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Chapter 5

Corruption in Ukraine in view of the war

ABSTRACT

Ukraine has been facing corruption problems for many years. Their beginning is rooted in the collapse of the planned economy, which was obligatory in the former Soviet Union. During the process of transition from the centralized planned economy with large bureaucratic institutions for economic planning, management and control to the market economy, in which the market is the main mechanism for regulating economic relations, some former state-owned enterprises went bankrupt, and others were privatized. However, since the legal framework for privatization was imperfect, privatization was conducted in illegal or semi-legal forms; non-transparent privatization procedures led to corruption, allowing for privatization of state assets through the loopholes in laws. This created a favourable environment for the formation of an oligarchy, which gradually took control of the country's key economic growth factors, such as the production of various forms of energy and the exploitation of mineral resources.

The economic power of the oligarchs went hand in hand with their political power and influence over the media. In the 2000s, the Ukrainian oligarchs began to take over the existing, and create new, media sources to affect public opinion and form a loyal electorate. Owing to this open niche that could be exploited to affect voters, pro-oligarchic politicians were elected to the Ukrainian Parliament, which made oligarch-friendly legislation a common practice. The level of corruption in the country became extremely high.

Following the Kyiv uprising in 2014, Western countries called for a tangible progress in the fight against corruption, and Kyiv set up some anti-corruption bodies such as the National Agency for the Prevention of Corruption and a specialized court of law. The anti-corruption architecture in the country was shaped that involved western-minded government officials, foreign experts who provided the relevant consultations, and socially responsible citizen groups. The anti-corruption reforms in Ukraine were and continue to be based on two main pillars: on the one hand, public disclosure of the information on governance and expenditure, and on the other hand, establishment of the independent anti-corruption institutions as well as prosecution of corrupt state officials. When implementing the measures attributable to the first pole, the databases of state registers for real estate (land, buildings), business enterprises and vehicles were created, and the public procurement system became open and accessible online. In 2016, the annual declaration of income and property was introduced for public servants, who have been required to declare their own and their family members' income, real estate, other valuable property, business assets and other property interests. An electronic declaration system serves this purpose. If the data of the declaration are falsified and/or discrepancies between real and declared income, property or property interests are identified, administrative and criminal liability shall be imposed.

In the current situation of war, the country has seen a significant decline in its tax revenues, exports and other revenues; the situation is further exacerbated by misappropriation of property and export goods, including agricultural inventory and output; at the same time, the country's expenditure has significantly increased. Since the country's economy is declining, the likelihood of corruption is increasing. On the other hand, given the growing flow of foreign aid to promote Ukraine's economic, social and financial resilience in the face of the emergency, less restrictive accountability for the use of funds may pose a risk that a part of these funds can be laundered or misused. This section aims to uncover the corruption situation in Ukraine, with a special focus on the military situation the country has been undergoing since February 2022.

Keywords: corruption, Ukraine, military situation

Introduction

Ukraine has been facing corruption problems for many years. Their beginning is rooted in the collapse of the planned economy, which was obligatory in the former Soviet Union. During the process of transition from the centralized planned economy with large bureaucratic institutions for economic planning, management and control to the market economy, in which the market is the main mechanism for regulating economic relations, some former state-owned enterprises went bankrupt, and others were privatized. However, since the legal framework for privatization was imperfect, privatization was conducted in illegal or semi-legal forms; non-

transparent privatization procedures led to corruption, allowing for privatization of state assets through the loopholes in laws. This created a favourable environment for the formation of an oligarchy, which gradually took control of the country's key economic growth factors, such as the production of various forms of energy and the exploitation of mineral resources.

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be laundered or misused. This section aims to uncover the corruption situation in Ukraine, with a special focus on the military situation the country has been undergoing since February 2022.

1. The Concept of Corruption

The modern conditions of economic and social development alongside the technological advancement create favourable conditions for corruption by increasing conflicts of interest and diminishing the degree of personal responsibility. Although Brown and Cloke (2004) suggest that corruption is often perceived as an endogenous problem, inherent to less economically and politically developed societies (e.g., African states), the last few decades, shaken by the scandals of corruption even in developed democratic states (USA, France, Germany), show that nowadays corruption is considered to be a tool of domination both at the national and global level (Boucher et al., 2007).

Since corruption is a complex, multi-layered phenomenon that covers a number of economic, social, political and cultural aspects and is able to adjust to the changes in the environment (Varraich, 2014; Transparency International, 2018; Luna-Pla and Nicolas-Carloc, 2020; etc.), it is difficult to provide its universal definition. Literature suggests a number of definitions of corruption that different authors present depending on the context the phenomenon is analysed in. The literature analysis shows that previous theoretical, empirical and critical analysis studies usually interpret corruption as a breach of public interest, betrayal of public trust, a criminal offense, damage, and a manifestation of the low public morale (see Table 1).

Table 1. Interpretations of corruption as a social phenomenon

Context	Features	Literature
Corruption as a breach of public interest	Abuse of public office, abuse of entrusted power, defective governance structure	World Bank, 1997; Transparency International, 2018; Gillespie et al., 2020; Sofuoglu, 2021
Corruption as betrayal of public trust	Behaviour of public officials or servants that is not compatible with their public duties; pursuit of personal gain	Milovanovic, 2002; Mungiu-Pippidi, 2013; Lindberg and Orjuela, 2014

Context	Features	Literature
Corruption as a criminal offence	Violation of legal norms, established standards, the interests of other persons; the basis for applying punishments according to the law	Milovanovic, 2002; Ragauskas et al., 2014; Encyclopaedia Britannica, 2020
Corruption as damage	Material and non-material damage to the public good, lower quality of public services, lower public welfare and protection, damage to indivisible human rights	Boucher et al., 2007; United Nations Human Rights Office of the High Commissioner, 2013; Lindberg and Orjuela, 2014; UNCA Civil Society Coalition, 2015
Corruption as a manifestation of the low public morale	Deviation from the general norms of social behaviour – morality, ethics, civic virtues; pursuit of personal gain	Šatienė and Toleikienė, 2007; Szabo, 2014; Lawal, 2019

Source: compiled by the authors.

Corruption as *a breach of public interest* is, first of all, defined by the World Bank (1997), which suggests treating corruption as "the abuse of public office for private gain" (p. 8), and by Transparency International (2018), which defines corruption as "the abuse of entrusted power for private benefits or gains." Sofuoglu (2021) proposes that corruption is the misuse of public power for private or political gain. In this context, the main attention is drawn to the fact that corruption is related to deep problems in a country's governing structure, non-compliance with governing rules defined by law, improper distribution of organizational and administrative resources (Gillespie et al., 2020).

Corruption as *betrayal of public trust* means that due to illegal and immoral actions, public administration officials and servants representing the public sector betray the public trust granted to them and associated with the positions they hold. The principal-agent approach is dominant in theoretical studies of corruption. Based on this point of view, corruption is initiated by governors, so it can be restrained in the government layer, i.e., with governors taking on various roles of informing, monitoring and punishing the society (Lindberg and Orjuela, 2014). Nevertheless, as it was stated by Mungiu-Pippidi (2013), actors who also tend to treat themselves as governors (e.g., officials and servants in ministries, control agencies, anti-corruption institutions) often misuse the powers provided by their positions and either cover up corruption or become perpetrators of corruption. In the latter case, public trust

is lost even regardless of whether the corrupt behaviour was or was not a violation of the norms established by the law. In this context, corruption is defined as the behaviour (actions) of public officials or servants that is not compatible with their public duties, and thus violates the public trust related to the duties (Milovanovic, 2002).

Definitions of corruption as *a criminal offence* focus on violation of particular laws, regulations or standards established in a state. In this case, the main focus is on the actions that are legally forbidden. *Encyclopaedia Britannica* (2020) defines corruption as an "improper and unusually unlawful conducts intended to secure a benefit for oneself or another." Ragauskas et al. (2014) define corruption as any behaviour of any person employed in **civil service** (a state politician, judge, state official, civil servant or other equivalent person) or in **the private sector**, exceeding one's authority, behavioural standards established in legal acts or company's internal rules, in the pursuit of private or other persons' advantage thus causing harm to the interests of the State or individual natural or legal persons. It is the legal definitions of corruption that create the conditions for treating this phenomenon as legally prohibited, and create the prerequisites for applying the penalties provided for violating the law (Milovanovic, 2002).

In defining corruption as *damage*, the major focus is on the material and non-material damage that it causes to the public good (UNCA Civil Society Coalition, 2015). Due to corruption, funds intended for creating public goods are diverted from state budgets. This means that corruption reduces the quality of public services, as well as the degree of public welfare and protection. Due to corruption, the state becomes unable to ensure the proper functioning of such systems as the judiciary, law enforcement, health, education, and social services (United Nations Human Rights Office of the High Commissioner, 2013). Corruption leads to obscurity and ambiguity in the work of public institutions (Boucher et al., 2007; Lindberg and Orjuela, 2014). According to United Nations Human Rights Office of the High Commissioner (2013), damage is done to indivisible human rights: civil, political, economic, social and cultural, as well as to the right to development. Without ensuring the proper functioning of legal systems, corruption damages the legitimacy of regimes (United Nations Human Rights Office of the High Commissioner, 2013). It undermines the legitimacy of a state's governance and the activities of state institutions, increases inequality, creates mistrust between different social groups and makes the country's development less sustainable.

The definitions of corruption as a manifestation of *low public morale* focus on the incentives of corruption deeply rooted in society. Lawal (2019) refers to corruption as a break away or departure from morality, ethics, laws and civic virtues. According to Šatienė and Toleikienė (2007), corruption arises from the inappropriate application of society's moral standards or their absence. Szabo (2014) argues that this can be the

case when individuals in certain collective units start their own corruptive conduct to fit in with the habits of their fellows; when some type of loyalty (e.g., political, professional, personal, etc.) overrides one's moral attitudes; when corruptive behaviour becomes the expression of gratitude; and in many other cases. Nevertheless, as it was noted by Lindberg and Orjuela (2014), corruption must be treated not so much as a moral problem, but as a structural problem of collective behaviour; this will also help to avoid the patronising tone which is so often found in discussions about corruption.

Corruption, i.e., the abuse of entrusted power (public or private) for illicit private gain, is considered an obstacle not only to economic growth and development, but also to political stability, democracy and sustainable peace (Boucher et al., 2007). These effects of corruption are especially problematic in the states which are experiencing and/or have survived military conflicts and are trying to maintain the activities of public institutions or restore them, restore social trust, and help the economy to survive or recover. The effect of corruption in warring and war-surviving states is extremely detrimental. According to Lindberg and Orjuela (2014), a high level of corruption both among a country's political leaders and in the local administration can threaten the legitimacy of wartime and post-war governance, hinder reconstruction and fuel grievances. Therefore, the next section of this study discusses the environment for corruption in a time of war.

2. Environment for Corruption in Wartime

According to Kos (2022), one can hardly find conditions more favourable to corruption than a time of war. Chene (2012) suggests that countries emerging from conflict are often characterised by "state illegitimacy, low state capacity, weak rule of law, wavering levels of political will and high levels of insecurity" (p. 1). The combination of all these factors creates favourable conditions for corruption to flourish. Although the size and patterns of corruption can vary from country to country, the size of corruption in the countries that are experiencing or have experienced war tends to be higher than that in the countries with comparable standards of living and gross national income (O'Donnel, 2008).

Corruption may gain momentum in wartime for several reasons. The literature analysis allowed to identify why the misuse of public power for personal gain has the potential to increase during an armed conflict (see Table 2).

Table 2. Review of the major causes of corruption in wartime

Causes	Explanation	Literature
Weak institutions and government structures	Participation in war weakens both the capacity of a country's government to govern and the recognition of its right to govern; the structure of power, inimical to the rule of law, is created; short-term stability priorities can lead to the acceptance of the impunity and involvement of unscrupulous actors in power-sharing	Rothstein and Uslaner, 2005; Boucher et al., 2007; O'Donnel, 2008; Uslaner, 2008; OECD, 2009; Dix et al., 2012; Chene, 2012; Lindberg and Orjuela, 2014; Duvell and Lapshyna, 2015
Inability of the state's main social control systems to perform their functions	War destroys infrastructure of the state; the administrative power is decreasing; there is a lack of resources and professionals for performance of the direct functions; more attention is paid to solving the problems caused by the war than to the fight against corruption	Chene, 2012; Kos, 2022
Lack or absence of public accountability	Wartime is characterized by mimicry and coercive isomorphism, which creates favourable conditions for politicians to promote their private interests; a non-democratic form of power can manifest not only in the highest structures of state management, but also in the military-industrial complex due to the significantly increased resources allocated there	Andvig, 2007; Kim and Sharman, 2014; Sofuoglu, 2021
Disruption of the ordinary market transactions	During the war, the traditional channels of commercial exchange (supply of goods and services) are violated; the lack of resources tends to increase smuggling and cross-border trafficking	Boucher et al., 2007; UNDP, 2010; Chene, 2012; Lindberg and Orjuela, 2014; Sofuoglu, 2021

Causes	Explanation	Literature
Massive inflows of foreign aid	In wartime, there is an imbalance between rapid inflows of foreign aid and the capacities of public authorities to distribute this aid in response to the population's urgent and growing needs; the support that does not require accounting is a particularly attractive target for embezzlement and misappropriation	Boucher et al., 2007; Galtung and Tisne, 2008; USAID, 2009; OECD, 2009

Source: compiled by the authors.

Chene (2012) notes that participation in a military conflict makes the country vulnerable and fragile. The major characteristics of fragile states are a lack of government efficiency, as well as a lack of capacity and legitimacy. In other words, war weakens the capacity of a country's government to govern (OECD, 2009) and recognition of the right to govern (O'Donnel, 2008). Citizens have less confidence in the country's political system and public institutions, which further weakens the legitimacy of these institutions. Rothstein and Uslaner (2005) suggest that inequality, trust and corruption are closely interrelated since they reinforce each other. Corruption results in less trust and leads to greater inequality (Uslaner, 2008). Thus a vicious circle starts, and in some cases the state may even be at risk of becoming non-existent and unable to provide public services as a part of the social contract between it and society. The structure of power that is created in the country in wartime is inimical to the rule of law. The borders of a warring country are poorly guarded, which is favourable for cross-border trafficking, which feeds the structures of power, opens up more opportunities for the shadow economy, and reduces customs revenues, while at the same time the country's ability to pay civil servants and provide qualitative public services drops as well. Thus, the increasing level of corruption is enhanced by weak government structures and public institutions. Chene's (2012) study explains that a lack of political legitimacy and the social contract between the state and society, as well as a lack of stability can be extremely detrimental because public authorities and illegal actors can form and maintain a corruption network by physically eliminating opponents, which is easier to be arranged in wartime. When the proceeds of corruption are distributed within a small group of agents, the needs of population are definitely not met (Dix et al., 2012), and the distinction between the public and the private spheres blurs. Lindberg and Orjuela (2014) also note that short-term stability priorities can lead to the acceptance of the impunity and involvement of unscrupulous actors in power-sharing. In order to achieve peace agree-

ments and cessation of violence, it may be necessary to compromise on political opportunities or economic advantage.

The second reason is that the state's major social control systems—the judiciary and law enforcement—cannot perform their functions properly in wartime. During the war, the infrastructure of the state is destroyed, meaning not only destruction of the physical infrastructure, but also reduction of the administrative power and resources that could have been allocated for performance of the direct functions (Chene, 2012), and a lack of professionals (some of them join the armed forces, and the remaining personnel can no longer work as efficiently and quickly) (Kos, 2022). In addition, the fight against corruption in wartime is not a priority of the aforementioned institutions (Kos, 2022). Much more attention is paid to the collection and recording of evidence of war crimes, the fight against looting, marauding, assistance to citizens affected by the war, etc. This creates an atmosphere of impunity and may lead to disregard for legal norms and growing levels of predatory behaviour.

Third, as it was noted by Sofuoglu (2021), public accountability becomes difficult during wartime. There are cases when a higher or lower level of corruption among state leaders was already noticeable before war, which is associated with a lower level of transparency and accountability. Kim and Sharman (2014), who analysed the issues of accountability, corruption and human rights violations, argue that two parallel norms—mandate and international duty—shall hold state leaders accountable for corruption and human rights violations. The level of accountability, however, tends to decline dramatically after the outbreak of war. Wartime is are characterized by mimicry and coercive isomorphism (Kim and Sharman, 2014). This creates favourable conditions for politicians to promote their personal interests. A corrupt government may not even have public support or political legitimacy, but consolidate its power by using military forces, in some cases, invited from foreign countries (e.g., US military forces in Afghanistan, Russian and Iranian forces in Syria). Sofuoglu (2021) also points out cases when a non-democratic form of power can manifest not only in the highest structures of state management, but also in the military-industrial complex. This suggestion is supported by Andvig (2007). Military-industrial structures are relatively closed (for reasons of state security, preservation of military and industrial secrets), which is favourable for corruption formation within the structure. In addition, military expenses, which increase significantly in the event of war, 'feed' military-industrial structures, so military contractors tend to lobby politicians to promote military spendings. Sofuoglu (2021) suggests that precisely for this reason, it is likely that the US military will be constantly involved in armed conflicts around the world.

Another significant cause of corruption is that war disrupts the execution of ordinary market transactions, i.e., during war, traditional channels of commercial

exchange, supply of goods and services are disrupted (Sofuoglu, 2021). There are cases when both civil servants and economic agents operating in the private sector make fortunes in war economies due to the control of key supply chains. The war itself requires huge resources, so a warring country often lacks essential goods such as food, medicine, etc. The lack of the essential goods makes residents try to get them in any way possible, so bribing officials or local government representatives who distribute resources, taking goods through the 'back door', etc. become an acceptable practice. The lack of resources promotes smuggling and cross-border trafficking (UNDP, 2010; Chene, 2012). Boucher et al. (2007) notes that both during the war and in the post-war period, smuggling of high-value commodities (e.g., precious metals, timber, etc.) intensifies, which increases customs evasion, feeds the shadow economy, and reduces state budget revenues that could be earned by selling the above-mentioned commodities through legal channels. The existence of illegal channels may pose difficulties at the time of peace negotiations and building a free-market economy because due to the extensive network of illegal trade channels, the country may face the risk of relapsing into violence through disruptive privatization procedures and destructive electoral processes (Lindberg and Orjuela, 2014).

