes a candidate for the premiership, who is put forward by the coalition, for approval by the Verkhovna Rada (VR);
- can suspend the operation of acts of the Cabinet of Ministers, if such acts are in conflict with the Constitution of Ukraine, and refer the matter to the Constitutional Court;
- appoints and dismisses heads of regional and district administrations, on the proposal of the Prime Minister;
- appoints the Prosecutor General and the heads of the Antitrust Committee and the State Property Fund, subject to the consent of the Verkhovna Rada;
- appoints half of the Board members of the National Bank, half of the members of the National Council for Television and Radio Broadcasting, and one third of the Constitutional Court;
- has the right of veto over laws approved by the Verkhovna Rada.

Factors influencing the outcome of the 2019 elections

External factors:

The external factors include positions of key external government players in Ukraine: the US, European Union and Russia.

- The US position in respect of the elections depends on several factors: frustration of the American administration with the Ukrainian elite. The election of Volodymyr Zelensky as President is an acceptable alternative, provided that the newly elected President preserves the Euro-Atlantic course of Ukraine.
- However, the American administration appears to judge that future interaction with Volodymyr Zelensky, a creature of Igor Kolomoysky, would be hard to predict.
- Irritation of US President Donald Trump caused by the trial and sentencing of the former head of his campaign headquarters, Paul Manafort (who previously worked for former Ukrainian President Viktor Yanukovich):
 - with that said, Ukraine remains a factor of domestic politics in the USA (notably, the allegation of the Prosecutor General Yuri Lutsenko that Marie Yovanovitch, the US ambassador appointed by the Obama administration, handed him a list of “untouchable

persons” who should be immune to prosecution by the Prosecutor General's Office) as well as the attempt to initiate a criminal case against the owner of the Ukrainian mining company Burisma Nikolai Zlochevsky (the son of the former US Vice President Joe Biden is the member of the company's management).

- Ukraine matters less to the current than to the past American administration. Ukraine and settlement of the Ukrainian crisis are perceived as a peripheral matter compared with other foreign policy priorities of the Trump administration (China, Iran, changing the rules of the game in International Trade, etc.).
- The position of the European Union, and particularly of Germany, is less critical, but it also matters:
 - the EU is generally committed to settlement of the conflict in Ukraine and easing of the sanctions regime against Russia after the conflict is settled;
 - V. Zelensky may be suitable to the EU as a candidate who could initiate a dialogue with Russia and implementation of the Minsk Agreements;
 - Germany and number of other European countries are irritated by the negative attitude of Ukraine to the Nord Stream-2 gas pipeline.
- Russia's position is important in the context of V. Zelensky's campaign promise to stop the conflict in the Donbas:
 - Moscow took the victory of V. Zelensky with restraint (there were no official congratulations from the Russian leadership), expressed doubts about the legitimacy of the elections (the impossibility of voting for Ukrainians living in Russia) taking a wait-and-see position;
 - The strengthening of sanctions against Ukraine (primarily oil, oil products and coal), as well as the suspension of oil products supplies by Belarus (the formal reason is poor-quality Russian oil), may indicate Moscow's desire to negotiate with the new President from a position of force.

Internal factors:

Politics

- The defeat of P. Poroshenko creates substantial risks for major entrepreneurs that supported him in the election (first of all — Rinat Akhmetov):
 - The presence of Andrey Gerus, consistent opponent to the Rotterdam plus4 formula, in V. Zelensky's team may cause significant problems for the energy business of Akhmetov in the medium term.

⁴ The pricing formula for power-generating coal with a focus on import parity (raw material price on the Rotterdam raw materials exchange plus costs for transportation to Ukraine). It plays to the rise of the final energy price for end users. The formula's key beneficiary is DTEK energy company of Rinat Akhmetov.

- Overcoming macroeconomic instability: low rates of economic growth (no higher than 2-3% per year) and low foreign direct investments (\$2.4 billion in 2018 against \$4.3 billion in the “pre-crisis” year of 2013);
 - significant external debt payments (about \$6 billion in 2019) and private sector debt in foreign currency (about \$50 billion) entail a risk of corporate and national defaults;
 - high debt burden (over 60% of GDP) and low foreign direct investments are fuelling further devaluation of the hryvnia and social unrest.

The Role and Importance of Local Elections in 2020

The next elections of deputies of local councils, city mayors, heads of villages and rural settlements are scheduled for October 2020. A steady trend towards decentralisation increases the importance of local elections for the formation of a new power structure in Ukraine.

The reasons for expansion of the powers and financial autonomy of the regions are as follows:

- The desire of central government to transfer a part of its financial and social burden to regional and local government (in order to avoid responsibility for economic failures).
- Attempts by a number of political players to gain a foothold in key regions:
 - the movement of economic resources and powers at regional level makes the struggle for control of local authorities important;
 - the most attractive regions are those where major industrial assets are concentrated (Dnipropetrovsk, Zaporizhia, etc.), as well as regions with strong “clans” that have national impact (Odessa, Kharkiv, Chernivtsi, Transcarpathia, etc.).

Decentralisation means that business must monitor the local agenda in regions of presence more closely, paying as much attention to local as to central government.

Main points of the local government reform

The decentralisation reform was launched in 2014. Only its first part, financial decentralisation, has been implemented so far, resulting in 30-50% increase of the budgets of regional centres (through reallocation of tax revenue).

The next stage of the reform will be a new administrative and territorial structure based on united territorial hromadas (UTHs) (a “hromada” is a local district or region). The UTHs will be created based on a criterion financial independence: adjacent districts can be brought together in a UTH if they are capable of self-sufficiency without major subsidies from central government. The process of UTH creation has been slow (it is voluntary).

The next stage after creation of UTHs will be the elimination of existing regional and local executive administrations (their heads are appointed by the President on the proposal of the Cabinet of Ministers). Local



administrations currently act as the executive bodies of regional councils, which are not appointed by government.

Existing regional and local executive administrations will be replaced by executive committees of regional and district councils of deputies. The government will then delegate powers in the budget, finance, economic and social spheres to these committees.

Settlement of the Conflict in Donbass

This process is out of the hands of the Ukrainian government, since it is being resolved by external players: the USA, EU and Russia. However, it can have significant impact on the processes of decentralisation in Ukraine:

- In early October 2018, the Verkhovna Rada extended the validity of the law “On the special arrangement for local government in certain areas of Donetsk and Lugansk regions” until December 31, 2019.
- Implementation of the provisions of this law (stipulated by the Minsk Agreements) will effectively remove the territories from Ukraine's control and make them autonomous entities. This could trigger a chain reaction, as other regions may aspire to the same rights.