
Government reshuffle in Ukraine: in search of “internal sovereignty”

March, 2020

On March 4th, 2020 the Ukrainian Parliament removed Prime Minister Oleksiy Honcharuk from office. The decision eventually led to the resignation of the whole Government, with a significant reshuffle of the Cabinet.

At the suggestion of the President, Denys Shmyhal, previously serving as a Deputy-Minister in charge of Regional Development, has been appointed Prime Minister. Following the appointment of the new Prime Minister, most of the Cabinet members were also changed.

The list of officials remaining in office includes Mykhailo Fedorov (Deputy Prime Minister and Minister of Digital Transformation), Arsen Avakov (Minister of the Interior), Denys Maliuska (Minister of Justice) and Vladyslav Kryklyi (Minister of Infrastructure).

Furthermore, Vadym Prystaiko, ex-Minister of Foreign Affairs, has been promoted to the office of Deputy Prime Minister in charge of Euro-Atlantic integration. Some portfolios remain vacant, including the Ministers Energy, Education, Culture.

It is likely that the Government will undergo further structural changes: the Ministry of Agriculture will become independent from the Ministry of Economic Development; the same reallocation of responsibilities might occur with the Ministry of Culture and the still-to-be-established Ministry of Youth and Sports. The heads of the newly-established Ministries will be appointed in the near future.

Prosecutor General Ruslan Ryaboshapka was also dismissed on March 5th. Irina Venedictova, former Acting Director of State Bureau of Investigation, was appointed Prosecutor General on March 17th.

The change in Prosecutor General, accompanied by both the anticipated resignation of the leadership of the National Anti-Corruption Bureau and the expected appointment of a new head of the National Bureau of Investigation (NBI), implies a complete reshuffle of the law enforcement and anti-corruption structures and their re-orientation towards President Zelensky. At the same time, the existing partnership between the Office of the President and the Minister of the Interior, Arsen Avakov, will result in the consolidation of law enforcement



authorities. The Ministry of Interior, Prosecutor General's Office, National Anti-Corruption Bureau, Specialized Anti-Corruption Prosecutor's Office and State Bureau of Investigations are now all coordinated by the Office of the President.

Additionally, the reshuffle in the economic bloc of the Government could be followed by the dismissal of Yakiv Smolii, Governor of the National Bank of Ukraine. The replacements at regional level are likely to continue, due to the restructuring of the presidential power vertical under Andriy Yermak, the new head of the President's Office.

The implications of the Government reshuffles for public and government affairs work in Ukraine

The staff reshuffles, which could be described as a search for domestic resources of political sovereignty by President Zelensky's team, imply the following:

- Stronger influence of the Office of the President and its head, Andriy Ermak, on the Government; consolidation of the power vertical around the President Zelensky;
- Weakening influence of Ihor Kolomoisky on the Office of the President (although he preserves his influence on the 'Servant of the People' party);
- Strengthening of the influence groups of Arsen Avakov, Valery Khoroshkovsky (a businessman and former head of the Security Service of Ukraine and Customs Authority), Rinat Akhmetov, Serhiy Tihipko (served as Minister of Social Development and Deputy Prime Minister under President Viktor Yanukovich) and other local influence groups as new partners to Zelensky's team. Some of newly-appointed ministers could be loyal to these groups;
- Cooling relationships of the Office of the President with G7 countries, while still maintaining a political course towards the European integration and general pro-Western foreign policy trend ;
- The suspension of unpopular reforms promoted by the IMF and other international financial institutions (including renewed Labor Code, a number of fiscal initiatives, healthcare reform, etc.).

What does this mean for the corporate sector in Ukraine?

- Decreasing influence of the Western governmental and non-governmental institutions on Ukraine's domestic politics, including the economic sphere:
 - The loss of existing channels of communication at the ministerial level (a number of ministers belonging to economic and humanitarian blocs) as well as the law



enforcement and anti-corruption bodies (the Office of the Prosecutor General, National Anti-Corruption Bureau);

- The necessity to re-establish relations with key stakeholders, given the shifts in the environment;
- The need to form relations with strengthening local interests groups within the Government, the President's team and the law enforcement bodies.

