

A HYPOTHESIS ON BANKING AND DEMOCRACY: EXPLAINING CHANGE IN
UKRAINE'S POLITICAL REGIME

by

Erik Fertsman

Submitted in partial fulfilment of the requirements
for the degree of Master of Arts

at

Dalhousie University
Halifax, Nova Scotia
December 2020

© Copyright by Erik Fertsman, 2020

TABLE OF CONTENTS

LIST OF TABLES.....	iv
LIST OF FIGURES.....	v
ABSTRACT.....	vi
LIST OF ABBREVIATIONS USD	vii
ACKNOWLEDGEMENTS.....	viii
CHAPTER 1: INTRODUCTION.....	1
1.1 OVERVIEW.....	1
1.2 THEORETICAL FRAMEWORK.....	7
1.2.1 Theories on Post-Soviet Political Regimes.....	7
1.2.2 Banks as a Resource for Political Groups in Ukraine.....	11
1.3 METHODOLOGY.....	13
1.3.1 Hypothesis generation.....	13
1.3.2 General-to-specific (“GETS”) Approach.....	13
1.3.3 Data.....	14
1.3.4 Terms.....	15
1.4 LIMITATIONS.....	16
1.5 OUTLINE.....	18
CHAPTER 2. THEORIES ON POST-SOVIET POLITICAL REGIMES.....	20
2.1 MASS ATTITUDES, CULTURE, HISTORY, AND SOCIAL CLEAVAGES.....	20
2.2 INSTITUTIONAL DESIGN.....	22
2.3 TRANSNATIONAL DIFFUSION.....	27
2.4 ELITES (BALANCE THEORY).....	29
2.5 SUMMARY.....	36
CHAPTER 3. BANKING AND DEMOCRACY IN UKRAINE.....	37
3.1 BANKS AS A RESOURCE FOR POLITICAL GROUPS IN UKRAINIAN POLITICS	38
3.1.1 The Outsized Political Influence of Political Groups Related to Banks.....	38

3.1.2 Elites’ Ties to Banks as a Variable to Explain Political Outcomes.....	41
3.2 BANKS AS A SOURCE OF RENT (MONEY).....	43
3.2.1 Banks’ Capacity to Create Money.....	44
3.2.2 The Case of PrivatBank.....	49
3.2.3 Generalizability of the PrivatBank Case.....	54
3.2.4 Incentives for Banks to Form Political Linkages.....	61
3.3 HYPOTHESIS.....	67
CHAPTER 4: DATA, MODEL SPECIFICATION, AND STATISTICAL ANALYSIS.....	73
4.1 OPERATIONALIZATION.....	74
4.1.1 Dependent Variable.....	74
4.1.2 Explanatory Variables.....	78
4.2 ESTIMATIONS.....	82
4.3 RESULTS.....	86
4.5 SUMMARY.....	92
CHAPTER 5. CONCLUSION.....	95
5.1 SUMMARY AND FINDINGS.....	95
5.2 POLICY IMPLICATIONS.....	101
5.3 DIRECTIONS FOR FUTURE RESEARCH.....	105
BIBLIOGRAPHY.....	107
APPENDIX.....	118

LIST OF TABLES

Table 1	PrivateBank loans to related parties associated with Kolomoisky. Loan values in UAH were converted into US dollar equivalents by the source.....	50
Table 2	The index of liberal democracy and its components: summary statistics by year.	78
Table 3	Explanatory variables of Ukrainian liberal democracy: summary statistics by year.	82
Table 4	General Model (1) of liberal democracy by OLS.....	83
Table 5	General Model (2) of liberal democracy by OLS.....	85
Table 6	General Model (3) of liberal democracy by OLS.....	86
Table 7	The determinants of liberal democracy for Ukraine for the period between 1992 and 2017.....	89

LIST OF FIGURES

Figure 1	EBRD Transition Indicators for Ukraine for the period between 1989 to 2014....	61
Figure 2	Estimated media market share of top 29 Ukrainian elites based on author’s own calculations using data from Pleines (2016) provided online (see Appendix A).	69
Figure 3	Estimated wealth of top 29 Ukrainian elites based on author’s own calculations using data from Pleines (2016) provided online (see Appendix A).....	70
Figure 4	V-Dem’s Liberal democracy index for Ukraine for the period between 1990 and 2018.....	76
Figure 5	Liberal democracy index vs. polarization of society for Ukraine for the period between 2000 and 2017.....	91
Figure 6	Liberal democracy index vs. banks for Ukraine for the period between 1992 and 2017.....	99
Figure 7	Liberal democracy index vs. banks for Russia for the period between 1992 and 2017 using data from Coppedge et al. (2019), Bank of Russia (2020), and Klär (2005).....	106

ABSTRACT

Analysts have long attempted to explain the patterns of change in the quality of post-Soviet political regimes, but few systematic inquiries exist on the matter. In this thesis, I present a new account of such patterns of change centered on interactions between political groups and banks in Ukraine. Research on Ukrainian has shown that political groups related to banks tend to hold outsized levels of political influence. Drawing on new empirical evidence, including the infamous case of PrivatBank, I find that the situation with political groups and banks in Ukraine appears to be analogous to those described by rentier theories. I argue fluctuations in Ukraine's political regime may be linked to fluctuations in the number of licensed banks furthering the power of political groups in the country. I test this hypothesis using the GETS statistical modeling approach. The results of the analysis offer initial support for the proposed hypothesis on the relationship between banking and democracy in Ukraine.