Furthermore, if the country receives charity consignments and foreign support that does not need to be accounted for, it can become a very attractive target for embezzlement and misappropriation. Every war causes chaos, which, in its turn, makes it easy to misappropriate particular resources and remain unnoticed. As stated by Galtung and Tisne (2008), there is an imbalance between rapid inflows of foreign aid and the capacities of public authorities to distribute this aid in response to the population's urgent and growing needs. The gap between the amounts of financial resources provided by foreign donors and the capacity of the state to effectively absorb these resources in a transparent manner was confirmed in the USAID's (2009) report. It is this gap that acts as the main stimulus for corruption. Another significant aspect of foreign aid is that, according to the OECD (2009), the state receiving foreign aid is accountable both to its citizens and international donors, though the expectations of citizens may not always coincide with the expectations of the donors, which are often influenced by geopolitical and political priorities. Therefore, the donors may decide to channel the support directly to non-governmental organizations (NGOs). However, Boucher et al. (2007) state that although this can improve access to the resources needed by the population in the short term, this effectiveness tends to decrease in the long term because on the one hand, limited accountability may raise corruption levels within the NGOs, and on the other hand, the circumvention of governmental structures leads to erosion of the stability of the state.

In summary, the potential for corruption in wartime tends to increase because of the combination of weak institutions and governance structures, inability of the

state's main social control systems (the judiciary and law enforcement) to perform properly their functions, a lack or absence of public accountability, disruption of ordinary market transactions, and massive inflows of foreign aid. Thus, corruption is promoted by structural opportunities, the weakness of a country's governance, the influence of military structures, and spoiler-specific factors (illicit profits). The results of previous studies show that the relationship between corruption and war is real. However, the direction of this connection has not been confirmed, i.e., it is not clear whether war promotes corruption due to the disruption of normal market activities and a lack of public accountability, or vice versa: corruption becomes one of the factors of the start of war because state leaders, managing the major resource supply chains, look for a justification for redirecting state resources at even greater levels. Although, as noted by Transparency International (2010), corruption in a time of war can be employed as a strategy for survival and overcoming bureaucratic barriers, it is also true that if a country functions properly, corruption should not go unnoticed and unpunished. Regrettably, governments of the countries in war can only expect marginal success in exercising their social control functions properly, as the major focus tends to be on military efforts.

3. The PEST analysis of Ukraine in the Context of Corruption in Wartime

Ukraine emerged as an independent republic following the collapse of the Soviet Union in 1991. The Declaration of the Sovereignty of Ukraine was adopted by the Parliament of the Ukrainian Socialist Republic on 16 July 1990 (Verkhovna Rada Ukrainy, 1990), but it still kept Ukrainian Soviet Republic within the Soviet Union. On 24 August 1991, the Ukrainian Parliament passed the Act of Declaration of the Independence of Ukraine as a response to the failed political coup attempt that had taken place in Moscow five days earlier. The Act of Declaration of the Independence made Ukraine a sovereign state and was an instrument to secure the state's border and citizens' rights (Thomson, 2019). The national referendum on the Act of Declaration of the Independence took place on 01 December 1991. 90.32 percent of the referendum participants (the total number of 28,804,000 people) supported the Act. The yellow and blue national flag was adopted as the official standard of Ukraine by the Parliament on 28 January 1992.

The Constitution of Ukraine was adopted in 1996, i.e., five years after the Declaration of Independence. The Constitution established an independent political system of government and defined it as a unitary republic (Chapter I, Article 2). The President of Ukraine, who was recognized as the Head of the State (Chapter V,

Article 102), was given the power of legislative initiative and the power to dismiss the Parliament. The Parliament was recognised as the main legislative institution of Ukraine (Chapter IV, Article 75). In short, the Constitution of Ukraine provides for a presidential-parliamentary system of the state's government.

Ukraine has a population of 39,701,739 people (as of 1 July 2022) (World Population Review, 2022); the capital and largest city is Kyiv; the main spoken languages are Ukrainian and Russian, which is widely spoken in the eastern and southern parts of the country.

Ukraine covers an area of 600,000 km² making it the second largest country in Europe after Russia. It has a coastline at the Black Sea and the Sea of Azov; it is bordered by Russia in northeast and east, Belarus in northwest, Poland and Slovakia in west, and Hungary, Romania and Moldova to southwest. The Crimean Autonomous Republic, encompassing the Crimean Peninsula, or Crimea, in the south is included in Ukrainian borders, but it is now under Russian occupation. In accordance with the Law of Ukraine "On the special order of local self-government in separate regions of Donetsk and Luhansk", a special order of local self-government is introduced in separate regions of Donetsk and Luhansk. On 17 March 2015, the Verkhovna Rada of Ukraine recognized the territory of certain areas in Donetsk and Luhansk regions (oblasts) as an occupied (by Russia) territory (the Law "On the recognition of certain districts, cities, towns, and villages of Donetsk and Luhansk regions as temporarily occupied territories").

Ukraine is not a member of the EU, but on 1 September 2017, the EU-Ukraine Association Agreement entered fully into force after a long period of ratification. On 28 February 2022 (shortly after the beginning of the full-scale Russian invasion), Ukraine applied for membership of the EU. On 17 June 2022, the European Commission recommended that the European Council grant Ukraine candidate status for accession to the EU. On 23 June 2022, the European Parliament adopted a resolution for the immediate granting of candidate status. On the same day, the European Council granted Ukraine the status of a candidate for accession to the EU.

Today Ukraine is in a deep political, economic and social crisis. In addition to the impact of the global economic crisis caused by the COVID-19 pandemic, the country is in war with Russia which has been ongoing since 24 February 2022. The major consequences of the war are a large-scale humanitarian crisis affecting millions of people and a severe economic shock (OECD, 2022). In the time of war, Ukraine has seen a significant decline in its tax revenues, exports and other revenues. The situation is further exacerbated by the misappropriation of property and export goods, including agricultural inventory and output, by Russia. At the same time, Ukraine's expenditure has significantly increased in response to the needs of the military forces defending the country. Since the country's economy is declining,

the likelihood of corruption is increasing. It is being further increased by the substantial inflows of foreign aid: less restrictive accountability for the use of donations may pose a risk that a part of these funds can be laundered or misused. A high level of corruption in every country negatively affects the adherence to the principle of the rule of law, the level of democracy and social justice; the effects of the deteriorating corruption can be detrimental to a warring country. This section of the study aims at providing the PEST (political, economic, social, and technological environment) analysis of Ukraine in the context of corruption in wartime.

3.1. Political Environment

Type of government. The Verkhovna Rada (Ukrainian parliament) adopted the Constitution of Ukraine in force on 28 June 1996. According to this Basic Law, Ukraine is a sovereign, independent, democratic, social and law-based state (Article 1). The sovereignty of Ukraine extends throughout its entire territory (Article 2). The human being, their life and health, honour and dignity, inviolability and security are recognised in Ukraine as the highest social value (Article 3). The principle of democracy is defined in Article 5, stipulating that "the people are the bearers of sovereignty and the only source of power in Ukraine." The power is exercised "directly and through bodies of state power and bodies of local self-government." The principle "social responsibility" of the State provides for social protection of the population, while the "rule of law" implies that legality is the general measure of freedom, equality and justice. State power in Ukraine is exercised on the principles of its division into legislative, executive, and judicial powers (Article 6).

By Article 75, the Constitution recognises the Verkhovna Rada of Ukraine as the sole organ of legislative power, with the highest executive body being the Cabinet of Ministers of Ukraine (Article 113). The Constitutional Court of Ukraine and courts of general jurisdiction exercise judicial proceedings (Articles 124 and 125). Article 102 defines the status of the President of Ukraine: "The President of Ukraine is the Head of State and acts in its name."

In Ukraine, the institute of presidency at the head of the state is a comparatively new phenomenon in the political life and state-building. Making the institution of presidency of Ukraine was the key element in the reformation of the state power connected with the proclamation of Ukrainian independence and change of its constitutional system. The Institute of Presidency in its present form did not form at once. At first, the President, in accord to his status and title, was the highest official in the country, becoming next the Head of State and Executive Power, to act as the Head of State at present in accord with the Constitution in force.

The government, the Cabinet of Ministers of Ukraine, which consists of the Prime Minister of Ukraine, First Vice Prime Minister, three Vice Prime Ministers and seventeen various departmental Ministers, exercises executive power in Ukraine. The Prime Minister heads the Cabinet and directs its work. The President appoints the Prime Minister under the consent of over half of the constitutional composition of the Verkhovna Rada. The President on the advice of the Prime Minister appoints personal composition of the Cabinet of Ministers. The Prime Minister is responsible to the President and accountable and acts under control of the Verkhovna Rada of Ukraine. Within its authority, the Government issues decrees and regulations mandatory for execution. The Prime Minister signs the deeds of the Cabinet of Ministers of Ukraine. In case of the Prime Minister's resignation or no confidence resolution adopted by the Verkhovna Rada, all the Government steps down from the office.

The Cabinet of Ministers provides for carrying out financial, price, investment and taxation policies, as well as actions in the areas of labour and employment, social protection, education, science and culture, environmental protection, ecological security, and nature management. The Cabinet of Ministers works out the draft of the Law on the State Budget of Ukraine for approval by the Verkhovna Rada and ensures its execution. In addition to the Cabinet of Ministers, the system of the national executive body covers the relevant ministries, state committees and special status central agencies of executive power.

Ministries, managed by Ministers, are the primary organs within the system of the national executive body to carry out government policies in the defined activity area. As a member of the Cabinet of Ministers of Ukraine, a Minister is responsible for developing and implementing the Program of the Cabinet on the relevant issues and executing the government policies within the defined area. A Minister exercises administration, directs and coordinates the activities of other organs of executive power related to the issues ascribed to their authority.

State Committees are organs of executive power and conduct the activities directed and coordinated by the Prime Minister of Ukraine, any of the Vice Prime Ministers or Ministers. They put forward propositions concerning the development of the government policies to the relevant members of the Cabinet of Ministers and ensure implementation of the government policies in particular area; they also exercise control and interdepartmental coordination and perform functional regulation on the issues delegated to their authority. A State Committee is headed by a chairperson.

The Special Status Central Organ of Executive Power has a special mission and authority defined by the Constitution and legislation of Ukraine with specific order of forming, shaking-up, removing, accounting and reporting, as well as appointing

and dismissing the management staff and settling other issues. Like state committees, it is also headed by a chairperson.

According to the Constitution, Justice in Ukraine is administered solely by courts. The delegation of court functions, as well as their usurpation by other bodies and officials is not allowed. Courts have jurisdiction over all legal relations which develop in the State. The Constitution of the country points out that the establishment of extraordinary and special courts is prohibited. The general structure of the judicial system is stipulated in Article 124 of the Constitution of Ukraine, according to which the justice is administered by the Constitutional Court of Ukraine and by courts of general jurisdiction. The courts of general jurisdiction administer justice in the form of civil, commercial, administrative, and criminal legislation. The Constitutional Court of Ukraine is a special judicial body of constitutional control. Justice is administered by professional judges and, in the cases overseen by the law, by people's assessors and juries. The independence of judges is guaranteed by their immunity and their election by the Verkhovna Rada permanently after their first appointment to the position of professional judge by the President of Ukraine for a five-year term.

The Constitution of Ukraine currently in force was assessed on the whole positively by the **European Commission for Democracy through Law,** also known as the Venice Commission, which is considered the most authoritative advisory body on constitutional matters.

The negative aspect, however, is that Ukrainian anti-corruption institutions—the National Anti-Corruption Bureau (NABU) and the Specialized Anti-Corruption Prosecutor's Office (SAPO), established after the victory of the Maidan Uprising—conflict with each other, which greatly diminishes their ability to fight corruption effectively. The NABU makes unofficial accusations against the SAPO and claims that the latter is involved in corruption and illegally dismisses criminal charges against certain officials. The SAPO, in its turn, accuses the detectives from the NABU of incompetence, especially with regard to preparing investigative materials. Although, in 2017, the institutions signed the memorandum on cooperation, the relationship has not been normalized (Ogarkova, 2017).

Privatization. As a result of its Soviet legacy, Ukraine inherited a highly centralised political system complete with powerful members of the Communist Party (the *nomenklatura*), who were closely interconnected and, with the beginning of the privatization processes, quickly appropriated the country's key industries (metals, chemicals, arms manufacturing) as well as financial institutions, which allowed them to build quasi monopolies (Pleines, 2016). According to Barrett (2018), nearly 85 percent of all the shares of former Soviet enterprises were acquired by managers

(the *nomenklatura*) and so-called "employee groups." This uneven distribution of resources during privatization set the stage for the formation of an oligarchy, especially considering that the country did not have a constitution from 1991 to 1996.

The process of privatization in Ukraine started slowly. The Act of the Concept on Destatization and Privatization of State Enterprises, Land, and Housing was approved in December 1991, and further on, three laws on privatization—the Law on Privatization of the Property of State Enterprises, the Law on Privatization of Small State Enterprises (Small Privatization Law), and the Law on Privatization Certificates—were issued in early 1992. Thus, by 1992, Ukraine had adopted the major privatization laws. They established the main permissible privatization methods: an auction, a tender, a non-commercial tender (in which bidders compete on the basis of promised investment or adherence to certain conditions, rather than on the basis of price), leasing with buyout, buyout, public offerings of shares on stock markets, foreign investment, etc. Most of these methods could be applied by using cash or privatization certificates. Privatization certificates were not issued in paper form, but were transferred to citizens' bank accounts (there was a fear of excessive issuance costs). The employees of the companies were given the preferential right to purchase shares in the enterprises they worked in (closed subscription). It was allowed to use personal funds for the purchase of shares. Employees were also allowed to lease their enterprises from the state (the law on leasing was issued in 1992). The major goal of privatization was to transfer the ownership to private hands. Only in 1993, the Parliament of the country adopted the Law on the Budget of Ukraine, according to which 50 percent of privatization proceeds were to be directed to the state's budget (Prokhorov and Yablonovskyy, 2020).

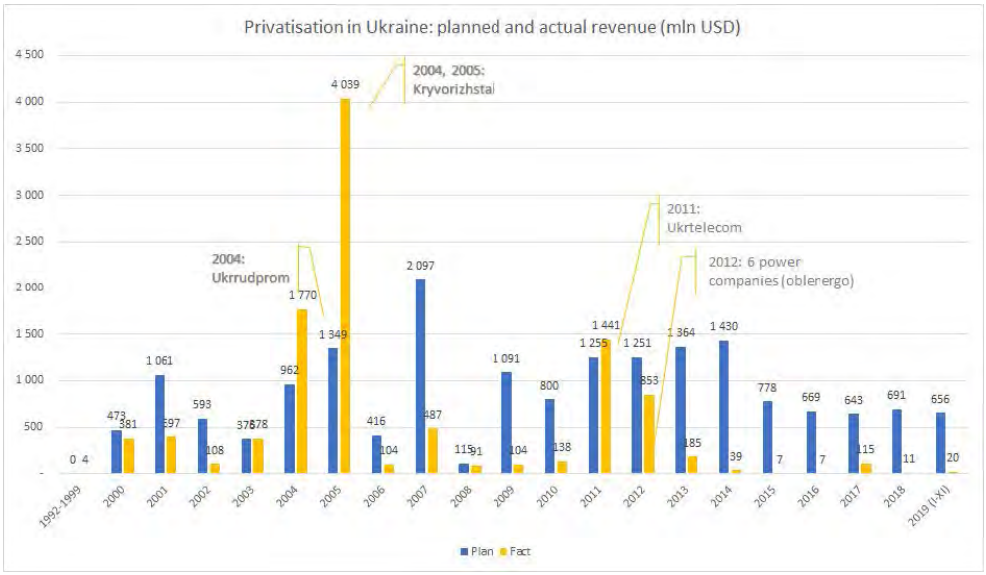
But despite the legal basis and methods prepared for privatization, relatively few companies had been privatized by December 1994 (Snelbecker, 1995). In July 1994, the newly elected Ukrainian Parliament passed the resolution "On Perfection of the Privatization Mechanism in Ukraine and Intensifying the Control of Its Conduct." A renewed privatization program was launched in 1994 that removed a significant number of previous obstacles, however, the privatization process did not proceed as expected. Out of 8,000 enterprises that were supposed to be the objects of privatization, less than 200 medium-size and large enterprises had participated in the mass privatization program by the end of June 1995. In early 1995, the Parliament approved the list of enterprises subject and not subject to privatization. The list of the former included 6,102 enterprises, many of which were attractive to investors (shipbuilding, maritime transport, oil refinery, fuel and energy enterprises, etc.). But many of them were subject to political interests (Prokhorov and Yablonovskyy, 2020). The approval of the list of companies to be privatized accelerated the privatization process, but in the 2000s the cumulative privatization receipts amounted to

only 3 percent of the country's GDP compared to an average of 9 percent in other transition economies.

In 1996, after the initiation of the Ukrainian financial system and the introduction of the national currency, selling blocks of shares for money became popular, which led to stock inflows into the stock market. Energy, mechanical engineering, metalworking, chemical, petrochemical and food enterprise stocks were the most in demand. However, the actual change of ownership (i.e., the transfer of more than 70 percent of ownership to private hands) occurred only in about a third of these enterprises, and the state remained the major owner, as before (Prokhorov and Yablonovskyy, 2020).

The State Property Fund, which was assigned direct responsibility for the implementation of the privatization policy, was relatively weak politically. The main decisions had to be made by the Cabinet of Ministers anyway, so the dispersion of decision-making greatly hurt the process (Snelbecker, 1995). Among other significant problems, it should be noted that local privatization funds were independent (had autonomy) from the central State Property Fund, so the latter could not properly supervise the course of the privatization process. The functions of the Fund were strengthened only in 2000-2002, after defining a clearer responsibility of this Fund.

Figure 1. Planned and actual revenue of the budget of State Property Fund of Ukraine, million USD, 1992-2019



Source: Prokhorov and Yablonovskyy, 2020.