Moreover, the considerable reduction in the influence of Western institutions on decision-making might be diluted by counter-balancing measures, meaning:

- A new wave of privatization, which should have started by 2020, and the preferential conditions for participation of foreign investors;
- Other steps to attract companies from Western countries (e.g. access to major procurement contracts, gaming market liberalization, various digital measures involving Western stakeholders, etc.).

Recommendations

1. To adjust any interaction with governmental stakeholders to a new political landscape:
 - a. Track the upcoming changes at the level of ministers (vacant positions), deputy ministers, heads of departments to follow changes at the political level;
 - b. Certain staff reshuffles could also take place in the Committees of the Verkhovna Rada (*in the case of the appointment of MPs to vacant positions in the government and other departments*);
 - c. Take into account the background of newly-appointed officials while interacting with them. Establish contact with the groups that can have an influence on individual ministers;
2. Try not to get involved in politics considering the high political turbulence in Ukraine:
 - a. Re-focus the stakeholder outreach efforts on large business associations, representing foreign businesses - namely the European Business Association, Amcham, the Council of Entrepreneurs under the Government, the Ukrainian Union of Industrialists and Entrepreneurs, etc;
 - b. To a lesser extent use the resources of embassies, special representatives and other state bodies which are seen as political rather than business stakeholders.



The reasons behind President Zelensky's 'staff revolution'

The resignation of the Government and the Prosecutor General can be seen as a rational continuation of the structural and staff changes in the public administration system in Ukraine, starting with the resignation of Andriy Bohdan, the former head of the Office of the President, in mid-February this year and the subsequent appointment to the office of Andriy Yermak, a close ally of the President.

Moreover, the changes are linked to a broader trend towards the increased independence of Zelensky's team and its further distancing from key political sponsors: tycoon Igor Kolomoisky on the one hand, and Western institutions and sponsors (e.g. governments, embassies, NGOs and grant structures, etc.) on the other, with the pro-Western course being maintained.

This trend, in turn, can be explained by a number of features of the relevant domestic and foreign policies:

Domestic policy agenda

- The partial loss of the Presidential control over the Government, the law enforcement bodies, the 'Servant of the People' party, as well as the Office of the President are the main reasons behind the current reshuffle:
 - The appointment of Oleksiy Honcharuk (former Chief of Better Regulation Delivery Office funded by EU) as Prime Minister and Ruslan Ryaboshapka as Prosecutor General in 2019 were initiated by Andriy Bohdan, a person close to Ihor Kolomoisky. The latter significantly influenced the Government and President Zelensky from the very moment he was appointed;
 - Furthermore, a significant part of the portfolios (e.g. former Ministers of Economic Development, Education and Science, Health) in Honcharuk's Cabinet went to people with closer ties to Western governmental and non-governmental structures than towards the President. The Western structures are represented in Ukraine both directly (the embassies of the G7 countries, the IMF, the World Bank Group, the EBRD, various NGOs and grant structures, etc.) and indirectly (the Ukrainian oligarch Viktor Pinchuk, who is considered to have close relations with the representatives of the US Democratic Party, etc.);
 - Strengthening fragmentation (up to a split on a number of important issues) of the President's party 'Servant of the People', whose 'minority stakeholders' are I. Kolomoisky, A. Avakov and V. Pinchuk, as well as Western NGOs and grant organizations.

The new Government of Ukraine



DENYS SHMYHAL
Prime Minister

- BACKGROUND, COMPETENCIES**
- Vice Prime Minister for Communities and Territories Development
 - Governor of the Ivano-Frankivsk Region
 - Director of Burshtynska thermal power station (DTEK holding)
- CONNECTIONS**
- A representative of the Western Ukrainian elites
 - Andriy Yermak
 - Rinat Akhmetov



VADYM PRYSTAIKO
Deputy Prime Minister for European and Euro-Atlantic Integration

- BACKGROUND, COMPETENCIES**
- Minister of Foreign Affairs
 - Representative of Ukraine at the OSCE Parliamentary assembly
- CONNECTIONS**
- Andriy Yermak



MYKHAILO FEDOROV*
Deputy Prime Minister, Minister of Digital Transformation

- BACKGROUND, COMPETENCIES**
- Projects on digitalisation and e-government
 - SMM
- CONNECTIONS**
- President Zelensky