LIST OF ABBREVIATIONS USED

CAR	Capital adequacy ratio
DGF	Deposit Guarantee Fund of Ukraine
EBRD	European Bank for Reconstruction and Development
EU	European Union
GDP	Gross Domestic Product
GETS	General-to-specific statistical methodology
GUM	General unrestricted model
IMF	International Monetary Fund
EU	European Union
NBU	National Bank of Ukraine
PEPs	Politically-exposed persons
RPL	Related-party lending
V-Dem	The Varieties of Democracy Institute

ACKNOWLEDGEMENTS

I would like to thank the Dalhousie European Union Center of Excellence and Dalhousie University for supporting my research and studies, including the generous donors and committee members of the Keen-Morden Scholarship, the Margaret Meagher Fellowship, and the Faculty of Graduate Studies Scholarship. I would also like to thank my family and colleagues both in Canada and Ukraine for their support and feedback during the research and writing stage of this document. Special thanks to Cassie Hill, who spent a significant amount of time reading and commenting on initial drafts.

CHAPTER 1: INTRODUCTION

1.1 OVERVIEW

For decades now, analysts have attempted to explain the fluctuations in the quality of post-Soviet regimes. After the dissolution of the Soviet Union, many former member states adopted liberal democratic institutions. The quality of these institutions, however, has varied widely over time. As a result, post-Soviet regimes have displayed remarkable degrees of within-case variation in democracy levels. Initially, these fluctuations appeared to be driven by certain sociocultural factors,¹ the design of governmental institutions,² and even geographic proximity.³ As more time passed, the list of potential explanatory factors expanded to include changes in the quality of non-governmental institutions,⁴ certain transnational influences,⁵ and the behavior of political groups or “elites.”⁶ While many case studies exist on the subject, surprisingly few inquiries have attempted to systematically examine the overall patterns of change within post-Soviet political regimes - almost three decades since the start of the post-Soviet era.

In this thesis I present a new account of such patterns of change for the post-Soviet context of Ukraine. This account remains centered on the behavior of political groups⁷, but also underscores certain interactions between political groups and banks. Research on Ukraine shows

¹ Ken Jowitt, “After Leninism. The New World Disorder,” *Journal of Democracy* 2, no. 1 (1991): 13; Zbigniew Brzezinski, “Ten Years After the Soviet Breakup: The Primacy of History and Culture,” *Journal of Democracy* 12, no. 4 (2001): 23.

² Steven M. Fish, “Conclusion: Democracy and Russian Politics,” in Zoltan Barany and Robert Moser (eds.), *Russian Politics: Challenges of Democratization* (Cambridge, Cambridge University Press, 2001): 231; Kataryna Wolczuk, *The Moulding of Ukraine: The Constitutional Politics of State Formation* (Budapest: Central European University Press, 2001).

³ Laurence Whitehead, “Geography and Democratic Destiny: Eastern Europe a Decade Later,” *Journal of Democracy* 10, no. 1 (1999): 79; Jeffrey S. Kopstein and David A. Reilly, “Geographic Diffusion and the Transformation of the Postcommunist World,” *World Politics* 53, no.1 (2000): 1-2.

⁴ Paul D’Anieri, “Democracy Unfulfilled: The Establishment of Electoral Authoritarianism in Ukraine,” *Journal of Ukrainian Studies* 26, no. 1 (2001): 20; Lucan Way, “The Maidan and Beyond: Civil Society and Democratization,” *Journal of Democracy* 25, no. 3 (2014).

⁵ Steven Levitsky and Lucan A. Way, “Ties that Bind? International Linkage and Competitive Authoritarian Regime Change in Africa, Latin America, and Postcommunist Eurasia,” (Paper prepared for the Annual Meeting for the American Political Science Association, 2003).

⁶ Lucan A. Way, “Authoritarian State Building and the Source of Regime Competitiveness in the Fourth Wave: The Cases of Belarus, Moldova, Russia, and Ukraine,” *World Politics* 57, no. 2 (2005): 232.

⁷ I use the term “elites” and “political groups” interchangeably in this thesis.

that banks appear to further the power of political groups; groups related to banks have often held outsized levels of political influence, and certain political outcomes can be explained by observing elites' ties to banks. Drawing on new empirical evidence, I find that banks have served as a significant source of rent for political groups over the last 30 years, and that the situation between political groups and banks in Ukraine may be analogous to those described by rentier theories.