Figure 1 indicates that the gap between the planned and actual revenues from privatization to the state budget is typical for practically the entire period under consideration. In 2004 and 2005, the growth of real income was determined by the privatization of large corporations Ukrrudprom and Kryvorizhstal. Ukrrudprom companies were privatized through oligarch-owned consortia under separate laws. The case of Kryvorizhstal is, however, mentioned as a positive example of privatization, as despite the original share package of this corporation being bought through consortia belonging to oligarchs, later, at the request of the President and the Prime Minister, the courts cancelled the results of the auction and the corporation was transparently re-privatized: 93.02 percent of its shares were purchased by Mittal Steel, one of the largest steel producers in the world. However, such examples were scarce. The privatization of the telecommunications company Ukrtelecom was subject to discriminatory conditions, requiring that objects of strategic importance be only sold to investors that already had a stake in a similar foreign or domestic market and were interested in expanding it; the participation of companies that had a share of any government or SOE exceeding 25 percent of capital was also limited. Thus, only one bid was received from the predetermined winner, and eventually the company fell into the hands of the oligarchs.

The sectors that were fully controlled by the state before privatization (i.e., chemicals, wood products, construction), became dominated by privately-controlled firms after privatization. The privatization of several large utility companies was interrupted by the seizure of physical assets by creditors. According to Elborgh-Woytek and Lewis (2002), the Ukrainian stock market was very thin, with enormous spreads and little transparency, allowing owners to expropriate minority shareholders. As a result, strategic investors rarely became owners of high-quality assets, while the shares acquired by citizens perished in trust funds, and politically connected individuals gained access to the state assets (Prokhorov and Yablonovskyy, 2020).

Elborgh-Woytek and Lewis (2002) suggest that privatization in Ukraine was uneven both in terms of the number of privatized companies and their restructuring. The private sector began to play a significant role in the economy only after the 2000s. However, Prokhorov and Yablonovskyy (2020) call this 'crony capitalism,' because the main fossils and energy enterprises were transferred to the hands of the chosen few, while local and foreign competitors faced the discriminatory conditions (e.g., JSC Ukrrudprom, and Ukrtelecom cases).

Government policy amendments were only made after the Maidan Uprising. In February 2016, the law on improving the privatization process and introducing privatization advisors was issued. In 2018, the law "On the Privatization of State and Municipal Property" was adopted. It was aimed at improving the process of large-scale privatization and ensuring greater transparency. The law significantly

limits participation of investors from Russia and the companies with 50 percent of shares owned by offshore companies. The law also effectively launched small-scale privatization auctions at the electronic platform Prozorro.Sale (by the end of 2019, 1.5 thousand objects had been successfully privatized through this platform) (Prokhorov and Yablonovskyy, 2020).

In summary, the primary conditions for corruption and formation of an oligarchy in Ukraine in the early period of privatization were the focus on the fiscal role of privatization rather than the goals, controversial and constantly changing privatization laws and programs, priorities for political rather than strategic investors' interests, discriminatory conditions, and thin and opaque stock market. After the Maidan Uprising, the privatization processes were improved by issuing new laws that helped to refine both large- and small-scale privatization and ensure greater transparency. The launch of the special electronic platform has proved effective for small-scale privatization auctions.

The Orange Revolution of 2004. Being a border country between democratic Europe and the corrupt authoritarian East, since 1991 Ukraine was facing the dilemma of which direction to follow (Sushko and Prystayko, 2006). At first glance it seemed that Ukraine would like to establish closer relations with European countries, however, it had been integrated into the Russian Empire and the Soviet Union for too long to be able to change its ways in a relatively short time and become an independent state. The shift turned out to be much more difficult than it had been hoped, and traditional ties with Russia dominated the structure of Ukraine's foreign economic relations (Atroshchenko, 2017). According to Motyl (1993), three key drivers of the transition from a Soviet country to an independent state are as follows: developing democratic policies, creating a strong civil society, and forming national identity. Prizel (1997) argues that democracy in post-Soviet regimes is characterised by a limited degree of independent judiciary, civil liberties, accountable public service, free press, and competitive elections. Underdeveloped civil society and national identification are indicated as weaknesses of Ukrainian democracy. Insufficient civil activism is associated with a lack of trust in political and social institutions (Emeran, 2017). The Ukrainian *oligarkhiia* is seen as the greatest obstacle to the country's democratic transition (Prizel, 1997; Kudelia, 2012). In this light, the Orange Revolution of 2004 is treated as an example of the positive correlation between increasing civil activism and democracy building (Kuzio, 2010).

The Orange Revolution was a series of protests and political events that took place in Ukraine from late November 2004 to January 2005. According to Dickinson (2020), it was the first revolution of people's power in Ukraine, and although it was not marked by a geopolitical drama of events, it marked the end of the early post-

Soviet era. The protests sparked after several local and foreign election observers submitted a report indicating that the results of the presidential election held on 21 November 2004 were rigged in favour of Viktor Yanukovych, who was running for the presidency against Viktor Yushchenko. The results of the election observers' report coincided with the widespread public perception that the election results were manipulated, and mass protests began in the country. The major achievements of the protests were the annulment of the election results and a revote that was ordered by Ukraine's Supreme Court for 26 December 2004. The final results showed a victory for Yushchenko, who received about 52 percent of the vote. The election was confirmed to have been free and fair, and after it, Ukraine was rated as "free" (previously it was rated as "partly free") by Freedom House (Pleines, 2016). President Yushchenko promised to strengthen democracy in the internal political structure of Ukraine, to ensure the rule of law and to strive for a decrease in the relations with Russia in favour for an increase in the relations with Western European countries in the structure of Ukraine's foreign economic relations (Atroshchenko, 2017).

President Yushchenko was substantially supported by the US government that renewed interest in Ukraine and enacted the Threshold Agreement (the agreement was signed in December 2006, and the program was concluded in December 2009), based on which $45 million were allocated to Ukraine to aid its anti-corruption effort. Ukrainian civil society groups were treated as the major vehicle for producing reforms (Barrett, 2018). The Threshold Program targeted the policy areas, measured by such indicators as Control of Corruption and Rule of Law. The program contained five projects with a multifaceted approach to reducing corruption in the public sector. The program was administered by the United States Agency for International Development (USAID) and involved more than 15 government entities, the Parliament and civil society organisations. According to the Millennium Challenge Corporation (2022), one of the main achievements of the program was that it significantly raised the quantity and quality of the information available to the public about corruption in Ukraine. In the scope of the judicial reform, the number of court decisions available in the Uniform Registry database increased by 486 percent. Seven Internal Investigative Units were formed within Ukrainian ministries and agencies to investigate fraud, abuse, wastage, and corruption cases.

Thus, the Orange Revolution laid important foundations for the fight against corruption in Ukraine, and this fight was quite generously funded by the United States. The post-Orange Revolution reforms, however, quickly got stuck because of the divisions among the leaders—President Yushchenko and Prime Minister Iulia Tymoshenko—especially concerning reforms in the energy sector. In 2005, President Yushchenko called for Iulia Tymoshenko stepping down. Having called for more resignations, President Yushchenko lost his popularity. At one point, he in-

stalled Viktor Yanukovych as prime minister, only to call for his resignation and reappoint Iulia Tymoshenko (Feifer, 2010). By 2010, public support for Yushchenko had deteriorated, and the 2010 election was won by Viktor Yanukovych, whom Russia saw as their pliable agent (Whitmore, 2014) and exploited the opportunity to assert its influence over Kyiv.

When analysing the effects of the Orange Revolution, Khodunov (2022) notes that the Orange Revolution took place at a time when Ukraine was experiencing extreme corruption, favouritism, nepotism, and the dominance of the oligarchs' political and economic power. All this led to a high level of inequality in society, dissatisfaction of the masses, regional and ethnic disagreements (confrontations). Thomson (2019) suggests that although the Orange Revolution does not fall within the definition of a classical social revolution, it initiated a process of transformation in the political culture and promoted public involvement in Ukraine. Another positive result of the Orange Revolution is that it prepared the ground for Ukraine's free media landscape, which freed itself from the smothering government censorship that had existed prior to 2004. Censorship gave way to free journalism, which, despite its imperfections, reflected the competing interests of various ruling clans (Dickinson, 2020). The presence of free media alongside the development of alternative social interaction forums (e.g., blogging, online discussion groups) created conditions for citizens to communicate freely, express their opinions (Thomson, 2019). This could serve as a basis for political socialization, the interaction between state leaders and the civil society, and future reforms. As noted by Dickinson (2020), the Orange Revolution can be treated as national awakening which established Ukrainian democratic values and helped the citizens to perceive their national identity. It also helped establish the principles of fair elections, contrary to the authoritarian regime characterized by political oppression and rampant vote-rigging. However, the reforms, especially in relation to the fight against corruption, were not implemented, because the essential aspects of the political culture in the country did not change: the effectiveness of politics remained low, which led to low public trust in political institutions and ruling officials, and discouraged the public from more active participation in political and non-political organizations.

The Maidan Uprising. Since the collapse of the Soviet Union in 1992, the Ukrainian political system has been characterized by poor government and systemic corruption, which led to deep social dissatisfaction and emigration. After the failure of the Orange Revolution in 2004, the subsequent coming to power of the Party of Regions and President Viktor Yanukovych gave rise to a new kleptocracy and a huge outbreak of corruption in all sectors, which severely undermined the rule of law and undermined public trust in the political elite and the efficiency of public

services. Duvell and Lapshina (2015), who conducted a survey of 2,000 Ukrainian respondents (aged 18-39) in the period 2010-2013, found that as many as 82 percent of them were dissatisfied with public policies addressing the issues of poverty, 76 percent were dissatisfied with the policies addressing employment opportunities, and 75 percent believed that politicians did not serve the population's best interests. 80 percent of the respondents indicated corruption as the major problem of the country. Corruption was characterized as a constantly increasing and widespread issue that affected negatively all areas of life. Hardly any citizens' legal rights were perceived as exercised without bribing state officials. Police officers were indicated as the officials constantly extorting bribes.

The lack of trust in the efficiency of the national political system alongside dissatisfaction with the quality of public services and the quality of life were the factors that shaped public mood on the eve of the Maidan Uprising (also known as Euromaidan). Although President Yanukovych, who had replaced his closest counterpart Yushchenko in the 2010 election, seemed to be trying to meet the requirements of the EU Association, at the same time he sought the economic integration of Ukraine into Russia's Eurasian Economic Union, one of the goals of which was to unify the former Soviet economic space (Atroshchenko, 2017). Meanwhile, Ukrainian society associated integration into the EU with the rule of law, functional public services, economic opportunities and stability (Duvell and Lapshina, 2015). Therefore, when after months of negotiations, on 21 November 2013 President Yanukovych decided not to sign the Association Agreement between the EU and Ukraine, a months-long mass protest rally began in the centre of Kyiv in response to the suspension of the preparations for signing the Association Agreement. Thousands of demonstrators (predominantly students) went out onto the streets. After Berkut, the Ukraine Special Force, had brutally beaten up the peaceful protesters on Maidan Nezalezhnosti ('Independence Square'), the student protest quickly evolved into a mass action of a national scope against the existing power. The rapid and dramatic expansion of the civil resistance was due to the extremely critical attitude of the people towards the policies that were being implemented by those in power, as well as the authoritarian use of power. Shevsky's (2022) study implies that the main factors of the Maidan Uprising were a deep regional linguistic, cultural and economic cleavage, ineffective management of the state's budget that led to the mass discontent, and the polarization of the political system. President Yanukovich's unexpectedly postponed signing of the Association Agreement served as a trigger for the rebellion, which was given the name "Euromaidan."

The name is a compound word, a combination of 'Euro' (from "European") and 'maidan' (which means in Ukrainian an open space in or near a town and at the same time is the name of the central square in Kyiv). This name reflects the

protesting public's support for the European integration of Ukraine and the pressure on President Yanukovich to fulfil the requirements of the Association Agreement so that the country was ready to apply for EU membership (Atroshchenko, 2017). The public expressed the desire for the European integration, spoke out against the regime of Viktor Yanukovych, demanded deeper democracy, justice concerning the perceived harmful actions of the government, and the dominance of the rule of law (Volovoj, 2015), and respect for human rights (Zelinska, 2017). This public attitude was supported by the protests in other regions of Ukraine. 106 people were killed in the protests in Kyiv and all over Ukraine. Since the summer of 2014, these events have been documented as the Revolution of Dignity.

Although President Yanukovych agreed to meet the demands of the public during the protests, he did not have much time to do so, because he was removed from power (Atroshchenko, 2017): in late January 2014, the Ukrainian government stepped down, ex-President Yanukovych fled to Russia and was replaced with an interim president until the next presidential election could take place. Following the election in May, Petro Poroshenko became President, presiding over a coalition of democratic and Ukrainian nationalist parties. Greater independence from Russia and the pro-European direction became the major goals of the new policy. Following the unprecedented use of violence, the Maidan Uprising resulted in the overthrow of the political regime. In June 2014, President Poroshenko signed the Association Agreement between Ukraine and the EU by which the EU agreed to provide Ukraine with political and financial support, access to research and knowledge, and preferential access to the EU markets.

The Maidan Uprising led to a return to pro-European foreign policies (Zelinska, 2017), and laid preconditions for creating a new civic identity (Zhuravlev, 2018). According to Shapovalova and Burlyuk (2018), Euromaidan started a new civic ethos of activism and prompted civic participation based on the values of civic responsibility, individual freedom, and dignity. Unlike the Orange Revolution of 2004, the Maidan Uprising promoted the civic activism that was more informal, more horizontal, more fluid and penetrated many more areas of public life and management (e.g., expertise, humanitarian aid, hard security provision, armed defence, etc.). Particular civil society groups offered their expertise to public authorities regarding the necessary reforms. Working closely with the country's government and parliament, the civic society promoted reforms in the area of public administration, was involved in drafting and advocating for legislative projects (organized advocacy coalitions to draft and lobby for legislation), participated in monitoring of how reforms were implemented. Public activists and volunteers united to address the military and humanitarian crisis caused by the armed conflict in the east of Ukraine, the Donbas region (Burlyuk et al., 2017).

President Poroshenko's government made progress in stabilizing the country's economic and financial situation, consolidated the banking sector, and initiated a more transparent system for public procurement (Pifer, 2020). However, in 2016, the reforms slowed down. The country failed to curb the oligarchic rule and prosecute those responsible for the 2014 shootings on the Maidan. Another reason for the failure was and is an ongoing conflict between the newly established anti-corruption agencies: the National Anti-Corruption Bureau (NABU), and the Specialized Anti-Corruption Prosecutor's Office (SAPO). NABU's unofficial claims against SAPO include the latter's illegal dismissal of criminal cases against certain officials, while SAPO is accusing NABU detectives of the lack of competence in preparing investigative materials (Ogarkova, 2018).

In summary, the advocacy and influence of the civic society on public policies stimulated by the Maidan Uprising are considered the major strength of Ukraine's civil society (USAID 2017; Democratic Initiatives Foundation 2018). Nevertheless, despite the clearly declared goal of the European integration, democratic elections, formation of the new government, and tackling the reform needs, the country failed to solve an old problem: the new Ukrainian government lacked a new political elite. The new President Petro Poroshenko was an oligarch, and Prime Minister of Ukraine Arsenii Yatseniuk was also a representative of the political past of Ukraine. According to Volovoj (2015), although the first post-Maidan presidential and parliamentary elections took place in specific conditions and can be excused for some shortcomings, the authorities failed to prove that the new system of governance was transparent and fair. The ongoing conflict between the newly established anti-corruption agencies—the National Anti-Corruption Bureau (NABU) and the Specialized Anti-Corruption Prosecutor's Office (SAPO)—makes the fight against corruption even more difficult. Thus, corruption continues to be the major concern of the state.

Annexation of the Autonomous Republic of Crimea and Sevastopol by Russia. Crimea was part of Russia since the 18th century; it was granted autonomy and was named the Crimean Autonomous Soviet Socialist Republic, existing under the umbrella of Russian Soviet Federative Republic. In 1954, Nikita Khrushchev transferred the Crimean region to the Soviet Socialist Republic of Ukraine, and it became a part of independent Ukraine in 1991. This status was recognized by Russia, which pledged to preserve the unity of Ukraine in the Budapest Memorandum on Security Assurances, signed in 1994 (Lozada et al., 2017).

The overthrow of the legitimate president of Ukraine after the Maidan Uprising came as a shock, especially to Russian authorities, who were deeply alarmed when they realized that Ukraine no longer wished to participate in the Eurasian Union,

but preferred membership in the European Union. An even greater concern was Russia's military security, since only the former president Yanukovych could ensure that Ukraine would remain Russia's military ally. After the overthrow of President Yanukovych, the situation changed and Ukraine began to drift slowly towards the NATO. Russian authorities saw this as a threat to their country's national security due to the NATO coming closer and closer to Russian borders (Russia's neighbours: Poland, Lithuania, Latvia, and Estonia had already become NATO members). A threat was also perceived to the security of the Russian Black Sea Fleet, which had its official primary headquarters and facilities in Sevastopol, the Crimean Peninsula. Ukraine's possible membership in the NATO alliance meant the loss of Russia's strategic military positions in the Black Sea region (Atroshchenko, 2017).

On 27 February 2014, Russian troops captured strategic sites across Crimea. Groups of armed men surrounded the airports in Simferopol and Sevastopol (*Encyclopaedia Britannica*, 2022). At least two dozen heavily armed men occupied the Crimean parliament building and the nearby headquarters of the regional government, and raised there a Russian flag (Shuster, 2014). Pro-Russian lawmakers dismissed the sitting government and installed Sergey Aksyonov, the leader of the Russian Unity Party, as Crimea's Prime Minister. Voice and data communication links between the Crimea and Ukraine were severed. Although Russia initially claimed their military was not involved in the events, Russian authorities later acknowledged that they had moved troops into the region (Pifer, 2020; *Encyclopaedia Britannica*, 2022). According to Atroshchenko (2017), in response to Ukraine's steps towards the NATO, Russian authorities decided to annex the Crimea through both the military intervention and the process of so-called self-determination of people. This was done by, first, occupying and securing the main administrative centres of the peninsula, and then by holding a referendum that inevitably determined the people's desire the Crimea to become a subject of the Russian Federation (Atroshchenko, 2017). The Declaration of Independence of the Autonomous Republic of Crimea and Sevastopol was a joint resolution adopted on 11 March 2014 by the Supreme Council of Crimean and the Sevastopol City Council that proclaimed the Autonomous Republic of Crimea and the city of Sevastopol a sovereign state titled the Republic of Crimea (Somin, 2014). The Crimean status referendum was held on 16 March 2014 in the Autonomous Republic of Crimea and the local government of Sevastopol. It was a violent and unlawful temporary rejection of Crimean autonomy and Sevastopol by Ukraine and their accession to the Russian Federation on the rights of the so-called subjects of the federation, proclaimed by Moscow on 18 March 2014 (allegedly as a result of the "referendum" held on 16 March 2014).