ARSEN AVAKOV*
Minister of the Interior

- BACKGROUND, COMPETENCIES**
- National Police, patrol services
 - Paramilitary groups (National Corps, Natsdruzhyna, etc.)
- CONNECTIONS**
- Arseniy Yatsenyuk (ex-Prime Minister)
 - Ihor Kolomoisky



IHOR UMANSKY
Minister of Finance

- BACKGROUND, COMPETENCIES**
- Ministry of Finance (in the Governments of Yuliya Tymoshenko and Arseniy Yatsenyuk)
 - National Bank
- CONNECTIONS**
- Ihor Kononenko (ex-MP, the closest ally of Petro Poroshenko)
 - Yuliya Tymoshenko (Leader of the parliamentary party "Batkivshchyna" ("Fatherland"))



IHOR PETRASHKO
Minister of Economic Development, Trade and Agriculture

- BACKGROUND, COMPETENCIES**
- General Manager of Ukrlandfarming (agricultural company)
 - Managing director of Troika Dialog (investment company)
 - Ernst&Young
- CONNECTIONS**
- Oleh Bahmatyuk (Ukrainian businessman, owner of Ukrlandfarming)



DMYTRO KULEBA
Minister of Foreign Affairs

- BACKGROUND, COMPETENCIES**
- Deputy Prime Minister for European and Euro-Atlantic Integration of Ukraine
 - Permanent Representative of Ukraine to the Council of Europe
 - Career diplomat
- CONNECTIONS**
- Andriy Yermak



DENYS MALIUSKA*
Minister of Justice

- BACKGROUND, COMPETENCIES**
- World Bank
 - Better Regulation Delivery Office BRDO/World Bank Group
 - Lawyer
- CONNECTIONS**
- World Bank
 - Ex-Prime Minister Oleksiy Honcharuk



VLADYSLAV KRYKLIJ*
Minister of Infrastructure

- BACKGROUND, COMPETENCIES**
- Head of the Principal Service Centre of the Ministry of the Interior
 - Deputy Head of the State Automobile Inspection of the Ministry of the Interior
 - Arsen Avakov's adviser
- CONNECTIONS**
- Arsen Avakov (Minister of the Interior)



MARYNA LAZEBNA
Minister of Social Policy

- BACKGROUND, COMPETENCIES**
- Ministry of Economy
 - Secretariat of Cabinet of Ministers
 - Ministry of Social Policy (in the government of Mykola Azarov)
 - Director of the Department of Labour Market and Employment of the Ministry of Social Policy (at the time of Viktor Yanukovich's presidency)
- CONNECTIONS**
- Rinat Akhmetov



SERHIY BESSARAB
Minister of Veterans Affairs

- BACKGROUND, COMPETENCIES**
- Deputy Chief of the Staff of the Armed Forces
 - Armed Forces of Ukraine
- CONNECTIONS**
- Andriy Yermak



ILYA YEMETS
Minister of Health

- BACKGROUND, COMPETENCIES**
- Director of the State Institution "Scientific and Practical Medical Center of Pediatric Cardiology and Cardiac Surgery of the Ministry of Health of Ukraine"
 - Minister of Health (in the government of Mykola Azarov)
- CONNECTIONS**
- Andriy Yermak



ANDRII TARAN
Minister of Defence

- BACKGROUND, COMPETENCIES**
- Deputy Commander of the Ground Forces (Armed Forces of Ukraine)
 - Military Intelligence
- CONNECTIONS**
- Andriy Yermak



OLEH NEMCHINOV
Minister of the Cabinet of Ministers

- BACKGROUND, COMPETENCIES**
- Ministry of Youth and Sports
 - State Border Service
- CONNECTIONS**
- A representative of the Western Ukrainian elites



OLEKSIY REZNIKOV
Minister for Reintegration of the Temporarily Occupied Territories

- BACKGROUND, COMPETENCIES**
- Deputy Mayor – Secretary of the Kyiv City Council (Vitalii Klitschko)
 - Representative of Ukraine in the political subgroup of the Trilateral Contact Group
 - Partner at Asters Law Firm
- CONNECTIONS**
- Andriy Yermak
 - Serhiy Vlasenko (MP and closest ally of Yuliya Tymoshenko)
 - Vitalii Klitschko (Mayor of Kyiv)
 - Viktor Pinchuk
 - Rinat Akhmetov