In Ukraine, as in other countries, banks have the capacity to issue large quantities of newly created deposit money through their lending practices - in orders of magnitude much higher than the face value of their total assets - which do not originate entirely from the local economy.⁸ Ukrainian legislation and banking policy also give bank managers and shareholders significant leeway in terms of deciding who is on the receiving end of bank loans. There is a lack of conditionality on bank lending at both policy and operational levels. In fact, it is well-established that Ukrainian banks and their management teams have allocated and continue to allocate significant amounts of loans (relative to their total assets and loan portfolios) to related parties, such as shareholders and employees.⁹

Often these bank shareholders and employees on the receiving end of bank loans have relationships to Ukrainian political groups. The recent case of PrivatBank illustrates this to a great extent. According to investigative journalists, evidence filed with courts in the United States and the United Kingdom, as well as court judgements, PrivatBank was leveraged by its shareholders through the issuance of billions of dollars worth of related-party loans.¹⁰ A large portion of these loaned funds may have been spent on politically-motivated ends, given the roles

⁸ Borja Clavero, "A contribution to the Quantity Theory of Disaggregated Theory," *Munich Personal RePCC Archive*, (2017); Michael McLeay, Amar Radia, and Ryland Thomas, "Money creation in the modern economy," *Bank of England Quarterly Bulletin* (2014); Richard Werner, "Can banks individually create money out of nothing? - The theories and the empirical evidence," *International Review of Financial Analysis* (2014): 1-19. Richard Werner, "A lost century in economics: Three theories of banking and the conclusive evidence," *International Review of Financial Analysis* (2015): 361-379.

⁹ National Bank of Ukraine, "Financial Stability Report," *bank.gov.ua* (2018): 67.

¹⁰ Graham Stack, "Ukraine's Top Bank Lend Owner's Lieutenants \$1 Billion Before Nationalization," *Organized Crime and Corruption Reporting Project*, 2017. <https://www.occrp.org/en/investigations/6533-ukraine-s-top-bank-lent-owner-s-lieutenants-1-billion-before-nationalization>; *PrivatBank v. Kolomoisky*, 377 Del Chanc 1 (2019); *Privatbank v. Kolomoisky*, EWHC 3308 (2018).

PrivatBank's shareholders have played in Ukrainian politics. Moreover, the history of Ukraine's banking sector suggests that cases like PrivatBank - where banks are leveraged by politically-motivated shareholders - are widespread and go back to at least the early 1990s, if not further to the late 1980s when commercial banking became a prominent new form of private business in the Soviet Union. Since then, banking and politics have been largely inseparable.

The business environment in Ukraine has exacerbated and sustained this process. It is well-known that businesses of various sizes often struggle to survive in Ukraine's business environment, whereby the rule of law and market-oriented institutions are weak (i.e., structural insecurity).¹¹ In fact, banks appear to be incentivized to form political relationships. Several studies show that banks can offset the costs and risks of operating in such an environment by forming political ties. Banks with political ties often avoid regulatory scrutiny,¹² build various forms of political protection and leverage political privileges,¹³ as well as gain access to lucrative business arrangements that would otherwise not be attainable.¹⁴ There is also evidence that politically-connected banks in Ukraine perform better than those that are not.¹⁵

Data from existing studies on Ukrainian political groups corroborates the idea that political groups may be benefiting from their ties to banks. Since 2006, over 50 percent of Ukraine's news media market has been controlled by Ukraine's wealthiest political groups with ties to banks, while the wealthiest political groups with no ties to banks have increasingly seen their hold on the news media market plummet.¹⁶ As well, political groups with ties to banks have consistently held substantially more wealth than groups with no ties to banks.¹⁷

¹¹ Stanislav Markus and Volha Charnysh, "The Flexible Few: Oligarchs and Wealth Defense in Developing Democracies," *Comparative Political Studies* 50, no. 12 (2017): 1632-1665.

¹² Kazimierz Kloc, "Banking Systems and Banking Crises in Ukraine, Georgia and Kyrgyzstan," *Problems of Economic Transition* 45, no. 8 (2001): 6-71.

¹³ Christopher F. Baum, Mustafa Caglayan, Dorothea Schafer, and Oleksandr Talavera, "Political Patronage in Ukrainian Banking," *Economics of Transition* 16, no. 3 (2008): 537-557.

¹⁴ Yuliya Yurchenko, "'Black Holes' in the Political Economy of Ukraine: The Neoliberalization of Europe's 'Wild East'," *Debatte: Journal of Contemporary Central and Eastern Europe* 20, no. 2-3 (2012): 125-149.

¹⁵ Johnson, Kroll, and Horton, "New Banks in the Former Soviet Union," 21; Baum et al., "Political Patronage," 545.

¹⁶ See Appendix A.

¹⁷ Ibid.

Theory on post-Soviet political regimes has long suggested that a link exists between the quality of Ukraine's political regime and the economic resources at the disposal to political groups (which further their political power). An important study conducted by Way, for instance, found that higher periods of political competition in Ukraine during the mid-1990s and the mid-2000s could be traced back to the higher scope of control that certain political groups gained over key economic resources in Ukraine's economy.¹⁸ Others have found this to be the case in other post-Soviet contexts, in the sense that control over business resources by political groups has been considered a key ingredient for political power.¹⁹

If the findings in the literature and this thesis about the situation in Ukraine between political groups and banks is correct, then it is reasonable to suggest that fluctuations in Ukraine's political regime may be linked to fluctuations in the number of banks furthering the power of political groups. I put this hypothesis to the test using the well-established general-to-specific ("GETS") statistical modeling approach and time series data from Ukraine.²⁰ The GETS method involves building a statistical model informed by theory and subsequently reducing the model by eliminating statistically insignificant regressors until a parsimonious result remains. I use an aggregate measure of democracy to observe the dependent variable published online by the Varieties of Democracy Institute ("V-Dem"), along with several measures to operationalize key explanatory variables, including those for the electoral regime, the presidential system, banking, civil society, economic development, and foreign assistance. The statistical analysis, despite having a small sample size, offers some initial support for the hypothesis: I find that fluctuations in the number of licensed banks operating in Ukraine is highly related to the fluctuations in the quality of Ukraine's political regime for the period of 1992-2017.