Ukraine and many other countries have condemned the annexation and considered it to be a violation of international law and Russian-signed agreements

safeguarding the territorial integrity of Ukraine, including the 1991 Belavezha Accords that established the Commonwealth of Independent States, the 1975 Helsinki Accords, the 1994 Budapest Memorandum on Security Assurances, and the 1997 Treaty on Friendship, Cooperation and Partnership between the Russian Federation and Ukraine. It led to the other members of the G8 suspending Russia from the group and then introducing a first round of sanctions against the country. The United Nations General Assembly also rejected the referendum and annexation, adopting a resolution affirming the "territorial integrity of Ukraine within its internationally recognised borders." The United Nations resolution also "underscores that the referendum having no validity, cannot form the basis for any alteration of the status of [Crimea]"; it called upon all states and international organizations not to recognize or to imply the recognition of Russia's annexation. In 2016, the UN General Assembly reaffirmed non-recognition of the annexation and condemned "the temporary occupation of part of the territory of Ukraine—the Autonomous Republic of Crimea and the city of Sevastopol." According to Grant (2017), this was the first time in the history of the United Nations when the annexation following the use of force was made by a permanent member of the Security Council against a member of the United Nations. The Russian Federation opposes the "annexation" label, with President Putin defending the referendum as complying with the principle of people's self-determination.

Rather than abide by international norms, Russia engaged in a worrisome military build-up in the Crimea, including moving nuclear-capable aircraft and missiles, weapons, and ammunition onto the peninsula. It increased its military presence in the Black Sea, the Sea of Azov, and the Kerch Strait. Russian forces harassed commercial shipping and mounted other provocations, for example, the attack on the Ukrainian Navy, seizure of three Ukrainian vessels, and detention of 24 Ukrainian service members. In a December 2020 resolution, the UN General Assembly condemned the militarization of the Crimea and called for Russia, as the occupying power in the Crimea, to withdraw its forces from the peninsula and end its occupation of Ukrainian territory. Annexation of the Autonomous Republic of Crimea and Sevastopol by Russia is considered a part of the wider Russo-Ukrainian War.

Assessing the political and economic consequences of the annexation of the Crimean Peninsula by Russia, Lozada et al. (2017) note that it caused serious structural economic imbalances and led to instability and uncertainty in Ukraine. In addition, the situation resulted in the disruption of some large investment projects in the energy sector, compromised the regular practice of logistics and foreign trade through the Black Sea, had a negative impact on grain markets, etc. The military escalation meant an increased risk to Ukraine's national security and the potential new open conflict with Russia both in short and long terms.

Having researched the connection between the annexation of the Crimea by Russia and financial and economic crimes in Ukraine, Galeotti (2014) suggests that after the collapse of the USSR, the Crimea and the port of Simferopol became heavens for smuggling, black marketeering and embezzlement schemes. After Ukraine became an independent country, organized crime flourished in Crimea, and local businessmen were forced to pay tribute and sell smuggled and illicit goods. By the 2000s, the power and impact of gangsters-turned-businessmen was increasingly dominant. Close ties were maintained with Russian criminal networks. Later former organized criminals moved into local government and politics, and started defrauding the state's money. According to Idris (2022), the connections between the Crimean organized crime groups and Russian criminal networks, as well as corruption, were significant factors which implied that it would be easy for Russia to occupy the Crimea when Yanukovych fled Ukraine. Galeotti (2014) explains that organized criminal groups operating in the Crimea (in particular, Bashmaki and Salem) knew that cooperation with Russia would benefit them. Sergei Aksyonov, the "Head of the Republic of Crimea" (de facto prime minister) is said to have been a member of the Salem organized criminal group in the 1990s, going by the nickname 'Goblin' (Galeotti, 2014). In other words, the criminal and corrupt connections were used as an instrument to implement Russian policies (Idris, 2022).

War in the Donbas. In March 2014, following the Maidan Uprising, protests by pro-Russian anti-government separatist groups arouse in the east of Ukraine: the Donetsk and Luhansk regions, collectively called the Donbas. Armed Russian-backed separatists seized government buildings throughout the Donbas, held a vote in favour of self-proclaimed governments, declared the Donetsk and Luhansk People's Republics and proclaimed sovereignity of these pseudo-republics (Grytsenko, 2014; Atroshchenko, 2017). In response to these events, a military counter-offensive against the separatists was launched by Ukraine in April 2014 (*BBS News*, 2014) to subdue the rebelling regions and retake the control over them. By late August 2014, Ukrainian forces managed to reduce the territory controlled by pro-Russian separatists and approached the Ukrainian-Russian border. Under a threat of losing the territories controlled by favourable forces, on 22 August Russia began a stealth military invasion in the Donbas that was disguised as a "humanitarian convoy" and denied by Russian official bodies (Kofman et al., 2017). With the help of Russian military forces, the separatists in the Donetsk and Luhansk regions managed to recover most of the territory which had been lost during Ukraine's counter-offensive.

Nevertheless, the terms of the protocol were repeatedly violated by both parties, warlords took control over the rebelling territories, which led to further destabilization (Vasilyeva, 2014). The second ceasefire protocol Minsk II was signed on 12 Feb-

ruary 2015, but like the first protocol, it was not effective. Both fighting parties began fortifying their positions and the area remained a war zone (Whitmore, 2016). As of August 2017, there were 10,225 people killed and 24,541 wounded as a result of the armed conflict since the beginning of the Donbas conflict in April 2014.

According to Atroshchenko (2017), the war in the Donbas, which began at a similar time as the annexation of the Autonomous Republic of Crimea and Sevastopol by Russia, was the reaction of the Russian Federation to the overthrow of President Yanukovych after the Maidan Uprising and his replacement by the pro-western government. By escalating unrest and military conflicts, the Russian Federation sought to create problems for the Ukrainian government and maintain and expand its sphere of influence. As a result, Ukraine became unstable, with separatist territorial control and distracted government.

The conflict has been international in nature and is considered a part of the Russian armed aggression against Ukraine. On 21 February 2022, Russia officially recognised the Donetsk and Luhansk People's Republics, openly moved military forced into these terriroties on 22 February 2022, and on 24 February 2022 began a full-scale invasion of Ukraine.

Analyzing the relationship between corruption and the war in the Donbas region, Idris (2022) suggests that corruption and crime served for pro-Russian protests and rebellion in this region, and later for the declaration of the Donetsk and Luhansk People's Republics. The author provides the evidence that organised crime groups and political elites/oligarchs were involved in symbiotic partnerships. The preconditions to the Donbas conflict were created by such factors as poor governance, corruption and criminality, and organized criminal groups have been involved in the fighting. In the territories occupied by the separatist government, the laws and control of the country's central government do not work, which creates extremely favourable conditions for transnational crime. Organized crime intertwined with corruption means that the situation can only get worse in the future. At the moment, Ukraine cannot resolve the problem of the Donbas on its own. It can only hope that the costs of the occupation, including the financial and economic sanctions imposed by Western countries, will become too high for Russia and the war will end in favour of Ukraine. Only then will Ukraine be able to expand anti-corruption reforms and build a successful and prosperous state (Pifer, 2020).

2022 Russian invasion of Ukraine. If, as noted by Barrett (2018) before Russia's large-scale invasion of Ukraine on 24 February 2022, both Western states and Russia were using their "hard" and "soft" powers to affect the Ukrainian reform efforts—Western states used to provide financial aid to bolster civil society and election monitoring groups (Sushko and Prystayko, 2006; Delcour and Wolczuk, 2015),

whereas Russia used to rely on historical interconnectedness, lucrative energy contracts as well as administrative and military intervention, as in the cases of Crimea and the Donbas (Vanderhill, 2013)—then, by starting the invasion, Russia sought to use its military advantages to accomplish the political objectives, also known as Russian irredentism (i.e., claims to parts of the former Russian Empire and the former Soviet Union).

After recognizing the Donetsk and Luhansk people's pseudo-republics on 21 February 2022, the Russian Federation sent its troops to the Donbas on a so-called "peacekeeping mission" (Kottasova et al., 2022) and authorized the use of military force outside the Russian Federation (Hodge, 2022). Russia's invasion of Ukraine was widely condemned by the international community and international institutions, such as the United Nations General Assembly, the International Court of Justice, the Council of Europe, and others. The European External Action Service (2022) recognized the invasion as "an unprovoked and unlawful attack on a peaceful country" and a "gross violation of international law, including the UN charter." Many countries have imposed sanctions on Russia and its ally Belarus, and have been providing Ukraine with humanitarian and military aid.

According to the World Economic Forum (2022), the current conflict might be fuelled and perpetuated by long-standing regional corruption. It is argued that corruption, which distorts political priorities, erodes public services, and exacerbates inequality, may fuel authoritarian violence. Based on the 2014 report, provided by Carnegie Endowment for International Peace, countries characterised by high corruption levels tend to suffer a military conflict or state failure. Barrington (2022) suggests that state capture, i.e., systematic corruption when narrow interest groups buy influence in order to control institutions and processes, was actively promoted by Russia in relation to Ukraine, which undermined the latter's national security.

Now, when Ukraine receives tens of billions of dollars and euros in military, economic and direct financial support, the question of a high level of corruption in Ukraine, which has been extremely relevant for a long time, arises again, i.e., there is concern about whether Ukraine is a suitable recipient of the massive infusions of foreign aid. Back in October 2021, when Russia was still amassing its troops near the Ukrainian border and Ukraine was being warned of the potential Russian invasion, the U.S. administration reproached the Ukrainian government for inaction on corruption and expressed their concern about unjustifiable delays in the selection of the Head of the Specialized Anti-Corruption Prosecutor Office, which is considered to be a crucial body in the fight against high-level corruption. That special prosecutor was finally selected in late December 2021, but was never actually appointed to the position. Although there are indications the appointment will happen soon, the dismissal of the Prosecutor General could complicate the matter (the Associated Press, 2022).

Although the issue of corruption remained on the back burner during the first months of the Russian invasion, concerns were renewed after President Volodymyr Zelenskiy fired Ukraine's Prosecutor General Iryna Venediktova, the Head of the Security Service Ivan Bakanov and other senior officials. The Parliament ratified the dismissals on 19 July 2022. The argument was presented that these officials were involved in corruption. It was stated that officials who occupied high positions in the state governance structure could have betrayed the public trust, which could have helped Russian forces to capture quickly the southern part of Ukraine (Kherson, Melitopol, Mariupol) while Ukrainian forces were blocking the progress of the occupiers around the capital. In March 2022, Andriy Naumov, former Head of the Department of Internal Security at the Security Service of Ukraine, and Serhiy Kryvoruchko, former Head of the Security Service of Ukraine in Kherson, were accused of treason.

In addition, concern is expressed over the possibility that military equipment provided by the Western partners can be smuggled and sold on the black market, although Ukraine, whose military budget is ten times smaller than about $70 billion military budget of the Russian Federation, cannot afford to waste any resources. There are fears that the ongoing war will only deepen the existing corruption problems in Ukraine and pose new risks when the massive inflows of money, equipment and humanitarian aid become a bait for easy personal gain, since the government's attention is focused on the defence of the country (Savoy, 2022). There is also concern that corruption and the influence of the oligarchs may hinder the process of rebuilding Ukraine after the war (Shin, 2022). Zero tolerance of corruption may require Ukrainian leaders to use their enormous wartime powers to create effective institutions (the police, prosecutor's office, judicial system), which would help fight corruption, and ensure a high level of transparency, which would show foreign partners that the allocated support is used as intended. To preserve the trust of foreign partners and secure support in the future, it is necessary to ensure a higher degree of transparency and a greater sense of public interest than Ukrainian authorities have shown so far (*GIS Feature*, 2022).

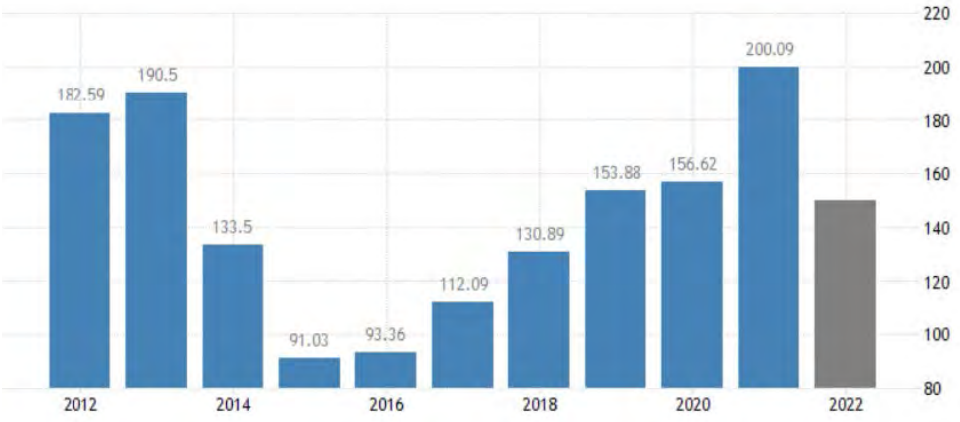
3.2. Economic Environment

The economic situation in Ukraine has been difficult due to ongoing political confrontation, instability of reforms and armed conflicts. For instance, the Maidan Uprising, which took place from 21 November 2013 to 21 February 2014, led to a profound and unprecedented political, economic and social crisis, which affected the devaluation of the national currency (the hryvnia, UAH) while the

corresponding prices for imported goods were predominantly in dollars or euros, cut Ukraine's credit rating to CCC, caused stratification and impoverishment of the population, determined minimization of wages, devastation of the state budget, etc. (*Bloomberg News*, 2014). The war in the east led to the hryvnia plummet by more than 50 percent against the U.S. dollar in 2014, which, in its turn, caused an increase in the country's real public and private debt burden (mostly denominated in foreign currencies). In 2014, the inflation rate reached 24.7 percent, which had a negative impact on consumer good prices, thus hitting the entire population (Duvell and Lapshyna, 2015). President Poroshenko's economic reforms, partially carried out by raising tariffs to cover the costs of producing heat and electricity (Pifer, 2020), led to tax and fee increases, a hike in energy prices, and spending cuts, which resulted in significant wage and benefit cuts, and job losses (Duvell and Lapshyna, 2015).

The Gross Domestic Product in Ukraine in 2014-2016 (i.e., the period after the Maidan Uprising) decreased dramatically, and since 2017 started to gradually increase again. In 2021, it was worth 200.09 billion U.S. dollars (see Figure 2).

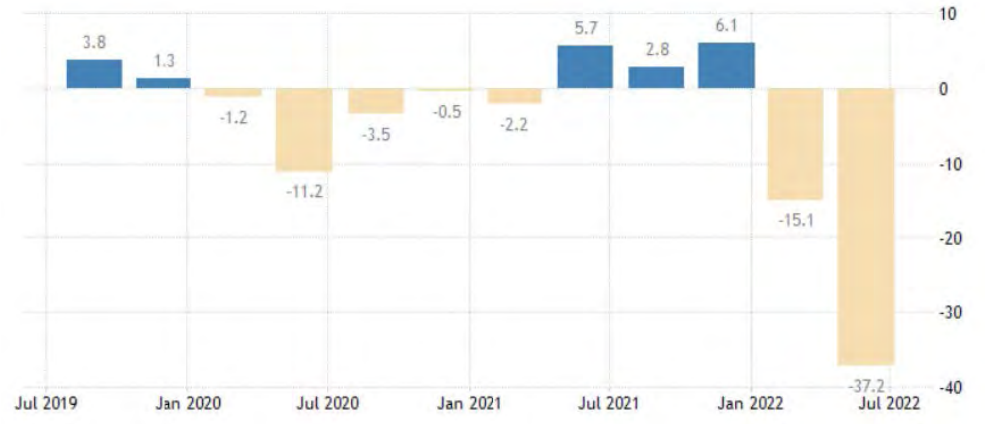
Figure 2. Dynamics of GDP in Ukraine between 2012 and 2022



Source: *Trading Economics*, 2022i

However, the GDP in Ukraine contracted 37.20 percent in the second quarter of 2022 in comparison to the same quarter of the previous year (see Figure 3) because the state's infrastructure, exports and consumption fell sharply following the Russian invasion.

Figure 3. Dynamics of GDP in Ukraine between July 2019 and July 2022



Source: *Trading Economics*, 2022h

GDP from public administration in Ukraine increased to UAH 32294 million in the fourth quarter of 2021 (in the third quarter of 2021, it amounted to UAH 29377 million). In 2021, Ukraine's economy grew 3.4 percent due to increased domestic demand caused by COVID-19 restrictions, and also due to a bigger harvest offset drags from higher global energy prices, and a faster fiscal consolidation. In 2022, Ukraine's economy was projected to shrink as much as 30 percent. The standard of living in the country is decreasing; this is also shown by the decreasing GDP per capita: if in 2017 it was recorded at $3224.56, in 2020 it dropped to $2350.4, and although in 2021 it slightly increased to $2451.90, it is still an extremely low indicator.

According to the forecast based on the global macro models and econometric models of *Trading Economics* (2022i), Ukraine's GDP is expected to reach $100.00 billion by the end of 2022, which is almost twice as less as in 2021, when the country's GDP amounted to $200.09 billion. In 2023, Ukraine's GDP is projected to reach around $80.00 billion, i.e., a further drop in GDP is predicted, and only in 2024 is Ukraine's GDP expected to rise: it should reach around $120.00 billion. GDP from public administration in Ukraine is expected to reach UAH 17,626.00 million by the end of the fourth quarter of 2022, i.e., an almost two-fold drop in this indicator is also expected compared to the same period in 2021. In 2023, Ukraine's GDP from public administration is projected to reach around UAH 14,855.00 million, and only in 2024. This indicator should rise to UAH 15,301.00 million.