OLEKSIY CHERNYSHOV
Minister for Communities and Territories Development

- BACKGROUND, COMPETENCIES**
- Head of the Kyiv Region State Administration
 - Assistant to the people's deputy Oleksandr Feldman
- CONNECTIONS**
- Oleksandr Feldman (a businessman from Khar'kiv)
 - Ihor Kolomoisky



VADYM HUTTSAIT
Minister of Youth and Sports

- BACKGROUND, COMPETENCIES**
- Ukrainian Fencing Federation
 - Kyiv City State Administration (Department of Youth and Sports)
- CONNECTIONS**
- Andriy Yermak

*retained the position

Vacant positions

- Minister of Energy and Coal Industry
ACTING MINISTER VITALII SHUBIN

- MAIN CANDIDATES**
- Andriy Gerus**
- Chairman of the Committee on Energy, Housing and Utilities Services
 - Presidential Representative in the Cabinet of Ministers

- BACKGROUND AND CONNECTIONS**
- Ihor Kolomoisky

- Ivan Plachkov**
- Head of the Supervisory Board of Kyivenergo
 - Minister of Fuel and Energy of Ukraine in the Governments of Viktor Yushchenko, Yuliya Tymoshenko, Yuri Yekhanurov
 - Head of the Odesa Region State Administration

- BACKGROUND AND CONNECTIONS**
- Rinat Akhmetov

- Minister of Agriculture**
- Minister of Culture, Youth and Sports
ACTING MINISTER SVITLANA FOMENKO
- Minister of Education and Science
ACTING MINISTER YURII POLYUKHOVYCH
- Minister of Reintegration of Temporarily Occupied Territories**

NOT APPOINTED YET

**ministries to be created as a result of structural changes in the government



- The drop in President Zelensky's approval rating (from 73% at the moment of successful elections down to 50% in March 2020), which is attributed to:
 - High disapproval rating for Honcharuk's Cabinet amid the initiation of unpopular reforms (land market reform, fiscal initiatives of the economic bloc, labor reform, etc.), followed by a number of public scandals involving the former Prime Minister (the wiretapping of calls, unpleasant remarks about the President made by Honcharuk; non-state status of educational diploma of former PM; ministerial award scandals etc.);
 - Lack of progress in criminal cases against officials representing the former administration; particularly cases that involve ex-President Petro Poroshenko. The criminal prosecution of 'corrupt officials' was one of Zelensky's main campaign promises.
 - No progress in bringing hostilities in the east of Ukraine to an end, as well as the ambiguous prospects for peace initiatives in the Donbas region (ending the war and reintegrating territories was repeatedly one of Zelensky's key campaign promises)
- The negative impact of falling approval ratings on the successful outcome of the upcoming regional elections for the 'Servant of the People':
 - Moreover, the results of the presidential party in the local elections are important as a confirmation of Zelensky's legitimacy as President. An unsatisfactory result may be seen by the opposing structures as an opportunity to start a harsh campaign against the President.
 - The regional elections play an important role in light of a continuing trend towards power decentralization. Mayors and Representative Councils of large cities are approaching the status of independent political bodies, being able to influence the current agenda at the national level;
 - The resignation of an unpopular government is also an attempt to divert negativity from the 'Servant of the People' party
- The necessity to improve the Cabinet's competence during high political and economic instability by the return of some experienced officials, who have previously worked in Government:
 - The technocratic officials include Prime Minister Denys Shmyhal himself, Minister of Finance Igor Umansky, and Minister of Health Ilya Emets. We can also enlarge the list with a number of candidates for vacant posts in the Government (Ivan Plachkov



is expected to take the office of Minister of Energy, Roman Zhukovsky is seen to lead the Ministry of Economic Development, etc.).