¹⁸ Way, "Authoritarian State Building," 233.

¹⁹ Joel S. Hellman, Geraint Jones, and Daniel Kaufmann, "Seize the state, seize the day: state capture and influence in transition economies," *Journal of Comparative Economics* 31 (2003): 751-773.

²⁰ Julia Campose, Niel R. Ericsson, and David F. Hendry, "General-to-specific modeling: An Overview and Selection Bibliography." *Board of Governors of the Federal Reserve System International Discussion Papers* No.838 (2005): 1-91.

The findings contribute knowledge to the field of research on post-Soviet political regimes. Prior theoretical work recognized that a whole host of different business resources (i.e., industrial, financial, and media companies) could potentially further the influence of political groups in Ukraine. However, no systematic inquiry has explored the effect this process or its components have had on overall patterns of change in the country's political regime. What is more, until now, no inquiry has explored the ways in which banks have empowered political groups, especially by considering how banking works within an institutionally weak environment where politics and banking are heavily intertwined.

This thesis also presents a model of change that accounts for almost 90 percent of the fluctuations in Ukrainian democracy levels between 1992 and 2017. If we are to put at least some stock into the quality and accuracy of the regressors used, the model suggests that, with everything else remaining equal, Ukraine would need to see a substantial rise in the number of banks operating in the country for conditions to be more conducive for democracy. The model shows that the quantity of banks operating in Ukraine, which may be furthering the power of political groups, is positively related to the quality of the country's political regime. From the sample regression equation, we can estimate that, on average, Ukrainian democracy levels could reach those comparable to other European political regimes - like those in Central Europe - if its banking sector was made to expand to at least 1000 licensed banks (not branches) across the country.

The findings also speak to certain institutional theories of regime outcome. The model presented here shows that both the fluctuations in Ukraine's electoral regime and the presidential system are highly related to the fluctuations in Ukraine's democracy levels, alongside our banking variable. Ukraine could see higher levels of democracy if it was to adopt a full multi-member district electoral system with proportional representation, rather than continue on with the current hybrid electoral system wherein single-member districts and multi-member districts work in parallel (but only marginally, since the coefficient of the electoral regime variable in the model is small). It is also evident that reforms targeting the presidential system are needed as

well, due to the negative impact the presidential rule variable has on the overall quality of Ukrainian democracy in our model.

The findings presented in this thesis may also help explain why certain reform processes introduced after the Euromaidan Revolution in 2014 - initially seen as beneficial to the country's political and economic well-being - coincided with a sharp deterioration in the quality of Ukraine's political regime. Between 2014 and 2018, the Poroshenko government carried out widespread banking reforms to clean up the banking sector (after decades of heavy insider-lending among banks) and to break-up the well-known overlap between banking and politics. The reforms resulted in a dramatic reduction in the quantity of banks operating in Ukraine, by at least 50 percent. Despite some electoral turnover since the reforms were implemented, liberal democracy levels have fallen sharply. If the research presented in this thesis is correct, the clean-up of the banking sector may have had the effect of undercutting the country's competitive political landscape. After all, in Ukraine banks play an integral role within organizations who compete not only in business but also in politics. The most recent wave of bank closures was not the first of its kind either. Between 1996 and 2000 nearly 80 commercial banks were liquidated. During that period, democracy levels also fell sharply, culminating in the rise of the quasi-authoritarian Kuchma regime.

There are implications for policy from the findings in this thesis. International organizations like the International Monetary Fund and the European Bank for Reconstruction and Development - Ukraine's largest investors in dollar terms - may want to consider policies and investments that encourage the development of a banking system in Ukraine that is composed of a plurality of small and medium-sized commercial banks in the hands of a plurality of diverse stakeholders. Given Ukraine's history of weak rule of law and embedded political linkages in the banking system, such a configuration may help reduce the risk of authoritarian consolidation, smooth out volatility in the country's political regime, and help create conditions that would be more conducive to a level political playing field among political groups.

Lastly, further research is also needed to flush-out causal mechanisms that may underlie the statistical associations identified in this thesis. Research could also explore whether or not the statistical association identified here also holds true in other post-Soviet contexts. Given the structural similarities between Ukraine and other post-Soviet regimes, the situation with political groups and banks may be very similar in other important post-Soviet contexts like Russia.

1.2 THEORETICAL FRAMEWORK

This thesis lies within the literature on post-Soviet political regimes, with a focus on research related to the case of Ukraine. This work suggests that regime quality depends mainly on certain sociocultural factors, the design of governmental and non-governmental institutions, transnational influences, and the behaviour of political groups. Below, I briefly survey these theories and identify some pertinent research questions.

