

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

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

March 15, 2016

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

Testimony

by

Ambassador (Ret.) John E. Herbst
Director of the Dinu Patriciu Eurasia Center

Atlantic Council

@JohnEdHerbst

www.AtlanticCouncil.org

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

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

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

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

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

THE MILITARY SITUATION AND MINSK

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

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

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

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

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

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

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

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

Violations of Minsk I Lead to Minsk II

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

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

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

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

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

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

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

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

Minsk and Sanctions

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

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

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

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

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

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

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

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

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

U.S. Policy and Minsk

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

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

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

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

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

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

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

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

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

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

REFORM AND THE ECONOMY

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

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

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

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

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

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

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

The Dynamic of Reform in Ukraine

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

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

Overall Progress in 2015

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

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

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

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

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

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

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

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

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

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

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

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

The Storms Hit, And Yet More Progress

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

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

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

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

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

The Political Crisis

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

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

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

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

U.S. Policy: Plus and Minus

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

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

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

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

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

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