
Helping Ukraine: A New Approach

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Despite a sizable \$17.5 billion loan to Ukraine announced by the International Monetary Fund in March, there is a disconcerting sense that Western leaders are losing interest in the country. Not surprisingly, no new aid packages for Ukraine were announced at this past weekend’s meetings of the IMF and World Bank. Meanwhile, President Obama still refuses to provide to Ukraine military assistance that would help it defend itself against further Russian aggression. Since Russia’s invasion more than a year ago, President Obama has yet to visit Ukraine in a show of solidarity. The fighting in the eastern part of the country continues despite the February Minsk ceasefire agreement, albeit on a smaller scale, while the European Union struggles to maintain unity among its 28 members to renew sanctions against Russia ahead of its leaders’ June summit.

In short, Ukrainian leaders, grateful for the support they have so far received, nonetheless realize they cannot rely on the West to save them from further calamity. Western leaders should be doing more to help Ukraine, a country of 46 million. This, in turn, would stop Putin’s growing threat to Europe. If Putin’s objective is to destabilize the Ukrainian economy, the Western response should be focused on economic stabilization and financial assistance.

Until then, Ukraine’s leaders will need to work with its business elite and foreign investors doing business in Ukraine to do what they can to stem the damage caused by Putin. But Western governments and international lending agencies should not be left off the hook. We propose a three-pronged approach that relies on all interested parties – Ukrainians and the international community actively supporting Ukraine in its hour of need:

Social Stabilization Program. Establish a Social Stabilization Fund for several Ukrainian regions adjacent to the war zone. These regions should include Kharkiv, Dnepropetrovsk, Zaporizhia, and possibly Kherson, Mykolaiv and Odessa. The most critical region at the moment is Kharkiv, and it needs to be given a very high priority. A large segment of the population in the Kharkiv region is so discouraged by events and by the constant bombardment of Russian propaganda that they could be supportive of a Russian invasion or an attempt to establish a so-called People’s Republic.

However, a series of decisive measures aimed at improving economic conditions in these areas could affect the mood of the population dramatically and make them strong supporters of an independent Ukraine. Therefore, establishing a Social Stabilization Fund is urgently needed to help local communities in the most affected regions.

Such a Fund would provide emergency funds to enable local communities to implement micro-projects, such as improvements in local water supply, sanitation and sewage, improvements in schools, libraries, hospitals, local roads, and infrastructure. The Fund will also have a micro-finance program to provide credit to locals and may also include programs to provide temporary employment

opportunities and re-training assistance for those displaced by the war. Improving the quality of life of the beneficiary communities, fostering job creation and the improvement or building of social and productive infrastructure will greatly benefit Ukraine.

FDI and Trade Facilitation Program. While a Social Stabilization Fund can help in the short-term and serve as a bridge to a more sustainable economic growth environment, to get there a comprehensive program of trade and foreign direct investment (FDI) facilitation needs to be developed by Western governments and various international financial institutions.

To facilitate growth in international trade, the U.S. should enter into a Free Trade Agreement (FTA) with Ukraine. The U.S. already has FTAs with 20 countries around the world, and an FTA with Ukraine should be a priority and could be modeled after the EU-Ukraine FTA. The expansion of exports in countries entering into FTAs with the U.S. has been significant. Ukrainian exports to the U.S. today represent only 1% of its total exports (about \$900 million), 50% of which are in iron/steel products. It is feasible to increase Ukrainian exports in categories such as vegetables and fruits (Ukraine is among the world's largest producers of vegetables), processed food, textiles, minerals, and services such as computer software and tourism.

To enable the product and geographical diversification of Ukrainian exports, as well as to revive and stabilize the economy in general, a major increase in foreign investments, both public and private, will be required. The bulk of the investments must be undertaken by the private sector in order to be sustainable over time. Nevertheless, there is a role for international support to help attract private foreign direct investments, given the uncertainties created by the hostilities in the East and the need to strengthen Ukraine's economy to allow it to contain further Russian aggression.

Helping Ukraine Complete its Transition to a Modern Democracy and Economy. Ukraine has been in transition for more than 20 years and the Ukrainian people have suffered tremendously during this time because of corruption, very slow or non-existing reforms, dishonest courts, oligarchic wars and other social and economic upheavals. In connection with support from the IMF, the Ukrainian government has already agreed to carry out a number of structural reforms, including an anti-corruption program, improvements in the business and legal environment, and the judicial/court system to ensure just and unbiased judgments, further business deregulation measures to minimize red tape and bribes, energy sector reforms to encourage energy self-sufficiency, reform of public administration including decentralization and local government reform, reform of the tax system, and better ownership rights.

However, the Ukrainian government lacks the institutional capacity to implement these reforms in a timely manner, but the U.S. and EU can step in and help. In particular, the US Agency for International Development should be given more financial and human resources to assist Ukraine in further implementing key measures to improve its business climate and help in other areas.

A ballpark estimate for implementing such a strategy is \$100 million. Although hurt by the economic crisis, Ukraine's business elite still has enough money to provide a meaningful contribution towards this goal. The role of the international community is vital too, since foreign investors in Ukraine have a lot at stake if Ukraine fails or succumbs to Putin's aggression. It is also critical to ensure that the funds designated for this initiative are properly spent. Support for Ukraine's war-affected regions would be one of the best ways to counter Putin's efforts to destabilize his neighbor. The sooner these measures can be taken, the more lives can be saved, not only in Ukraine, but in other countries as well.