1.2.1 Theories on Post-Soviet Political Regimes

Many researchers have found that fluctuations in the quality of post-Soviet political regimes may depend on fluctuations in mass attitudes, culture, history, and social cleavages. Weakness in liberal democratic institutions has been traced back to certain Soviet legacies that appear to have sown a political culture that is incompatible with liberal democratic rule,²¹ private property, and capital markets introduced after the fall of the Soviet Union.²² Historical experiences such as armed conflicts, state dominance over property, and religion also appear to have bred the formation of cultures that are incompatible with democracy.²³ Moreover, popular disillusionment with democratic rule is thought to be at the heart of the issue.²⁴ Others contend that liberal democratic institutions are likely to be weak in situations where linguistic and ethnic divisions are high.²⁵

²¹ Jowitt, "After Leninism," 13.

²² Stephen Cohen, *Failed Crusade: America and the Tragedy of Post-Communist Russia* (New York: W. W. Norton, 2000): 48.

²³ Zbigniew Brzezinski, "Ten Years After," 23.

²⁴ Charles Gati, "Mirage of Democracy," *Transition* 2. No.6 (1996): 6-12.

²⁵ Taras Kuzio, "National Identity and Civil Society," in *Ukraine: State and Nation Building* (London: Routledge, 1998).

Researchers have also emphasized a link between democracy and institutional design, whereby regime quality or fluctuations in democracy are largely determined by the design of governmental and non-governmental institutions, how those designs translate public discourse into policy, and whether or not they constrain political actors from abusing power. Ukraine's presidential system (the presidential administration) appears to undermine liberal democratic institutions like parliament and the judiciary.²⁶ Meanwhile Ukraine's electoral regime appears to undermine the overall quality of its political system; particularly the country's mixed-member system with single-member districts under majority-runoff and multi-member districts under proportional representation operating in parallel.²⁷ This hybrid electoral regime has produced severely fragmented parliamentary assemblies that are incapable of successfully challenging Ukraine's powerful presidential administration. Ukraine's civil society is also seen as an important contributor to the country's democratic development.²⁸

Others have focused more on transnational influences and their effects on Ukraine's political system. Geographic proximity has been found to be a significant predictor of the degree to which countries become democratic.²⁹ Whereas territorial proximity has been demonstrated to act as a catalyst allowing for the diffusion of certain norms, resources, and institutions from one political regime to another.³⁰ In the case of Ukraine, it has been argued that the European Union's ("EU") regional integration efforts may be responsible for fluctuations in its political system, despite the fact that the country is relatively far away from strong democratic regimes.³¹ Over the last three decades, the EU has been building closer bilateral institutions with Ukraine. These institutions have not only increased ties between the two entities but they have also led Ukraine to commit to certain key liberal democratic principles (culminating in the ratification of the EU-Ukraine Association Agreement in 2014).

²⁶ D'Anieri, "Democracy Unfulfilled," 21.

²⁷ Erik S. Herron, "Measuring Electoral Influence on Legislative Behavior in Mixed Systems: Evidence from Ukraine's Verkhovna Rada," *Legislative Studies Quarterly* 27 (2002): 361-381.

²⁸ D'Anieri, "Democracy Unfulfilled," 20; Way, "The Maidan and Beyond."

²⁹ Whitehead, "Geography and Democratic," 79.

³⁰ Kopstein and Reilly, "Geographic Diffusion."

³¹ Levitsky and Way, "Ties that Bind?"

Another theoretical tradition, which is more pertinent to the hypothesis I propose in this thesis, has underscored the behavior of political groups or elites and the resources that affect their behavior. In Ukraine, various groups control disproportionately large amounts of public and private resources, of which are leveraged in order to command a substantial and ongoing influence on political processes.³² Several accounts link the fluctuations in Ukraine's political system to the way in which incumbents' and opposition groups' have increased their scope of control over these resources, which ultimately furthers their political power. One study found that the periods of higher levels of political competition - a central tenet of democracy - during the mid-1990s and mid-2000s could be explained by tracing incumbents' lower scope of control over key economic groups and their resources (i.e., industrial, financial, and media businesses).³³ Another found that weaker political competition in Ukraine is often the result of the monopolization of economic activity by the country's executive branch of government.³⁴ These patterns have been found to exist in other post-Soviet contexts as well, whereby control over business groups is considered a key pathway to power.³⁵

The idea that democracy depends, to a large extent, on the resources at the disposal of political groups may be the most insightful finding in research on Ukraine to date. Several studies have found that sociocultural factors do not necessarily correlate with regime outcomes, or that they do not have the level of impact ascribed to them by theory. For instance, survey data from Russia at the turn of the century found positive support for democratic ideals during a period of low democracy levels and low satisfaction with the incumbent regime.³⁶ Survey data from Ukraine in the 1990s also demonstrated a high degree of support for democratic ideals despite low levels of democracy at the time and severe economic hardship.³⁷ Instead, electoral integrity appears to be

³² Rosaria Puglisi, "The Rise of the Ukrainian Oligarch," *Democratization* 10, no. 3 (2003): 99-123.