Exports in Ukraine decreased from $3166.50 million in June to $2928.50 million in July 2022. The major Ukraine's export commodities are steel, coal, fuel and

petroleum products, chemicals, machinery and transport equipment, and grains, like barley, corn and wheat. Before the war with Russia, more than 60 percent of the exports used to go to the former Soviet countries, such as Russia, Kazakhstan and Belarus. Imports in Ukraine decreased from $4727.80 million in June to $4636.10 million in July 2022. Ukraine mostly imports oil and natural gas, machinery and equipment, and chemicals. The major import partners are Russia and Belarus, but Germany, China, and Poland have also been gaining importance in recent years. Ukraine's trade balance is negative: the country recorded a trade deficit of $1,707.60 million in July 2022. Ukraine's external debt increased from $127,462 million in the first quarter of 2022 to $128,045 million in the second quarter of 2022. Foreign direct investment (FDI) growth was also registered: FDI in Ukraine increased by $439 million in the second quarter of 2022.

According to the forecast based on the global macro models and econometric models of *Trading Economics* (2022g), exports in Ukraine are expected to fall to $1,500.00 million by the end of the fourth quarter of 2022. In 2023, Ukrainian exports are predicted to start slightly increasing and amount to nearly $2,000.00 million, and in 2024 to nearly $3,000.00 million. The country's imports are expected to decrease dramatically by the end of the fourth quarter of 2022 and amount to $1500.00 million. It is projected to remain nearly the same in 2023 and only start rising slowly in 2024, when it should amount to $2,500.00 million (*Trading Economics*, 2022k).

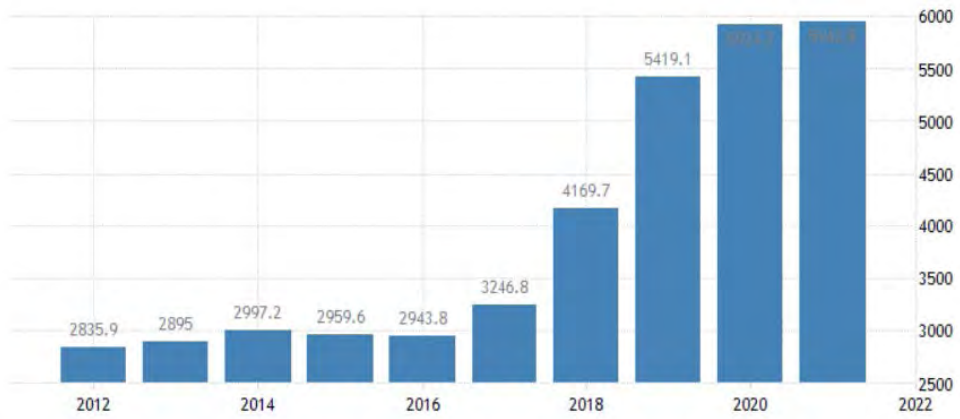
Ukraine recorded a government budget deficit equal to 3.40 percent of the country's GDP in 2021. Over the first seven months of 2022, the country's budget deficit amounted to UAH 411,505.40 million. The current account surplus in Ukraine grew sharply to $2,018 million in August 2022 from $36 million in the corresponding month previous year. The secondary income surplus soared from $373 million to $3,938 million, and the primary income account recorded a surplus of $818 million, switching from a $452 million deficit. Meanwhile, the goods and services deficit rose to $2,738 million from $160 million. Considering the first eight months of the year, the current account balance swung to a $6,674 million surplus from a $714 million gap over the same period in 2021. Government debt in Ukraine increased from nearly UAH 1,255,746.26 million in July 2022 to nearly UAH 1,261,092.54 million in August 2022. Government spending increased from UAH 86,613 million in the third quarter of 2021 to UAH 123,762 million in the fourth quarter of 2021. By the end of 2022, the government budget deficit is expected to reach 15.00 percent of GDP, and from 2023 the government budget deficit is predicted to decrease: in 2023, it is projected to amount to 10.00 percent of GDP, and in 2024 to 5.00 percent of GDP (*Trading Economics*, 2022j).

Regarding the connection of Ukrainian export and import with corruption, it should be noted that the export and import operations are often carried out to laun-

der money obtained through corruption. Illegally acquired money is remitted to accounts of dummy firms and then foreign currency is transferred abroad to pay import contracts. As a rule, "fictitious" or "transit" firms are officially registered for dummies: military men, prisoners or needy and mentally ill persons. Subsequently, these firms vanish, and organizers make no claims (or at least formal ones) on breaking contracts. The import piracy is conducted through authorized banks that are currency control agents. Following the export operation scheme, products are delivered to pre-purchased or established firms abroad. As a rule, foreign firms are supplied with raw materials, but Ukrainian suppliers do not receive any money. Funds do not return to Ukraine; they are legalized abroad. This channel is widely used because it results in decreasing export prices.

Involvement in armed conflicts is gradually decreasing weapons sales in Ukraine: sales volume of weapons (core sets of weapons such as aircraft, air defence systems, anti-submarine warfare weapons, armoured vehicles, artillery, engines, missiles, sensors, satellites, ships) in 2012 amounted to $1,501 million, and in 2020 they fell to $115 million. Military expenditure in Ukraine increased from $5,924.20 million in 2020 to $5,942.80 million in 2021 (see Figure 4).

Figure 4. Dynamics of military expenditure in Ukraine between 2012 and 2021



Source: *Trading Economics*, 2022m

On 21 July 2022, the National Bank of Ukraine devalued the hryvnia by 25 percent against the U.S. dollar to help the country cope with the growing economic impact of the war with Russia. The new hryvnia rate was set at 36.5686 to the U.S. dollar. The previous rate of 29.25 was set at the start of the Russian invasion (*Reuters*, 2022) (see Figure 5).

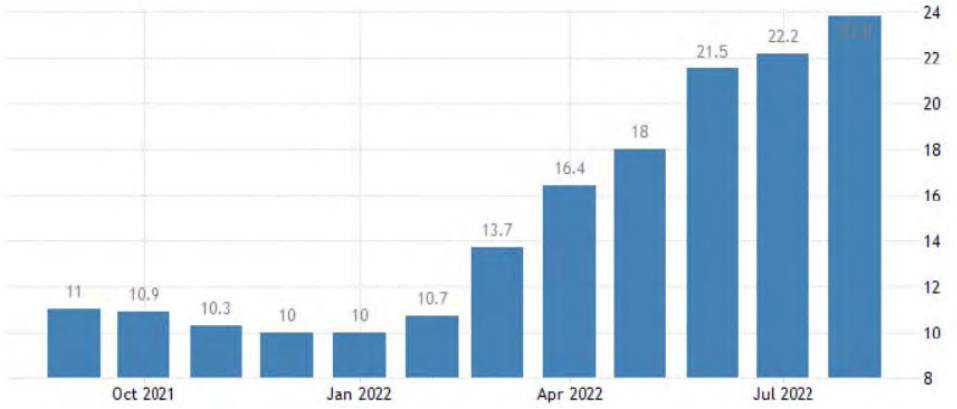
Figure 5. Dynamics of the Ukrainian hryvnia rate to the U.S. dollar between October 2021 and October 2022

Source: *Trading Economics*, 2022p

The Ukrainian hryvnia is expected to be further devalued and trade at 38.34 against the U.S. dollar by the end of the fourth quarter of 2022. It is estimated to trade at 42.91 against the U.S. dollar in 12 months' period (*Trading Economics*, 2022p). Hardie (2022) notes that the economic pressure on Ukraine is increasing, largely due to limited financial support without which Ukraine is likely to face a falling currency and rising inflation.

The annual inflation rate in Ukraine increased to 23.8 percent in August 2022 (in July 2022, it amounted to 22.2 percent) (see Figure 6). This is the highest inflation recorded since February 2016, exceeding the Central Bank's estimate of 23 percent, given that the country endured six months of Russia's invasion.

Figure 6. Dynamics of the inflation rate in Ukraine between October 2021 and August 2022



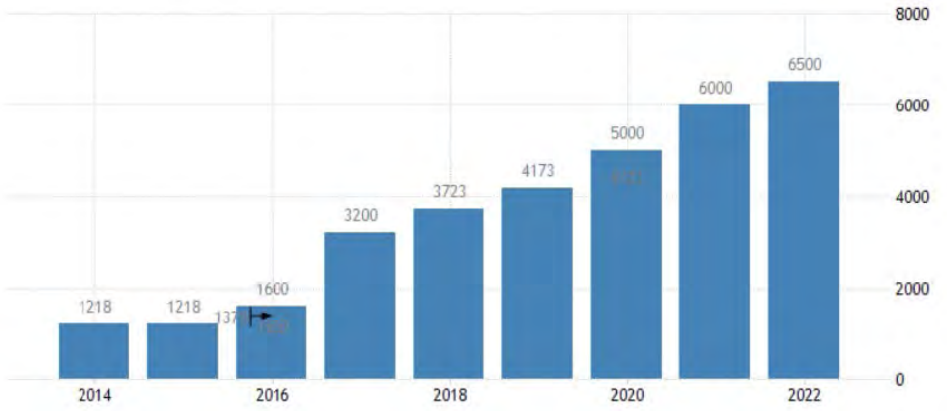
Source: *Trading Economics*, 2022l

The record high level of inflation was caused by the soaring prices of food and non-alcoholic beverages, in particular sugar and eggs (an increase of 30.7 percent vs 28.9 percent in July), and household items and furnishings (an increase of 21.6 percent vs 16.2 percent in July). Cost of food increased 30.70 percent in August of 2022 over the same month in the previous year. In the service sector, the prices charged by restaurants and hotels increased the most (an increase of 17.2 percent vs 16.4 percent in July). Transport prices also remain soaring (at 40.4 percent). On a monthly basis, consumer prices rose by 0.8 percent (compared to the 0.5 percent increase in the prior month). Core consumer prices in Ukraine increased from 116.70 points in July of 2022 to 119.10 points in August. Producer prices decreased from 692 points in January of 2022 to 677.80 points in February. The country's inflation rate is expected to reach 27.00 percent by the end of the fourth quarter of 2022, i.e., it is expected to continue to grow at a record high level. The price growth is projected to slow down significantly in 2023, when the inflation rate is estimated to reach around 12.00 percent; in 2024, it should drop to 8.00 percent (*Trading Economics*, 2022l).

Interest has been kept unchanged at a 25 percent rate by the National Bank of Ukraine and should remain at this level until the second quarter of 2024. When making this decision, representatives of the National Bank of Ukraine argued that in the time of war, high borrowing costs are sufficient to maintain exchange rate stability and broadly control inflation. It was further observed that the resumption of grain exports through the Black Sea under the UN-brokered safe trade deal should raise demand for the national currency hryvnia, thus further increasing the attractiveness of the national currency.

Statistically, the dynamics of the minimum wages in Ukraine between 2014 and 2022 (i.e., in the long term) has been positive, and the minimum wages have been gradually increasing (see Figure 7).

Figure 7. Dynamics of the minimum wages in Ukraine between 2014 and 2022



Source: *Trading Economics*, 2022n

However, following the changes in the average monthly wages in 2022, it can be noticed that compared to December 2021, in January 2022, when the Russian invasion of Ukraine was expected to start any time, the average monthly wages dramatically decreased: from UAH 17,453 to UAH 14,577 (see Figure 8).

Figure 8. Dynamics of the average monthly wages in Ukraine between February 2021 and January 2022

Source: *Trading Economics*, 2022c

The average monthly wages are expected to reach 15,744.00 UAH/month by the end of the fourth quarter of 2022, i.e., they should increase slightly compared to the beginning of the year. In 2023, the average monthly wages are projected to grow more significantly and amount to nearly 21,118.00 UAH/month, and in 2024 to nearly 23,019.00 UAH/month. Minimum wages in Ukraine are expected to reach 7,000.00 UAH/month by the end of 2022, and keep growing through 2023 and 2024, when they are projected to reach 7,200.00 UAH/month and 8,000.00 UAH/month, respectively (*Trading Economics*, 2022c).

The Corporate Tax Rate in Ukraine stands at 18 percent, as well as the Personal Income Tax rate. The Sales Tax rate stands at 20 percent. The Social Security Rate for Companies in Ukraine stands at 22 percent, while for employees at 0 percent (since 2016), respectively (*Trading Economics*, 2022o). Tax rates represent the area of the economy that is unaffected by the war—the war is not expected to raise tax rates in the country.

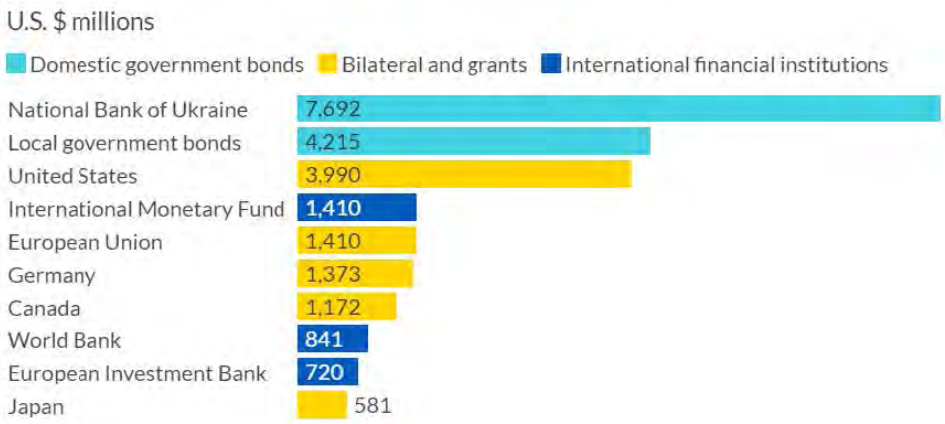
Ukrainians' demand for cash substantially increased in 2020, when cash in circulation grew by 34 percent year-over-year. Being an emerging market and characterized by a high share (nearly 45 percent) of the shadow economy as percentage of GDP (Medina and Schneider, 2018) and dollarization (Khvedchuk et al., 2019), Ukraine is bound to rely on cash transactions. Honcharenko's (2021) research, based on the analysis of the data from the National Bank of Ukraine, revealed that apart from conventional determinants, such as interest rate, the demand for cash in Ukraine is affected by the share of the employed in the construction sector, the consequences of the COVID-19 pandemic, and the degree of uncertainty.

The demand for cash increased even more during the Russian invasion. Even before the beginning of the Russian military invasion of Ukraine, in June 2021, the Ukrainian government issued the brochure titled *How to Prepare for an Emergency*. Civilians were recommended to keep some cash at home in case payment cards and ATMs were not working. Cash withdrawals had been increasing until the end of 2021, alongside Russia's military build-up. But it was not yet a cash crunch. On 23 February 2022 (i.e., the day before the full-scale Russian invasion), the National Bank of Ukraine confirmed that banks and exchange offices had adequate cash holdings to meet the public's demand. Foreign cash deliveries were also proceeding as planned (Bautista-Gonzalez, 2022). However, when the large-scale Russian invasion began the next day, thousands of people rushed to ATMs to withdraw some cash and flee the cities. As a result, many ATMs, especially in the breakaway regions, ran out of cash. Cash, once again, revealed its critical importance in times of a crisis and uncertainty (ESTA, the Cash Management Companies Association, 2022). To manage the crisis, the National Bank of Ukraine moved to secure the cash supply and ensure that banks are generally able to replenish ATMs with cash. The

National Bank of Ukraine, in its turn, was supplying banks with cash and liquidity. At the same time, the limit on cash withdrawals to UAH 100,000 a day and the prohibition on release of cash from client accounts in foreign currency were established (Bautista-Gonzalez, 2022). Ukrainians were encouraged to make cashless payments as safest and most reliable in wartime for two reasons: first, additional risks posed by cash collection; second, reduction in the effectiveness of the monetary policy caused by a substantial increase in cash circulation (Honcharenko, 2021).

Foreign donations are a significant support for Ukraine during the war. The donations are provided by 40 countries, specifically the EU member states, other members of the G7, as well as Australia, South Korea, Turkey, Norway, New Zealand, Switzerland, China, Taiwan, and India (Kiel Institute for the World Economy, 2022). Between 24 February and 16 August 2022, the obligations of foreign countries to Ukraine amounted to more than $100 billion. More than $17.6 billion of grant funding was provided during June-July 2022. The funding is primarily intended for humanitarian aid purposes and the maintenance of the essential infrastructure. Early in the war, the EU announced two major packages of $353 million and $535 million, respectively, intended for humanitarian help. Also, in cooperation with the international movement Global Citizen and the Canadian government, the EU pledged €600 to support Ukraine. In addition to providing the humanitarian grant funding, the EU has provided several packages of loans both directly and through the European Investment Bank. At the event in Poland, which took place in May, donors and governments made pledges for $10.1 billion, and at the meeting of the Group of Seven, the pledges for $19.8 billion in grants and loans were made. The largest grant provided on 16 August 2022 amounted to $4.5 billion; it was provided by the United States via the World Bank. €2 billion in loan finance was made available to Ukraine by the European Bank for Reconstruction and Development, partly owned by the European Investment Bank and the EU. Ukraine was also provided $69.3 billion in loans and other repayable finance intended for maintaining the country's economy during the war (Ainsworth, 2022). Figure 9 illustrates top ten sources of Ukraine's state budget financing during the period from 24 February to 21 July 2022.

Figure 9. Top ten sources of Ukraine's state budget financing between 24 February and 21 July 2022



Source: *GIS Feature*, 2022

The data in Figure 9 indicate that Ukraine's state budget was supplemented by around $25 billion in the first five months since the Russian invasion. Nearly half of the total amount was borrowed through bond sales by the Ukrainian government or the central bank. The major donators are the USA, the International Monetary Fund, and the EU. Nevertheless, Ukraine runs at least $5 billion monthly budget deficit (*GIS Feature*, 2022).