External factors

- The West's "Ukraine fatigue" and a change in foreign policy priorities of the United States and the European Union (*situation in the Middle East, trade wars, spread of coronavirus, situation in financial markets, etc.*)
- Use of the Ukrainian factor in domestic political confrontation in the US:
 - A conflict between the US Democratic Party-related establishment and the Donald Trump administration has led to disruptions in Washington-Kyiv relations (suspension of military support, US pressure on Ukraine through the IMF, investors' interest in Ukraine's government bonds, etc.)

Taking into account the uncertainty created by the unpredictable outcome of the US presidential election (November 2020), Kyiv is looking for opportunities to gain more internal and external sovereignty.

In these circumstances, Volodymyr Zelensky's team is trying to gain greater independence using the following instruments:

- Less dependence on old political sponsors (businessman Ihor Kolomoisky) and external influence (influence of Western governments and NGOs on the Government and decision-making in general) ;
- Reliance on domestic supporters with limited political ambitions and considerable financial and human resources:
 - Rinat Akhmetov, Valeriy Khoroshkovsky, Serhiy Tihipko are considered new political sponsors with mostly economic interests ;
 - A partnership was apparently offered to the Minister of Interior Arsen Avakov in exchange for becoming a loyal member of the President's national security team. Mr. Avakov can also get his "quota" in the Government (at the moment a post in the Government of Denys Shmygal is being discussed for ex-Prime Minister Arseniy Yatsenyuk. Mr. Yatsenyuk could also be appointed Head of the National Bank).

At the moment, however, the country's political course is unlikely to be changed (end of confrontation with Russia, rejection of European integration, end of cooperation with the IMF, etc.).



At the same time, it is likely that there will be an attempt to build pragmatic relations with Russia on key questions of foreign policy (settlement of the Donbas conflict) and economic issues (supply of gas, oil products, electricity, etc.). This cooperation will be coordinated by Andriy Yermak and Dmitry Kozak (*Deputy Chief of Staff of the Presidential Executive Office*).

The prospects for Denys Shmygal's Government

In March-April, the final formation of a new Government aimed at co-operation with President Zelensky's Office and representatives of large Ukrainian businesses is expected. The Government is designed to reduce the influence of the West and Ihor Kolomoisky on Ukrainian politics.

The new Government of Denys Shmygal has the following main characteristics:

1. **Technocracy.** A number of professionals who had worked in the previous governments or specialized agencies got positions in the new Cabinet.
2. **The Reform agenda will be replaced by the anti-crisis agenda.** The rise of political and economic turbulence locally and globally raises the price of management mistakes.
3. **Unpopular reforms are likely to be delayed.**
4. **Coalitional nature.** Places in the new Government are assigned to people directly associated with Volodymyr Zelensky and Andriy Yermak, some of the seats went to the new political partners of the Presidential Office (in particular, Rinat Akhmetov).

This new design is likely to exist until the end of 2020. The key events that can affect this design in future are the local elections in Ukraine (October, 2020) and the US presidential elections (November, 2020).

However, a crisis scenario cannot be ruled out. The main risk factors are the following:

- A massive economic crisis (the coronavirus pandemic, falling commodity prices) and, as a result, weakening of the national currency (financial regulators have limited resources to counter the devaluation of the hryvnia) and the rise in prices:
 - On March 11, due to the spread of coronavirus a nationwide quarantine was announced in Ukraine until April 3 (lockdown of educational institutions, prohibition of mass events, cessation of air traffic to a number of countries, closure of most border checkpoints)



- A devaluation of the hryvnia on one hand would stimulate exports, on the other it will make it difficult to pay off the external debt of Ukraine and raise the issue of default
- The threat of a new round of "hot confrontation" in Eastern Ukraine with the risk of a "smoldering war" turning into a large-scale fighting

Crisis scenarios imply almost unforeseeable consequences for the organization of power in Ukraine.

-ends

For further info please contact us via phone: +38 094 710-0259 or e-mail: ukraine@kesarev.com

About Kesarev

Kesarev is the largest independent consultancy in Russia, the post-Soviet region, Central and Eastern Europe and Turkey, covering 19 countries and specializing in government relations services, risk and corporate reputation management.

Kesarev was ranked by The Best Lawyers rating since 2014 among the best Russian consultancies in Government Relations, Government and Regulatory practices, while Kesarev partners were listed within Top-1000 managers rating in 2014, 2015, 2017.

www.kesarev.com