³³ Way, "Authoritarian State Building," 233.

³⁴ John A. Gould and Yaroslav Hetman, "Market Democracy Unleashed? Business Elites and the Crisis of Competitive Authoritarianism in Ukraine," *Business and Politics* 10, no. 2 (2008): 2.

³⁵ Hellman, Jones, and Kaufmann, "Seize the state, seize the day."

³⁶ Timothy J. Colton and Michael McFaul, "Are Russians Undemocratic?," *Post-Soviet Affairs* 18, no. 2 (2002): 91-121.

³⁷ Paul D'Anieri, "Democracy Unfulfilled," 18.

a key determinant of mass attitudes toward democracy, at least in Ukraine.³⁸ Social cleavages also do not seem to affect the formation of parliamentary assemblies.³⁹

Explanations centered on institutional design have also faced obstacles in terms of being able to account for overall patterns of change. While civil society has obviously played a visibly large political role in post-Soviet Ukraine over the last two decades, its major achievements, such as the 2004 Orange Revolution and the 2014 Euromaidan Revolution, were followed by sharp democratic reversals.⁴⁰ Moreover, it is not clear how significant change in Ukraine's electoral system and the presidential system affects regime outcome. The constitutional order under which Ukraine operated during the mid to late 2000s - seen as the more favorable one in terms of democratic rule - coincided only marginally with higher levels of democracy and corresponded with a deterioration in the quality of Ukraine's political regime only a few years after its adoption.⁴¹

Meanwhile, evidence for the effects of transnational influences has not been encouraging. Most research shows a lack of correlation or a lack of a causal relationship. For example, when one group observed the EU's framework for regional integration and domestic reforms in Ukraine, the results showed a strong disconnect between the two variables.⁴² Instead, the influence of political groups appears to account for most of the domestic policy changes in Ukraine and the change in the quality of Ukraine's political regime.⁴³ Pressure from industrial political groups has also been found to be an important factor in understanding policy changes in the country.⁴⁴ This evidence has strengthened research findings on the significance of political groups.

³⁸ Ian McAllister and Stephen White, "Electoral Integrity and Support for Democracy in Belarus, Russia, and Ukraine," *Journal of Elections, Public Opinion and Parties* 25, no.1 (2015): 92.

³⁹ Melvin J. Hinich, Valeri Khmelko, and Peter C. Ordeshook, "Ukraine's 1998 Parliamentary Elections: A Spatial Analysis," *Post-Soviet Affairs* (1999): 183.

⁴⁰ Laura Cleary, "Half measures and incomplete reforms: the breeding ground for a hybrid civil society in Ukraine" *Southeastern European and Black Sea Studies* 16, no. 1 (2016): 7-23.

⁴¹ Sujit Choudry, Thomas Sedelius and Julia Kyrychenko, "Semi-presidentialism and Inclusive Governance in Ukraine," *International Institute for Democracy and Electoral Assistance* (2018): 9-10.

⁴² Esther Ademmer, Laure Delcour, and Kataryna Wolczuk, "Beyond geopolitics: exploring the impact of the EU and Russia in the "contested neighborhood," *Eurasian Geography and Economics* 57, no. 1 (2016): 1.

⁴³ Ibid.

⁴⁴ Kataryna Wolczuk, "Managing the Flows of Gas and Rules: Ukraine between the EU and Russia," *Eurasian Geography and Economics* 56, no. 1 (2016): 113-137.

Explanations centered on the behavior of political groups, however, are not without their shortcomings. There does not appear to be any systematic inquiries which have tested the relationship between the overall patterns of change in Ukraine's political regime and changes in the resources at the disposal of political groups, for instance. So far, theory consists mainly of descriptive narratives of patterns of change that appear related. Researchers have emphasized a difficulty with being able to measure resource concentration - and thus power concentration - among political groups in transition economies like Ukraine.⁴⁵ To an extent, the problem boils down to one of measurement. Although, Ukrainian political groups often indirectly leverage political institutions,⁴⁶ which compounds measurement problems and makes it notoriously difficult to trace or map even the political influence of Ukraine's most powerful political groups.

1.2.2 Banks as a Resource for Political Groups in Ukraine

The literature on the pathologies of political groups offers some clues, however, on where researchers can look to try and measure the resources at the disposal of political groups. Banks - licensed deposit-taking financial institutions - for instance, appear to further the power of political groups in Ukraine. Groups with material connections to banks have often displayed outsized levels of political influence. And, in many cases, political outcomes can be traced back to the degree to which political groups involved in a particular political struggle have held ties to a bank.

Indeed, several research papers have shown how groups related to banks have held outsized levels of political influence. In the early 1990s, many of the groups that dominated Ukraine's parliamentary politics were composed of individuals who had careers and stakes in the banking industry.⁴⁷ A large quantity of groups and individuals related to banks participated in the

⁴⁵ Joel S. Hellman, "Winners Take All: The Politics of Partial Reform in Postcommunist Transitions" *World Politics* 50, no. 2 (1998): 229.

⁴⁶ Markus and Charnysh, "The Flexible Few," 1636; Henry Hale, *Patronal Politics. Eurasian Regime Dynamics in Comparative Perspective*, (Cambridge: Cambridge University Press, 2014).