The financial support for Ukraine during the current war with Russia is really huge, for example, compared to the total development funding for Ukraine, which amounted to $1.8 billion, and humanitarian aid commitments which amounted to just $168 million in 2020 (Ainsworth, 2022). The bitter truth, however, is that armed conflicts tend to exacerbate existing corruption challenges. Massive inflows of money provide more opportunities for corruption and bribery, when the attention of the country's government and public authorities is focused on defence and citizen protection. In times of war, civil society cannot fulfil their role in monitoring the work of public institutions because part of the society participates in the war, while another part is forced to flee from the war. Anti-corruption institutions lack personnel to be able to perform their functions properly, and normal activities are disrupted due to the need to perform emergency tasks. Savoy (2022) presents the results of the survey conducted in Ukraine in mid-April, which show that as many as 84 percent of anti-corruption experts were forced to abandon their direct functions. The review provided by the Transparency International Ukraine (2022) proposes that the National Agency on Corruption Prevention (NACP)—which before the

full-scale Russian invasion of Ukraine were obliged to shape anti-corruption policies, protect whistle-blowers, check declarations, monitor the lifestyle of officials and control the transparency of political party financing—had to discontinue much of its mandated work, in particular, checks of declarations and lifestyle monitoring. Instead, the NACP has initiated some new activities relevant to the war: tracing the assets possessed by sanctioned Russian citizens and seizing these assets for the purpose of Ukraine's reconstruction, establishing the Humanitarian Aid Headquarters to support the Ukrainian Army and the victims of Russian aggression, etc. All this clearly shows that the priorities are currently given to security and aid issues, while the issues of corruption remain in the background. Nevertheless, Ukraine's Euro-Atlantic partners require that anti-corruption reforms should not cease being a priority. Savoy (2022) argues that thus far, Ukraine has not had any high-profile cases that would be related to extortion of donations that were intended for military equipment, budget funding or humanitarian aid. However, according to the author, the scattered reports of bribery involving state officials indicate that the risk of corruption in Ukraine has not disappeared, and the country must take measures to solve the problem, because otherwise questions may arise about the continuity of support from western countries.

Summarizing, the economic situation in Ukraine has been difficult due to ongoing political confrontations, instability of reforms and armed conflicts. Following the Russian invasion on 24 February 2022, the state's infrastructure, exports, imports and consumption have fallen sharply, which poses further economic pressure on the state. The economic instability alongside the increased demand for cash in the period of uncertainty opens up more opportunities for corruption, as does the dependence of the country's economy on massive inflows of Western support, without which Ukraine's economy would possibly collapse. The problem of corruption is further deepened by the fact that during the war, the civil society cannot fulfil its role in monitoring the work of public institutions, and anti-corruption institutions not only lack the staff to perform their normal functions, but are also forced to discontinue much of their mandated work in favour of the new activities relevant to the war (e.g., tracing the assets possessed by sanctioned Russian citizens and seizing these assets for the purpose of Ukraine's reconstruction, establishing the Humanitarian Aid Headquarters to support the Ukrainian Army and the victims of Russian aggression, etc.). Nevertheless, although the country's priorities during the war are security and aid issues, Ukraine's Euro-Atlantic partners require the continuation of anti-corruption reforms, because otherwise questions may arise regarding the continuation of support from western countries.

3.3. Social Environment

Corruption perception. Ukraine scored 32 points out of 100 on the 2021 Corruption Perceptions Index (CPI) reported by Transparency International (see Figure 10) and was ranked 122nd out of 180 countries worldwide. By the value of this indicator, Ukraine is ahead of neighbouring Russia, which was ranked 136th with 29 points, but lags behind other neighbours (Moldova with 36 points, Belarus with 41 point, Hungary with 43 points, Slovakia with 52 points, Romania with 45 points, and Poland with 56 points) (Transparency International Ukraine, 2021).

Figure 10. Dynamics of Ukraine's Corruption Perceptions Index between 2012 and 2022

Source: *Trading Economics*, 2022f

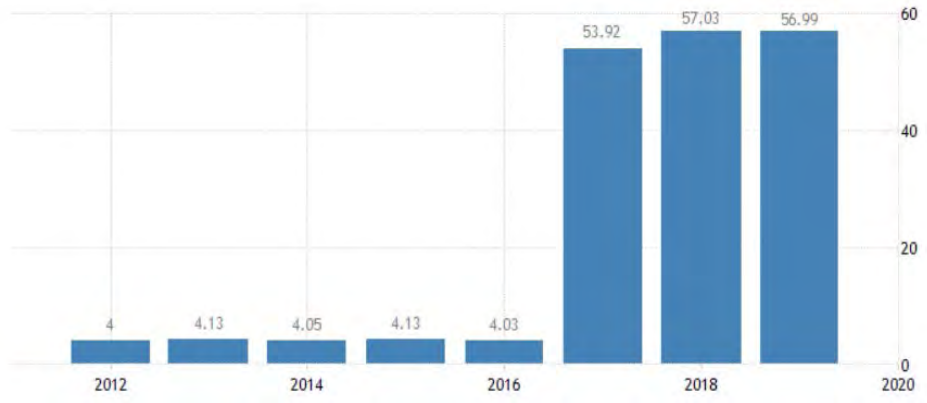
In a year's time from 2020, Ukraine lost one point in its CPI. When assessing the period of the last three years, it can be noticed that the indicator has stagnated, i.e., the country's efforts to fight corruption have reached a dead end. Transparency International Ukraine (2021) notes that the major reasons for stagnation of the fight against corruption are first, postponement or freezing of the urgent anti-corruption reforms and goals, and second, negative past experience in implementation of similar reforms. It is also noted that the decrease in the Ukrainian CPI index could have been caused by the decision of the Constitutional Court of 27 October 2020, which discharged high-ranking officials, civil servants and judges from liability for false declaration; the amendments to the anti-monopoly legislation concerning the long absence of permanent managers in institutions; the amendments to the anti-monopoly legislation concerning preventing businesses from protecting their rights when contesting public procurement; the postponement of the Anti-Corruption

Strategy in the second reading; aggravation of the interference in the work of the High Anti-Corruption Court; and the delay in the judicial reform.

According to Domashova and Politova (2019), corruption leads to an increase in income inequality and poverty because it hinders development, implementation of social programs, reduces the quality of education, and determines biased ownership of assets. Kos (2022) presents the results of the survey that was conducted in Ukraine in April 2022 (i.e., after the start of the large-scale Russian invasion) and aimed to assess the country's anti-corruption efforts. The survey involved 169 anti-corruption experts. First of all, it revealed that although 93 percent of the anti-corruption experts did not leave the country after the start of Russia's military invasion on 24 February 2022, as many as 84 percent of them were forced to stop performing their anti-corruption functions due to the war, and 5 percent lost their jobs. 47 percent of the experts have admitted that they feel their lives are in danger if they continue to perform anti-corruption functions. The positive aspect is that such state anti-corruption agencies as the National Anti-Corruption Bureau of Ukraine (NABU), Specialized Anti-Corruption Prosecution (SAPO), and the National Anti-Corruption Prevention Commission (NACP) have remained institutionally capable.

Competitiveness, ease of doing business, and business confidence. When assessing Ukraine's competitiveness, it should be noted that the country scored 56.99 points out of 100, according to the 2019 Global Competitiveness Report, announced by the World Economic Forum (see Figure 11).

Figure 11. Dynamics of Ukraine's competitiveness index between 2012 and 2020



Source: *Trading Economics*, 2022e

The Global Competitiveness Report assesses 140 economies. The final index is estimated with consideration of 98 variables, the most important of which are institutions, infrastructure, ICT adoption, macroeconomic stability, health, skills, product market, labour market, financial system, market size, business dynamism, and innovation capability. After 2018, considering the impact of the 4th Industrial Revolution, some additional variables, such as the role of human capital, innovation, resilience and agility, have been included in the methodology. The higher the numerical value of the indicator, the higher the degree of competitiveness of a country. Ukraine's score of 56.99 indicates that the country's competitiveness has increased significantly since 2016, and in 2019 was slightly higher than the average among 140 countries.

In 2019, Ukraine was ranked 64th among 190 economies worldwide by its Ease of Doing Business Index (see Figure 12).

Figure 12. Dynamics of Ukraine's Ease of Doing Business index between 2012 and 2020

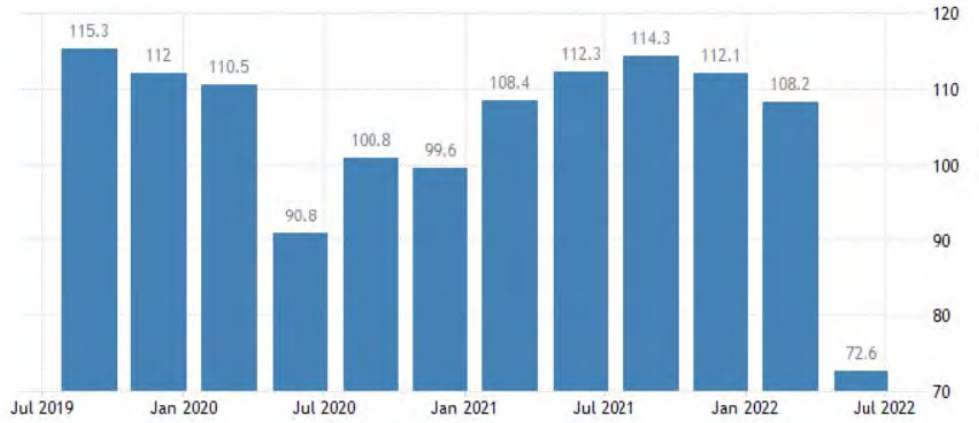
Source: *Trading Economics*, 2022a

The World Bank methodologies for calculating the Ease of Doing Business Index consider the regulatory environment and take into account how this environment is conducive to business operation and protection of property rights. Top-ranked economies have business-friendly regulatory environment, and vice versa. Figure 12 indicates that doing business in Ukraine has become significantly easier since 2012, the regulatory environment has improved, but in the situation of the current war with Russia, it can be expected that the conditions for doing business in the country will become more difficult. Many businesses have already been closed down or stopped operations for safety reasons, moreover employees are being forced to

relocate either domestically or internationally and males join the Armed Forces of Ukraine.

The Business Confidence Index is based on a sample size of around 1,236 enterprises covering all industry sectors, including small, medium and large enterprises from different regions. It measures presidents'/managers' assessments of the current and future business activity, inflation and exchange rate expectations, as well as the changes in the country's business environment (see Figure 13).

Figure 13. Dynamics of Ukraine's Business Confidence index between July 2019 and July 2022

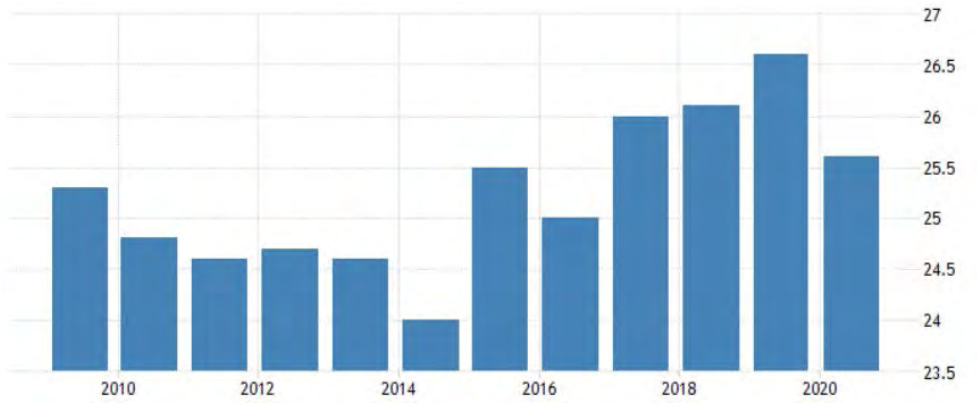


Source: *Trading Economics*, 2022d

Figure 13 indicates that the Business Confidence Index estimated for Ukraine was approximately the same in January 2020 and 2022, but due to the effects of the war with Russia, which causes a high degree of uncertainty, it dramatically decreased from 108.20 points in the first quarter of 2022 to 72.60 points in the second quarter of 2022. Disruption of supply chains, manufacturing operations, difficulties in managing workforce and finances, and retaining customers are indicated as the major business problems. Many businesses and employees combine their usual activities with volunteering. Entrepreneurs are recommended to pay close attention to industry specifics, and use technology to increase business efficiency, agility and resilience (*Accenture Strategy*, 2022). In the medium term, the post-war consumption in Ukraine is expected to increase with local and international consumers boycotting Russian goods and switching to Ukrainian-made goods (*Eureporter*, 2022).

Income inequality. The statistical data show that income inequality in Ukraine tends to increase since the beginning of the military conflicts in 2014 (see Figure 14).

Figure 14. Dynamics of Ukraine's GINI index between 2009 and 2020



Source: *Trading Economics*, 2022b

Income inequality is usually measured by the GINI index, which shows the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution (0 represents perfect income equality, while 100 stands for perfect income inequality). Figure 14 indicates that the GINI Index, estimated for Ukraine, was comparatively low in 2011-2014, but significantly rose afterwards. One of the reasons is believed to be the intensification of organized crime and smuggling after Russia's occupation of the part of the territory of Ukraine. In 2020, the country's GINI index amounted to 25.6, i.e., it slightly dropped from 26.6 in 2019. The GINI index has not yet been calculated for the current time of the intensive war.

Education. The Ukrainian education system has a long tradition, but its reputation has suffered from increased quality problems, many of which are the result of the former Soviet rule and the rapid social transformation that took place after the collapse of Communism. According to Denisova-Schmidt and Prytula (2017), as in most post-Soviet countries, corruption in the Ukrainian education system is a growing trend rather than an exception. Ukraine's economic crisis of the 1990s led to a decline in the financing of education, including research and development, which conditioned marketization of the country's education system at all levels. In combination with a lack of transparency mechanisms, characteristic of post-Soviet states, the application of wild market principles in the education system led to the

skyrocketing corruption and a decline in the quality of education. Mid- and low-level local education authorities are involved in corruption schemes and are not likely to be prosecuted. Corruption in public education can be observed at various levels, ranging from pre-school to upper secondary and postgraduate education: the limited number of vacancies are available for children in municipal kindergartens, electronic enrolment systems are not reliable, parental financial contributions and school budgets are misused due to the lack of control mechanisms (Pelcastre et al., 2019). Osipian's (2009) research proposes that at least 30 percent of Ukrainians enter higher education institutions by paying bribes, while many others take advantage of personal connections with the administration of these institutions. Corruption is also characteristic of academic teaching and learning processes, and administering standardized tests for high school graduates (Osipian, 2008). Osipian (2008) argues that corruption in the Ukrainian education system is a spillover of political graft in the academy. This is how the institutionally based culture of corruption is formed.

In response to the above-mentioned problems, Ukrainian authorities adopted a series of reforms to increase transparency, accountability and integrity in the country's education system. One of the reforms was implemented according to the Threshold Agreement of 2006-2009. In the area of higher education, the national mandatory standardized external testing was introduced as the primary criterion of higher education admissions. The standardized testing system benefitted from the establishment of test security systems, development of test materials and procurement of equipment to secure test printing and scoring. According to the data provided by the Millennium Challenge Corporation (2022), perceptions of corruption during the standardized external testing were extremely low (only 9 percent among students, and 6 percent among parents); only 0.8 percent of graduates reported having experienced corruption during the standardized testing.

Another reform—which included a new law on higher education issued in July 2014, the law on research and scientific activity issued in 2015, and the law on education issued in 2017 (Pelcastre et al., 2019)—was aimed at increasing the autonomy of universities. The reform, however, proved to be ineffective and failed to shift education policies in the right direction. Public dissatisfaction with the reform and the armed conflict in eastern Ukraine contributed to growing outbound student flows since 2014. International students were considered "cash cows," bringing hard currency to universities. In spring 2014, international students sat examinations earlier than scheduled—in May instead of June—in order to be able to leave Ukraine safely. Some students escaped even earlier as political violence in the country escalated (Osipian, 2015).

The annexation of the Crimea by the Russian Federation made it impossible to carry out any reforms at the education institutions in the Crimea.

According to Denisova-Schmidt and Prytula (2017), it is practically impossible to eliminate endemic corruption from the Ukrainian education system completely, but it can be mitigated. Anti-corruption policies should be targeted at stipulating zero tolerance for corruption, respecting the needs of specific academic groups, and revealing the negative results of academic dishonesty, which in particular cases (e.g., education of medical personnel, technicians, engineers) causes direct and indirect risks to human lives.

The war with Russia, which started on 24 February 2022, has dramatically changed the situation in the Ukrainian education system. It has caused displacement of students and educators, and has resulted in nearly 665,000 students (i.e., 16 percent of the total number of enrolled students) and over 25,000 teachers (i.e., 6 percent of the total number of educators in the country) to flee the country. Displacement has had an extremely negative impact on education service delivery. According to the data provided by the Ministry of Education and Science of Ukraine, as of 6 May 2022, 1,635 schools and universities (5 percent of the total number of education institutions) have been damaged and 126 have been destroyed. Current efforts are being made to sustain education service delivery and student enrolment so that students could successfully complete the academic year of 2022. Currently, around 86 percent of schools in Ukraine have resumed classes following short-term closures after the invasion, but they work almost exclusively online (World Bank, 2022).

To sum up, the high level of corruption in the Ukrainian education system leads to inequality among citizens seeking higher education, reduces the quality of educational services, and undermines the credentials of academic degrees. Corruption within education is one of the most socially damaging types of small-scale economic crime. Although the country is fighting for its survival, bribery scandals in the education system remain, so the war must prompt the Ukrainian academia to reshape itself. Although it is practically impossible to eliminate endemic corruption from the Ukrainian education system completely, it can be mitigated by implementing targeted reforms that should respond to the rapidly changing economic environment and the new social order.

