Investing in Ukraine’s Future

By John E. Herbst, Steven Pifer and William B. Taylor Jr.

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Just over a year ago, President Obama signed into law the Ukraine Freedom Support Act, which provided congressional backing to sanctions on Russia following the Kremlin’s illegal annexation of Crimea and invasion of eastern Ukraine. Since then, sanctions have hurt Russia’s economy and prevented individuals in President Vladimir V. Putin’s inner circle from traveling to the West. The Obama administration should be commended for sustaining a successful sanctions regime.

But Washington must do more than just punish Russia. It must bolster Ukrainians as they struggle to build a new, reform-minded government while continuing to fight to maintain their country’s territorial integrity.

As winter sets in, the continuing war in Ukraine’s east has devolved into an economic siege as Russia leverages gas supplies, coal shipments and debt repayment to attempt to extract concessions from a Ukrainian government that is still battling Russian proxies violating the Minsk II cease-fire. With Ukraine’s economic output having shrunk by a quarter, the currency sharply devalued and a population fearful of an uncertain future, Ukraine is teetering on the brink.

Appropriately funding efforts to improve Ukraine’s stability is a down payment on Europe’s collective security. Russia’s land grab in Crimea violates the very security architecture — including the Helsinki Final Act responsible for establishing the inviolability of Europe’s national borders — that has kept
Europe secure since World War II. But the durability of this system depends on the West’s willingness to defend it. Failing to do so signals to both adversaries and allies that agreements among nations simply do not matter.

Support for Ukraine’s democratic aspirations in the face of Russian aggression is one of the few areas where both Democrats and Republicans agree. But the gap between rhetoric and resources pledged is shockingly wide. Next year, Ukraine can expect approximately $3 billion to $4 billion in conditional support from the United States and the European Union, combined. This sum is insufficient. Lawrence Summers, the former United States Treasury secretary, called on Europeans to deliver on promises to support Ukraine’s reform efforts with increased funding of $5 billion to $10 billion, calling it an important “security investment.” He’s right.

Congress and the Obama administration should work together to provide an additional $2 billion to $5 billion in economic support. At the same time, Washington should seek to persuade the European Union to make a similar commitment for a total of $10 billion, the optimal amount of support to allow Ukraine’s government room to maneuver. If budget concerns prevent that, it is essential that together the United States and European Union find at least $5 billion in assistance, the minimum threshold to ensure the viability of an independent Ukraine that can sustain its nascent reform effort and withstand a persistent campaign of economic sabotage by Russia.

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This grand aid package could include loan guarantees, direct budget support grants and debt swaps, as well as assistance to support reforms in key sectors, like 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 with debt swaps, which have a proven track record of helping sustain young democracies: The United States granted them to Poland in the 1990s.

As former American ambassadors to Kiev, we recognize one of the main challenges in providing economic support to Ukraine: corruption. This is why any future assistance package must be made conditional on the Ukrainian government’s commitment to accelerate reform and root out corruption. The current Ukrainian leadership is far from perfect, but the seeds of accountability have been planted, and Ukraine’s robust civil society ensures a steady supply of nurturing sunlight. The recent resignation of a notoriously corrupt parliamentary kingmaker and the appointment of a new top anti-corruption prosecutor are signs of Ukraine’s progress.

Longtime observers of Ukraine who are impatient for change have criticized the pace of reform. But the move toward market pricing in the gas sector, cleaning up the banking sector by closing insolvent banks and introducing transparency checks into banks’ ownership structures are commendable. So is the creation of the National Reform Council, the development of an official anti-corruption strategy and the gradual adoption of e-government and other transparent-governance tools.

A new Ukraine was born in the Maidan, but the United States and Europe have thus far failed to make an adequate commitment to its success. That must change. The West must now provide support commensurate with the military and economic threat Kiev faces, while also pushing the Ukrainian government to reform. A global order based on rule of law is at stake. Defending it cannot be done on the cheap. For the West, a Ukraine impoverished by Kremlin aggression will be far more costly.

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