⁴⁷ Serhiy Kudelia, "The Source of Continuity and Change of Ukraine's Incomplete State," *Communist and Post-Communist Studies* 45 (2012): 419.

parliamentary elections in the late 1990s, as well.⁴⁸ Political industrial groups with a heavy presence in the banking sector also dominated parliamentary politics and the presidential administration at the turn of the century.⁴⁹ At least five groups with major holdings in banking built a large political presence in parliament and the presidential administration between 2003 and 2005.⁵⁰ This trend, whereby groups with control over banks have actively engaged in politics, was noticed in research circles as early as the late 1990s, leading to calls for research to focus on the relationship between commercial bankers - who benefited significantly from the privatisation era that swept post-Soviet regimes after the dissolution of the Soviet Union - and political outcomes.⁵¹ It is now increasingly recognized that political groups in Ukraine often integrate banks into their organizational structures.⁵²

Several cases have also found that banks may be a factor in explaining certain political outcomes.⁵³ As an illustration, one study found that banks provided significant levels of funding to incumbents and opposition groups between the mid-1990s and mid-2000s.⁵⁴ Kuchma's hold on power can be traced back to both private and public banks, which financed his patronage networks.⁵⁵ Likewise, bankers appear to have played a key role in Yushchenko's electoral successes in the mid-2000s, particularly during the 2004 presidential elections and the Orange Revolution.⁵⁶

From the above, an interesting research question can be deduced: *how do banks further the political power of Ukrainian groups, and what kind of effect (if any) does this process (where*

⁴⁸ Puglisi, "The Rise of the Ukrainian Oligarchs," 109.

⁴⁹ Gould and Hetman, "Market Democracy Unleashed," 13.

⁵⁰ Baum et al., "Political Patronage," 543.

⁵¹ Joel S. Hellman, "Winners take all," 229.

⁵² Monica Eppinger, "Property and Political Community: Democracy, Oligarchy, and the Case of Ukraine," *The George Washington International Law Review* 47 (2015), 872.

⁵³ Puglisi, "The Rise of Ukrainian Oligarch.,"; Lucan A. Way, "Rapacious individualism and political competition in Ukraine, 1992-2004," *Communist and Post-Communist Studies* 38 (2005): 191-205; Gould and Hetman, "Market Democracy Unleashed," 13; Olexiy Haran, "From Viktor to Viktor: Democracy and Authoritarianism in Ukraine," *Demokratizatsiya* (2011): 104; Kudelia, "The Source of Continuity," 420; Yurchenko, "Black Holes in the Political Economy of Ukraine," 142.

⁵⁴ Way "Authoritarian State Building," 256.

⁵⁵ Puglisi, "The Rise of the Ukrainian Oligarchs," 112.

⁵⁶ Way "Rapacious Individualism," 200; Lucan A. Way, "Kuchma's Failed Authoritarianism," *Journal of Democracy* 16, no. 2 (2005): 131-145.

banks further the power of political groups) have on the quality of Ukraine's political regime?

The purpose of this thesis is to attempt to answer this research question.

1.3 METHODOLOGY

To answer the aforementioned research question, this thesis begins by collecting evidence on how banks further the political influence of political groups for the purpose of generating a testable hypothesis about the effect that this relationship may have on the quality of Ukraine's political regime. This hypothesis is then tested using the well-known general-to-specific ("GETS") statistical modeling approach. I discuss this methodology briefly below, as well as define some terms.

1.3.1 Hypothesis generation

In the hypothesis-generating chapter of this thesis, I discuss certain processes and sequences of events by drawing on existing and new empirical evidence (mainly qualitative). The purpose is to better understand the ways in which banks have been leveraged by political groups, but also to better understand how this relationship might affect the quality of Ukraine's political system. I do not follow any particular hypothesis-generating methodology per se. However, I do provide an assortment of circumstantial and direct evidence which: 1) describes the relationship between banks and political groups in Ukraine in a way that goes well beyond any previous study; 2) covers the most important components of the relationship between banks and political groups in Ukraine; and, 3) allows us to generate a testable hypothesis about the impact of the relationship between banks and political groups in Ukraine on more aggregate political outcomes in the country. This effectively provides an answer to the first half of the thesis research question.

1.3.2 General-to-specific ("GETS") Approach

The GETS statistical modeling approach allows for testing of the hypothesis generated in this thesis and to answer the second half of the thesis research question. It is a sufficient statistical test to use due to its robustness, widespread use in social science, and because of the various theoretical variables that are at play in this inquiry. The process involves creating a general

unrestricted model (“GUM”) using variables (including proxies) that are informed by theory.⁵⁷ The GUM is then subject to linear restrictions (to meet the objective assumptions of linear regression), and reduced sequentially by removing statistically insignificant variables until a parsimonious model is reached. The parsimonious model that results should allow for no more reductions, and should hold only statistically significant variables. If the parsimonious model complements our hypothesis, it constitutes strong empirical support.