Trust in government. In 2020, the trust of Ukrainians in the country's government was low. According to the results of a public survey provided by the Ukrainian independent news agency Unian (2020) (the survey was conducted from 3 to 9 July 2020 through face-to-face interviews in all regions of Ukraine, except the Crimea and Donetsk and Luhansk regions occupied by Russia; the sample of the survey covered 2,022 adult respondents; the margin of error did not exceed 2.3 percent), 78 percent of the respondents indicated that they did not trust the country's agencies and officials, and 36.5 percent of the respondents indicated that they did not trust

the country's government at all. Another 41.2 percent said they rather did not trust agencies and officials, while 13.3 and 1.4 percent were more likely to trust or completely trusted the country's government, respectively. The results of the poll also revealed that the state agencies in general had the highest trust-distrust balance of 63 percent. These results indicated the poor communication between the public and Ukraine's government agencies, except the Armed Forces, the State Border Guard Service, the National Guard of Ukraine, and the State Emergency Service that were directly responsible for country's defence and citizens' safety. 72 percent of the respondents said that they did not trust the Cabinet of Ministers, i.e., the distrust in the Cabinet of Ministers increased significantly compared to the results obtained in December 2019, when no confidence in the Cabinet of Ministers was expressed by 51.5 percent of the respondents. Comparing the situation in 2019 and 2020, the Verkhovna Rada had 54 and 75 percent trust in 2019 and 2020, respectively, while the president had 31 and 49 percent trust, respectively. Ukrainians also expressed distrust in the country's judicial system as a whole (as indicated by 77.5 percent of the respondents), as well as the Supreme Court (as indicated by 69 percent of the respondents), and local courts (as noted by 67.5 percent of the respondents). 73 percent of the survey participants said they did not trust in the Prosecutor's Office. Public dissatisfaction with the country's anti-corruption institutions was also extremely high: 73 percent of the respondents expressed their distrust in the National Anti-Corruption Bureau of Ukraine, 70.5 percent in the Specialized Anti-Corruption Prosecutor's Office, 70 percent in the High Anti-Corruption Court, and 70 percent in the National Agency for Corruption Prevention.

However, after Russia's full-scale invasion of Ukraine on 24 February 2022, public confidence in the government and its institutions increased dramatically. Based on the results of the survey conducted by the National Democratic Institute of Sociology (the survey was conducted between 2 and 11 May 2022 through telephone interviews with 2,500 respondents who live in Ukraine-controlled territories and use a mobile phone; the margin of error did not exceed 3 percent), 97 percent of Ukrainians trust the Armed Forces of Ukraine, and 85 percent trust the country's President Volodymyr Zelenskyy. The country's government and the Verkhovna Rada also enjoy high rates of trust, at 56 and 40 percent, respectively (Balachuk, 2022). The Council of Europe (2022) emphasizes the necessity of increasing trust in local self-government to promote the democratic development of Ukraine.

Population. The population of Ukraine on 1 July 2022 was estimated to amount to 39,701,739 people (World Population Review, 2022). Ukraine ranks 35th in the list of countries (and dependencies) by population. 69.4 percent of the population is urban (Worldometer, 2022).

Even before Russia's large-scale invasion of Ukraine on 24 February 2022, the country's population was declining rapidly. Since the 1990s, Ukraine's population has been shrinking due to high emigration rates, low birth rates, and high death rates. Ukraine's birth rate is 9.2 births per 1,000 people, which has dropped by over 2 percent every year the past several years, and its death rate is 15.193 deaths per 1,000 people (World Population Review, 2022). Mainly due to the sharp excess of deaths over births, in the last decade the state has been losing annually from more than 400 thousand people (in 2000) to 80 thousand people (in 2013). Huge by volumes is the labour and educational migration (several million people). Many people go abroad because Ukraine is the second-poorest country in Europe, has been in conflict with Russia, and is beset by corruption (World Population Review, 2022). Duvell and Lapshyna (2015) suggest that the previous economic crisis and the armed conflicts with Russia in the south and east of the country led to a significant increase in the number of workers and professionals desiring to work abroad. The authors cite the 2015 HeadHunter study which showed that 80 percent of applicants for middle- and senior-management positions would like to work abroad. 41 percent or the respondents expressed their anxiety about the tense political situation, the desire to ensure a stable future for their children, and low salaries in Ukraine as major motivators. Any option to leave Ukraine, including training, skills development, or even an unpromising job abroad, was considered.

After Russia's large-scale invasion of Ukraine on 24 February 2022, the situation of the Ukrainian population became extremely difficult. The agencies of the United Nations estimate that, as of 17 August 2022, 17.7 million people were in need of humanitarian aid and protection assistance, including at least 2.1 million children; 6.6 million people were internally displaced (the UN Office for the Coordination of Humanitarian Affairs, 2022). The number of civilian casualties as of 10 October 2022 amounted to 15,592, including 6,221 people killed (at least 2,417 men, 1,662 women, 164 girls, and 195 boys, as well as 37 children and 1,746 adults whose sex is yet unknown), and 9,371 people injured (at least 1,960 men, 1,441 women, 199 girls, and 277 boys, as well as 238 children and 5,256 adults whose sex is yet unknown) (the Office of the United Nations High Commissioner for Human Rights, 2022).

People are fleeing Ukraine to seek international protection in neighbouring countries and further afield. As of 23 August 2022, 6.9 million people fled Ukraine and were registered in European countries, including 2.2 million in the Russian Federation, 1.3 million in Poland, 971,000 in Germany, 413,000 in the Czech Republic, 160,000 in Italy, 145,000 in Turkey, and 133,000 in Spain (Border Security Report, 2022).

Smuggling. Ukraine has a long history of illegal arms trade, the most prominent case being the Ukrainian cargo ship *MV Faina*, which was captured by Somali pirates in 2009 while transporting tanks, artillery and assault rifles to Sudan. During the war, smuggling of arms remains one of the most sensitive problems in Ukraine. Although the vast majority of weapons delivered to Ukraine are in the hands of the Ukrainian Armed Forces, the potential of illegal arms smuggling remains high. Given the conditions of the war in Ukraine, Europol warns that the supply of firearms and explosives to Ukraine may increase the number of firearms and ammunition entering the EU through established smuggling routes or online platforms. This threat may be even greater once the military conflict is over (Europol, 2022b).

In response to this problem, the EU creates the Support Hub for International Security and Border Management, the major aim of which is to prevent weapons, supplied by Ukrainian partners (mostly NATO members), from being smuggled out of Ukraine and intercepted by criminal gangs. The Hub will work following "a single window" principle: it will allow the EU's border guard agency Frontex to support local border agencies and will enable Europol to share information.

Each member state will also assign law enforcement officers to the central headquarter which will operate from Chisinau, the capital of Moldova, building local capacity and also combating human trafficking. The new Hub is being created in response to Ukrainian President Volodymyr Zelensky's requests to increase the supply of arms and ammunition to Ukraine in the war with the Russian Federation (Van Gaal, 2022). Europol closely cooperates with Ukrainian officials to mitigate the threat of arms trafficking into the European Union (Europol, 2022b).

The risks of trafficking in persons and smuggling in migrants are also considered very high. They arise from both human trafficking inside the country and migrant smuggling of people fleeing the country. According to the extensive research published by the United Nations Office on Drugs and Crime in 2018, the risks of human trafficking in the territories affected by an armed conflict increase because of the following factors: a lack of opportunities for income generation, interruption in the provision of essential public services (e.g., healthcare, education), violations of the rule of law, internal displacement, and the risk of exploitation in the armed conflict. Residents of military conflict zones can choose detrimental coping strategies to gain access to essential products and ensure their own safety and security. The war in Ukraine is increasing the risk for local people (especially children, national minorities, survivors of sexual and gender-based violence, the elderly and the disabled) to become victims of sex trafficking or labour trafficking, illegal adoption and exploitation in the armed conflict (Cockbain and Sidebottom, 2022). Vulnerability of the population is increasing due to displacement and the circumstances that arise during travel and upon arrival to a host country. To respond to the crisis, the

EU's Common Anti-Trafficking Plan was launched on 6 May 2022. According to this plan, the investigations have been initiated in a number of the EU countries on potential cases and the threat of trafficking in persons (the European Union, 2022).

The situation in Ukraine concerning drug smuggling is expected to improve. According to Demony (2022), Russia's invasion of Ukraine is triggering shifts in the smuggling routes for illegal drugs to Europe. Drug traffickers have no interest to continue to use the traditional trafficking routes out of Afghanistan that used to pass through Ukraine, which is now at war, and the Black Sea ports, that are now out of reach. Drug trafficking is likely to be conducted through Greek islands and the southern Mediterranean.

Organized crime. According to the data provided by the Global Initiative against Transnational Crime (2021), in 2021 Ukraine was ranked 34th of 193 countries worldwide and 3rd of 44 European countries. The country's criminality score was 6.18. Since the dissolution of the Soviet Union, Ukraine has suffered a strong presence of organized mafia-style groups. After the collapse of the Soviet Union, many levels and forms of the oppresive control disappeared, but the administrative and political elites remained in their privileged positions. The privileges and the absence of control systems created favourable conditions for the development of organized crime. In fact, the development of organized crime in Ukraine was similar to that in other post-Soviet countries: the collapse of state structures, the crisis of authority and law, a profound shift in the principles of economic management, the reorientation of external relations, the increasing openness of the economy and society were those factors which facilitated the development of organized crime (Williams and Picarelli, 2002).

Although the presence of mafia-style groups has been declining over time, many continue to operate. Apart from local organized criminals, there are criminals with Chechen, Russian, Georgian, South Ossetian or Azerbaijani backgrounds. Mafia-style groups tend to operate in multiple criminal markets, but their major focus is on arms trafficking, extortion, robbery, murder for hire, kidnapping and raider hijacking (taking control of legal business). Mafia clans are involved in cross-border drug, weapon and human trafficking and international smuggling. They take over the country's economy, sales and illegal privatizations. This shows that organized criminals in Ukraine are pervasive, powerful and have been able to acquire a significant economic and political force, develop corruptive relationships with the country's political elite, and exert influence over many sectors of the economy (Williams and Picarelli, 2002). Due to the activities of influential mafia-style groups, Ukraine is facing pernicious structural failures, especially in terms of transition to a democratic policy.

Galeotti and Arutunyan (2022) propose that the connections between crime, war and insurrection were noticeable even during the Ukrainian-Russian conflict in the Donbass region in 2014. The hybrid insurrection, which led to proclamation of the pseudo-republics of the Donetsk and Luhansk, not only promoted criminalisation, but was based on it: large-scale smuggling (of practically everything from coal, cigarettes and alcohol to drugs) helped to maintain these pseudo-republics, while the status of unrecognized states meant the absence of law enforcement, which allowed criminal groups to take full advantage of the situation. Klein (2022) suggests that density of criminality, promoted by weakness of local institutions, served as preconditions for gangsters to convert money and violence into *de facto* political power. This trend is observed throughout Ukraine, and especially in the Donbas. The situation is complicated by the fact that the efforts of the Ukrainian central government to reduce dependence on the Donbas coal by purchasing resources from South Africa and Australia were ineffective, so Ukraine needs the Donbas resources, especially for its power stations, while the Donbas needs Ukraine as a resource buyer (Klein, 2022).

The conflicts in Ukraine, causing social, economic and political chaos and instability, have always been a fertile ground for organized crime. The current war with Russia, which started on 24 February 2022, is no exception. According to Scaturro (2022), a black market for medical supplies and lifesaving drugs (e.g., insulin) has opened since the end of March 2022. Many of the medicines are counterfeit and therefore especially dangerous. In addition, the need to quickly reconstruct the destroyed infrastructure before the war ends causes the risk that national and international funds may be taken over by the mafia through corruption, public procurement and money laundering channels. In this way, the mafia can gain more opportunities to invest and purchase real estate in Ukraine. The increase in the risk of organized crime in Ukraine during the war is also confirmed by Europol (2022a).

To improve the situation, international bodies, such as Interpol and Europol, must cooperate with similar regional organizations through information-sharing platforms, channels of intelligence sharing, and coordinate their operations. Non-governmental organizations could contribute by monitoring the potential risks and the development of organized crime operations in the most problematic areas (Scaturro, 2022). To address the threats of organised crime related to the war in Ukraine, the EU Ministers of Interior endorsed the initiative of mobilising the European Multidisciplinary Platform Against Criminal Threats (the EMPACT) framework. The steps that are going to be undertaken in this capacity include gathering of more intelligence, implementation of emergency operational actions based on the EMPACT flexibility and adaptation culture, setting up ad hoc joint action days, and potential allocation of additional grants to fund operational activities targeting

organized crime (Europol, 2022a). The EMPACT shall unite different national authorities, including police, gendarmerie, customs and border guards, as well as judicial authorities. The initial intelligence analysis is expected to reveal crime patterns (e.g., human trafficking, online fraud, cybercrime, and firearms trafficking).

3.4. Technical Environment

Border guarding. Ukrainian borders are guarded by the State Border Guard Service of Ukraine. It is an independent law enforcement agency of special assignment, whose head answers to the President of Ukraine. At present, this service is within the structure of the Ministry of Internal Affairs of Ukraine. During wartime, units of the State Border Guard Service of Ukraine fall under the command of the Armed Forces of Ukraine. Components: Ground Forces; Sea Guard; Aerial Support. It is also responsible for running temporary detention centres, in which refugees are held.

The principal functions of the State Border Guard Service of Ukraine are policing the border of the state on land, sea, rivers, lakes and other water bodies, exercising border control, safeguarding the state's sovereign rights in its exclusive (maritime) economic zone, carrying out intelligence, information and analytical, and operational criminal investigation activities, participating in the fight against organized crime and counteracting illegal migration, and others (the State Border Guard Service of Ukraine, 2019b). After the beginning of the war with Russia, the border guards became military units and took positions along with the Armed Forces of Ukraine to prevent the enemy breakthrough (Voss, 2022).

Since 2014, one of the priorities of the State Border Guard Service of Ukraine is the creation of an intelligent system of state border guard, i.e., implementation of the technical components for more effective protection of the country's borders. Based on the Strategy of the State Border Service of Ukraine No. 1189-r, approved by the Cabinet of Ministers of Ukraine on 23 November 2015, creation of the intelligent system of state border guard includes deployment of tower integrated network (technical surveillance equipment: radars, optical-electronic cameras; means of data transmission), wireless monitoring systems (smartdec and GSM cameras), video surveillance and alarm systems (multispectral cameras and sensors), mobile technical surveillance systems and other digital equipment (the State Border Guard Service of Ukraine, 2019a). The use of digital systems can help fight illegal activities at the border (e.g., smuggling, arms and human trafficking) and reduce the risk of official corruption.

Customs. The State Customs Service of Ukraine is the central executive authority which implements the state's customs policy and combats the offences related to customs affairs. The activities of the service are coordinated by the Cabinet of Ministers of Ukraine through the Ministry of Finance of Ukraine. The State Customs Service of Ukraine has been providing customs security since 16 July 2019, when the former State Fiscal Service was reorganised by establishing the State Customs Service and the State Tax Service.

Ukraine is not a member of the Customs Union with Russia, Belarus, and Kazakhstan. The Customs Union of Ukraine with the EU is a long-term option. In 2006-2009, on the basis of the Threshold Agreement, the internal system linking Ukrainian customs and transport to the EU New Computerized Transit System (NCTS) was developed. This aimed at rationalizing and regulating international trade and cargo transiting. The Millennium Challenge Corporation (2022) report proposes that simplification of customs declaration processes, changes in the relevant legal provisions, and intensification of information exchange through the NCTS helped to fight corruption and increase compliance with customs regulations.

Customs is one of the major areas mentioned in the EU-Ukraine Association Agreement, signed in 2014. Within the scope of this agreement, the assistance to Ukraine is provided through various programs and projects, with a focus on specific areas. For instance, the Reform Support Teams (RST) of the Ministry of Finance of Ukraine and the State Customs Service of Ukraine, funded by the European Union, focus on the expert and organizational assistance; the EU4PFM (EU Public Finance Management Support Program for Ukraine) focuses on the expert, technical, and financial assistance. Technical and expert assistance is also provided through US TAPAS, USAID, and other projects (Central Project Management Agency, 2021).

In August 2022, Ukraine deposited its instruments of accession to the EU-Common Transit Countries' Convention on a Common Transit Procedure, and the Convention on the Simplification of Formalities in Trade in Goods and can operate common transit from 1 October 2022. Accession to this Convention will facilitate the movement of goods between Ukraine and the EU and the other common transit countries (Norway, Iceland, Switzerland, North Macedonia, Serbia, Turkey, and the UK) (Directorate-General for Taxation and Customs Union, 2022), and will reduce the risk of corruption when performing customs procedures.

Special anti-corruption measures. In 2014, the OECD and Ukraine signed a Memorandum of Understanding for Strengthening Cooperation. To implement the Memorandum, the Action Plan was approved in 2015. The plan set out the key areas for the OECD's intervention in Ukraine with consideration of the priorities of the Ukrainian government. The consistent priority defined in the Memorandum and

the Action Plan was anti-corruption. Based on the mutual agreement, the OECD disseminated its standards and best practices among various Ukrainian ministries and monitored how the Action Plan was implemented. The Action Plan was revised in 2019 considering the priorities for 2019-20. The plan specifies that the OECD will provide recommendations to Ukraine on improving policy making, will assist with institutional capacity building, will monitor adherence to the relevant legal instruments to meet international standards, will involve Ukraine in the work of the relevant OECD bodies to enhance international dialogue and knowledge sharing, will provide reports to identify the most common corruption schemes (especially in the energy sector) and focus on high-level corruption to ease detection and investigation of corruption crimes, and will contribute to information and data exchange (OECD, 2020).

The EU provides a great deal of anti-corruption capacity-building assistance to Ukraine through various pre-invasion programs, such as the European Union Advisory Mission Ukraine (for legal and policy making reforms) or the EU Anti-Corruption Initiative in Ukraine (for technical assistance). According to Shin (2022), thus far there have been no major corruption scandals related to the improper use of the EU funds, partly because the EU has high transparency standards.

The need to fight corruption during Ukraine's post-war reconstruction is also perceived. To this end, a memorandum of understanding to provide Ukraine's officials with necessary anti-corruption tools during post-war reconstruction was signed between the National Agency on Corruption Prevention (NACP) and the International Anti-Corruption Academy (IACA). According to this memorandum, when providing assistance to Ukraine, the greatest attention will be paid to exchange of experience and information between Ukrainian and international experts on the detection and prevention of corruption, and the implementation of modern educational practices and technologies in the area of corruption prevention (the International Anti-Corruption Academy, 2022). The Head of the NACP noted that their agency continues to perform its direct functions since the first day of Russia's large-scale invasion of Ukraine, so that Ukraine's capabilities are not wasted and the country can successfully resist the invaders. The principles on the basis of which Ukraine is intended to be rebuilt after the war with Russia are defined in the Lugano Declaration. The major one is that the recovery process must be twinned with structural reforms, especially in terms of fighting endemic corruption (Agence France-Presse, 2022).

E-government. The broad digitalisation of public services is proposed as one of the methods that can help reduce the size of corruption in Ukraine because digitalisation reduces human interaction, and thus limits the opportunities for corrupt

transactions (AFP, 2022). Korchak (2022) notes that the effective fight against corruption requires not only high-quality anti-corruption legislation and strong anti-corruption bodies, but also the development and application of the relevant digital tools. Digital technologies, above all, should be used for creating and developing e-government platforms.

Thus far, Ukraine has managed to implement a comprehensive platform of digital government services, called Diia (which means 'action' in Ukrainian), which was launched in December 2019. In 2019, digitalisation became the major priority of the Ukrainian government, and a new Ministry of Digital Transformation was formed. Additionally, a Chief Digital Transformation Officer and Deputy Minister position was appointed in all other ministries to monitor the digitalisation process (Deacon, 2022). Currently, 70 key public services are provided through the Diia system (the major goal is to digitize all, that is, over 2,000, government services by 2024). It enjoys participation of half of the adult population, with 18 million total users (Love, 2022). Interaction of state registries is ensured through the TREMBITA system (a secure data exchange platform), which was finalized in 2018. The interaction is regulated by Decree No. 357 on Some Questions on Electronic Interaction Between State Electronic Information Resources, issued by the Cabinet of Ministers of Ukraine. The Ministry of Digital Transformation of Ukraine coordinates the interaction of four base registries: (i) the State Demographic Registry (State Migration Service of Ukraine), (ii) the State Business Registry (Ministry of Justice of Ukraine), (iii) the State Registry of Vehicles and Their Owners (Ministry of Internal Affairs of Ukraine), and (iv) State Land Cadastre (the State Service of Ukraine for Geodesy, Cartography and Cadastre) (Deacon, 2022).

The Diia ecosystem is easily accessible online through the Diia Mobile Application (Diia App) and Web Portal. The ecosystem covers particular blocks, for instance, administrative services (Diia website and Diia application), small and medium-size business support (Diia Business), education (Diia Education), and the legal framework development for the IT industry (Diia City). In September 2022, with Ukraine already being in the full-scale war with Russia, Diia App simplified 25 public services and digitized 16 documents (Deacon, 2022). According to Deacon (2022), Diia's success has been determined by such factors as its logic, simplicity and user-friendliness (i.e., the system allows to create a positive user experience). The information provided in the official website of the Government of Ukraine (2022) suggests that digitalization of government services helps to prevent chaos and bureaucracy, thus increasing the quality of public services and diminishing the risk of corruption. Korchak (2022) adds that digitalisation of government and public services represents a qualitative characteristic of the entire system of public administration; it also allows to automate the internal management processes in the NAPC,

thus providing it with institutional autonomy, which is extremely significant in the fight against corruption.

To accomplish the ambitious goals of transferring 100 percent of government services online, the Ministry of Digital Transformation of Ukraine will still need to ensure the 95 percent coverage of transport infrastructure and settlements across the country with high-speed Internet, boost the share of information and communication technologies (ICTs) in the country's gross domestic product (GDP) to 10 percent, and raise the levels of smartphone penetration and population's digital literacy (Deacon, 2022).

3.5. Summary of the PEST Analysis Results

To assess the environment for corruption in Ukraine both before the beginning of the large-scale Russian invasion (preconditions) and during it (newly emerged factors), it is necessary to take into account the totality of political, economic, social, and technical factors and consider the major positive and negative effect elements. The summary of the results of the PEST analysis of Ukraine in the context of corruption in wartime is presented in Table 3.

Table 3. Summary of the PEST analysis of Ukraine in the context of corruption in wartime

Factors	Major Positive Effect Elements	Major Negative Effect Elements
POLITICAL ENVIRONMENT		
Type of government	• Division of legislative, executive and judicial power • Justice administered solely by courts • Democratic elections	• Conflicts between law enforcement institutions
Privatization	• Transfer of ownership from the state to private hands • Cancellation of some suspicious auctions • Improvement of large- and small-scale privatization laws in 2018 • Launch of the special electronic platform 'Prozorro.Sale' for small-scale auctions	• Focus on the fiscal role of privatization rather than the goals • Controversial and ever changing privatization laws and programs • Priorities for political rather than strategic investors' interests • Discriminatory conditions • Thin and opaque stock market

Factors	Major Positive Effect Elements	Major Negative Effect Elements
The Orange Revolution of 2004	• Direction towards democracy and access to increased foreign funds • Anti-corruption efforts and programs • Increased quality and quantity of publicly available information • Increased involvement of the civil society • Free media landscape	• Dominance of political and economic power of oligarchs • Favouritism and nepotism • High level of social inequality • Failure to fully implement anti-corruption reforms
The Maidan Uprising	• Direction towards the European integration • Public requirements of deeper democracy, justice, rule of law, respect for human rights • Civil society expertise and advice to public authorities regarding the necessary reforms • Consolidation of the banking sector, more transparent public procurement	• Lack of trust in the national political system • Dissatisfaction with inefficient public policies • Conflict of democratic and pro-Russian powers • Difficulties to prosecute oligarchs • Conflicts between anti-corruption agencies
Annexation of the Autonomous Republic of Crimea and Sevastopol by Russia	• Rejection of the referendum and annexation by the United Nations General Assembly • International non-recognition of the occupied territory	• Conflict of democratic and pro-Russian powers • Structural economic imbalances, instability, uncertainty • Compromised logistics and foreign trade through the Black Sea • Military escalation
War in the Donbas	• International non-recognition of the occupied territory • Assistance of foreign partners	• Creation of uncontrolled separatist regions • Symbiotic partnership between the oligarchs and organised crime groups • Inoperative laws and control of the central government
2022 Russian invasion of Ukraine	• Inflows of foreign donations • Enlarged wartime powers of the country's leaders	• Distorted political priorities, eroded public services • Problems to deal with the massive inflows of foreign aid transparently

Factors	Major Positive Effect Elements	Major Negative Effect Elements
economic environment		
GDP	-	• Undermined infrastructural and economic potential • Decreased consumption
Foreign trade	• Opening western markets • The growth trend in the consumption of Ukrainian goods	• Drop in the exports of major commodities • Loss of big eastern markets • Money laundering through import and export operations
Currency	• Corrections of the national currency exchange rate against the US dollar by the National Bank of Ukraine • The demand for the national currency could rise due to resumption of grain exports	• Devaluation of the national currency
Inflation	-	• Record high inflation • Soaring prices of food
Interest rate	• Kept unchanged at a 25% • High borrowing costs help to maintain exchange rate stability and control inflation	• High borrowing costs for individuals and businesses
Wages	• A slight increase in the average monthly wages	• Declining minimum wages
Taxes	• Stable tax rates	-
Payments	• Cash supply by the National Bank of Ukraine to ensure liquidity • Limits on cash withdrawals per day • Prohibited release of cash from client accounts in foreign currency	• Great demand for cash
Foreign donations	• Grants, loans and other repayable finance	• Weak monitoring • Lack of institutional personnel • Discontinuity of mandatory work of public institutions, which need to address wartime problems

Factors	Major Positive Effect Elements	Major Negative Effect Elements
social environment		
Corruption perception	• Capability and (at least partial) functioning of anti-corruption institutions	• Stagnating anti-corruption effort • Postponement/freezing of the reforms
Business	• Growing business competitiveness • Improved regulatory environment for business	• Business disruption and closing during the war • Lower business confidence
Income inequality	-	• Increasing income inequality in society
Education	• Acknowledgement of the need for zero-tolerance of corruption (reforms)	• Widespread bribery in the education system • Displacement of students and teachers during the war
Trust in government	• High trust in the Parliament and the President	• Dissatisfaction with the work of anti-corruption institutions • Distrust in the Prosecutor's Office
Population	• Increased resilience of the society in emergency situations • Increasing social integration and association	• Killed and injured people during the war • Population's displacement
Smuggling	• Reduced risks of drugs smuggling through previously accessible routes • Establishment of the EU Support Hub for International Security and Border • Cooperation with Europol • The launch of the EU's Common Anti-Trafficking Plan	• High risks of arms smuggling • High risks of person smuggling
Organised crime	• Cooperation with Interpol and Europol • Intelligence sharing • Contribution of non-governmental organisations • Mobilisation of the EMPACT framework	• Presence of organised mafia-style groups • Influence over the country's policies and economy • Lack of basic resources and medicines during the war • The need to rebuild the damaged infrastructure very quickly

Factors	Major Positive Effect Elements	Major Negative Effect Elements
technical environment		
Border guarding	• Creation of the intelligent system of state border guard • Use of digital technology systems	• During wartime, the State Border Guard Service is a military unit under the command of the Armed Forces
Customs	• Simplification of customs declaration processes • Information exchange • Links to the EU New Computerized Transit System • The expert, technical, financial and organisational assistance based on the EU-Ukraine Association Agreement • Accession to the EU-Common Transit Countries' Convention on a Common Transit Procedure, and the Convention on the Simplification of Formalities in Trade in Goods	• Fragile and war affected borders
Special anti-corruption measures	• Provision of recommendations, institutional capacity building, reports identifying the most common corruption schemes, based on cooperation with the OECD (Action Plan) • The EU Advisory Mission in Ukraine; the EU Anti-Corruption Initiative in Ukraine • Memorandum of understanding to provide Ukraine's officials with necessary anti-corruption tools during post-war reconstruction • Definition of the principles of recovery in the Lugano Declaration	-
E-government	• Digitalisation of government services through the Diia system • Interaction of state registries through the TREMBITA system	• The need to extend the coverage of high-speed Internet • The need to raise the level of smartphone penetration • The need to raise digital literacy in society

The Table 3 shows that in the context of *the political environment*, corruption in Ukraine is to the largest extent determined by the oligarchy that formed in the process of faulty privatization, the chaos caused by revolutions, the existence of separatist regions where the laws and control of the central government do not apply, and the ongoing military conflict with Russia. Corruption is likely to be diminished by the type of the country's government (the division of legislative, executive and judicial power; democratic elections), the manifestation of the will of civil society (e.g., the cases of the Orange Revolution of 2004 and the Maidan Uprising), free media landscape, and the direction towards the European integration.

In the context of *the economic environment*, corruption in Ukraine is stimulated by the economic crisis caused by the war with Russia: the country's damaged infrastructure and undermined economic potential, decreasing consumption, drop in the exports of major commodities, record high inflation, devaluation of the national currency, and declining minimum wages. The factors that reduce corruption from the economic perspective are stable tax and interest rates, although it must be recognized that the latter means high borrowing costs for private individuals and businesses, which can encourage these entities to look for informal sources of borrowing. The risk of corruption is also heightened by the extremely increased demand for cash in wartime conditions and weak monitoring of the massive inflows of foreign donations, although the latter are essential for the Ukrainian economy not to collapse completely.

When assessing *the social environment*, it should be noted that corruption can be stimulated by the risk to the health and life of the population in wartime (e.g., the cases when men eligible for draft bribe their way out of the country), population's displacement, stagnant anti-corruption efforts and postponed or frozen reforms, low trust in business in wartime, rising income inequality, endemic corruption in the education system, increased risks of arms and person smuggling and the influence of the organized mafia-style groups, which may increase during the war due to the lack of basic resources and the need to quickly restore destroyed critical infrastructure. The social environment factors that tend to reduce corruption are the capability and (at least partial) functioning of anti-corruption institutions in war conditions, slightly rising business competitiveness (especially in view of the trend of increasing consumption of Ukrainian goods in western countries, which is expected to provide positive results in the medium and long term), extremely high public trust in the country's Parliament and President, tight social integration, and cooperation and information exchange with European and international law enforcement, international security and border institutions.

The PEST analysis revealed that *the technical environment* is the strongest environment for fighting corruption in Ukraine. The weakest factors of the technical en-

vironment in wartime are fragile and war affected borders, and distortion of the regular work of the State Border Guard Service, which has become a military unit and is under the command of the Armed Forces of Ukraine. However, the country's border guard and customs capabilities are being strengthened by creating the intelligent system of state border guard, simplifying customs declaration processes, exchanging information with European and international institutions, gaining access to the EU-Common Transit Countries' Convention on a Common Transit Procedure, and the Convention on the Simplification of Formalities in Trade in Goods, receiving expert, technical, financial, and organizational assistance based on the EU-Ukraine Association Agreement. Within the scope of the Action Plan developed in cooperation with the OECD, the EU Advisory Mission in Ukraine and the EU Anti-Corruption Initiative in Ukraine, the country is provided with the relevant assistance, insights and recommendations concerning the anti-corruption policy making and institutional capacity building. The target analysis reports help to identify the most common corruption schemes. Based on the principles of logic, simplicity and user-friendliness, the e-government service provision system Diia is considered one of the most advanced and attractive in the world. The system has not stopped working despite the ongoing war with the Russian Federation; on the contrary, it has even been extended: Diia App simplified 25 public services and digitized 16 documents; 70 key public services are currently provided through the Diia system. In the technical environment of Ukraine, favourable preconditions are gradually being created for the fight against corruption during the post-war period. For instance, the Memorandum of understanding to provide Ukraine's officials with necessary anti-corruption tools during post-war reconstruction as well as the definition of the principles of recovery, indicated in the Lugano Declaration, provide prerequisites for reducing corruption after the war, when the reconstruction of the country will be carried out.

Conclusions

1. Literature analysis shows that corruption, i.e., abuse of entrusted power for illicit private gain, with its negative effects not only on a state's economic development, but also on political stability, democracy and sustainable peace, is extremely detrimental in war-surviving states, which are trying to maintain the activities of public institutions, restore social trust, and help the economy to survive.
2. The potential for corruption in a time of war tends to increase because of the combination of weak institutions and governance structures, inability of the

state's main social control systems to perform their functions properly, a lack of public accountability, disruption of ordinary market transactions, and massive inflows of foreign aid. Thus, corruption is promoted by structural opportunities, the weakness of a state's governance, the influence of military structures, and spoiler-specific factors (illicit profits).

3. The results of the PEST analysis of Ukraine in the context of corruption in wartime revealed that:

1) in the context of *the political environment,* corruption in Ukraine is stimulated by the oligarchy formed in the process of faulty privatization, the existence of separatist regions where the laws and control of the central government do not apply, and the intensification of the war. Corruption is diminished by the division of legislative, executive and judicial power, democratic elections, manifestation of the will of civil society, free media landscape, and the direction towards the European integration;
2) in the context of *the economic environment,* corruption in Ukraine is stimulated by the war-caused economic crisis: the country's damaged infrastructure and undermined economic potential, decreasing consumption, drop in the exports of major commodities, record high inflation, devaluation of the national currency, declining minimum wages. The risk of corruption is also heightened by the demand for cash in wartime and weak monitoring of the massive inflows of foreign donations. The factors that reduce corruption from the economic perspective are stable tax and interest rates;
3) in the context of *the social environment,* corruption is stimulated by the risk to the health and life of the population, population's displacement, stagnant anti-corruption efforts, business collapse, income inequality, increased risks of arms and person smuggling, and the influence of the organized mafia-style groups, which may increase due to the lack of basic resources and the need to quickly restore destroyed critical infrastructure. Corruption tends to be reduced by the capability of anti-corruption institutions (partial as it is), slightly growing business competitiveness (the increasing trend of consumption of Ukrainian goods in western countries), extremely high public trust in the Parliament and President, tight social integration, and the cooperation with European and international law enforcement, international security and border institutions;
4) in the context of *the technical environment,* corruption is stimulated by fragile and war affected borders, and distortion of the regular work of the State Border Guard Service. Corruption is reduced by strengthening the border protection and customs capacities, information exchange with European and international institutions, expert, technical, financial and organizational assistance provided following the bilateral and international agreements, and the capacity of the e-gov-

ernment service provision system Diia. In the technical environment of Ukraine, favourable preconditions are gradually being created for the fight against corruption during the post-war period (the Memorandum of understanding to provide Ukraine's officials with necessary anti-corruption tools during post-war reconstruction; the definition of the principles of recovery, indicated in the Lugano Declaration).

Discussion

The war in Ukraine will have a significant impact not only on the country's political, but also on legal and economic situation, both at the national and international levels. Whereas a high level of corruption in any country negatively affects the adherence to the principle of the rule of law, the level of democracy and social justice, a deteriorating corruption situation can have particularly detrimental effects in a time of war.

Sustaining the rule of law in warring and war-surviving countries requires a multi-dimensional approach, which goes beyond the implementation of ordinary reforms. First of all, the determination of the national government to fight corruption (political will) is important. In times of war, corruption should not go unnoticed and unpunished, although the main focus is on the security of the country and the safety of the population. That is why it is important to take measures to maintain the relevant legal framework or to create it if it did not exist before. It is important to realize that the extent of corruption can increase during the war, so ensuring law enforcement is particularly vital. Public control of state institutions must be a continuous process. This means that even in wartime, active civil society must show public authorities that corruption is unacceptable.

International support should be used to increase public security, rebuild and reform local security forces. It could also support more effective border controls to limit illicit, and promote legitimate, trade (such as curbing regional smuggling rings and spoiler networks) to the extent possible in wartime.

Aid mechanisms, whereby aid is provided directly to the population through local or international non-governmental organizations, are a popular tool. On the one hand, this method is seen as positive since the necessary assistance is provided directly to the population. However, Boucher et al. (2007) argue that the aid which bypasses government structures can undermine the government's ability to formalize and distribute aid legitimately. As a result, the quality of services provided by the government does not improve, and by necessity the population continues to turn to

third parties for support, work and earn income in the informal sector. This hinders reduction of corruption in the country.

Although it is perceived that the widely proposed measures to fight corruption—the creation of a reliable justice system and independent courts, the implementation of transparent and accountable political processes, a stronger and more capable public administration system, government accountability to the public, effective government regulation and the stimulation of an open market economy—are much more effective after the war, when relative security is restored, even in wartime it is important to recognize that corruption can disrupt the country's political stability, reduce military capacity, and stimulate conflicts, dissatisfaction and the search for the "guilty" in society. In addition, corruption can diminish the benefits of any aid and undermine the negotiating capacity of the country's leadership at the international level.

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