To compile the variables and conduct the statistical test, I use Microsoft Excel Office 365, which offers a statistical data analysis package with the capacity to run linear regression. I run the GUM, the reduced models, and the parsimonious model through the Excel statistical software to gather summary statistics, to test for significance, and to test for statistical errors. Variables with p-values at and below 5 percent are deemed significant. The statistical software package in Excel is not equipped with tests to check for statistical errors, so I run these tests manually (the data and results are made available in the appendices). For normality of errors, I apply the Trochim-Donnelly test and the Shapiro-Wilk test. To check for multicollinearity, I calculate the variance inflation factor for each variable. In detecting the presence of autocorrelation, I calculate the Durbin-Watson statistic. And, to test for heteroscedasticity, I run two tests: the Breusch-Pagan test, and; the Abridged White’s test.

1.3.3 Data

In terms of the data used in this thesis, in the hypothesis-generating chapter I draw mainly on peer-reviewed literature to discuss the relationship between banks, political groups, and the quality of Ukraine's political regime, as well as some reputable news media sources such as the *Kyiv Post*. I draw on peer-reviewed papers, Ukrainian legislation, and reports published by the Ukrainian government (specifically, the National Bank of Ukraine) to discuss processes and sequences related to banking. To discuss how banks have been leveraged by political groups, I draw on reports published by reputable investigative journalists and court documents filed in the

⁵⁷ Campose, Ericsson, and Hendry, “General-to-specific modeling.”

United States and the United Kingdom. I also draw on some peer-reviewed statistical data published on Ukrainian political groups to further identify how banks impact political groups.

For the quantitative chapter, I use data published by V-Dem to operationalize the dependent variable.⁵⁸ V-Dem publishes various aggregated measures of democracy, which I argue are appropriate to use in the statistical analysis. These aggregated measures are compiled using micro-level indicators of democracy of which are generated via surveys conducted on country experts. The data published by V-Dem is in annualized time series format. Only point estimates for country-variable-years with three or more ratings are used, as recommended by Coppedge et al.⁵⁹ Data for the independent variables operationalized in the statistical analysis (banks, presidential system, electoral system, civil society, economic development, and foreign assistance) is compiled using data published by the National Bank of Ukraine, V-Dem, the World Bank, and the Organization for Economic Co-operation and Development. Due to incomplete statistical libraries from the aforementioned sources, I also use some peer-reviewed sources for statistical data. The sample period for which data is available and reliable for all statistics is 1992 to 2017.

1.3.4 Terms

In this thesis, a number of important terms are used which may have meanings that depart from those in popular discourse or in other scientific inquiries. The term “political group” in this thesis

⁵⁸ Michael Coppedge, John Gerring, Carl Henrik Knutsen, Staffan I. Lindberg, Jan Teorell, David Altman, Michael Bernhard, M. Steven Fish, Adam Glynn, Allen Hicken, Anna Lührmann, Kyle L. Marquardt, Kelly McMann, Pamela Paxton, Daniel Pemstein, Brigitte Seim, Rachel Sigman, Svend-Erik Skaaning, Jeffrey Staton, Steven Wilson, Agnes Cornell, Lisa Gastaldi, Haakon Gjerløw, Nina Ilchenko, Joshua Krusell, Laura Maxwell, Valeriya Mechkova, Juraj Medzihorsky, Josefine Pernes, Johannes von Römer, Natalia Stepanova, Aksel Sundström, Eitan Tzelgov, Yiting Wang, Tore Wig, and Daniel Ziblatt, “V-Dem Ukraine Dataset v9” *Varieties of Democracy (V-Dem) Project* (2019); Pemstein, Daniel, Kyle L. Marquardt, Eitan Tzelgov, Yiting Wang, Juraj Medzihorsky, Joshua Krusell, Farhad Miri, and Johannes von Römer, “The V-Dem Measurement Model: Latent Variable Analysis for Cross-National and Cross-Temporal Expert-Coded Data,” *V-Dem Working Paper* No. 21. 4. (University of Gothenburg: Varieties of Democracy Institute, 2019).

⁵⁹ Michael Coppedge, John Gerring, Carl Henrik Knutsen, Staffan I. Lindberg, Jan Teorell, David Altman, Michael Bernhard, M. Steven Fish, Adam Glynn, Allen Hicken, Anna Lührmann, Kyle L. Marquardt, Kelly McMann, Pamela Paxton, Daniel Pemstein, Brigitte Seim, Rachel Sigman, Svend-Erik Skaaning, Jeffrey Staton, Agnes Cornell, Lisa Gastaldi, Haakon Gjerløw, Valeriya Mechkov, Johannes von Romer, Aksel Sundtröm, Eitan Tzelgov, Luca Uberti, Yiting Wang, Tore Wig, and Daniel Ziblatt, “V-Dem Codebook v9” *Varieties of Democracy (V-Dem) Project* (2019), 25.

is used to describe a formal or informal body of hierarchically organized individuals who operate, at least partially, in the political sphere. This term is used interchangeably with the term “elite,” which is often used in research on post-Soviet political regimes to describe “small and cohesive groups of strategic actors” who exercise political influence within certain territorial boundaries.⁶⁰ These terms are used because political formations, particularly in the context of Ukraine, often revolve around a specific individual or a select few individuals who are generally non-ideological. Political formations can be more easily recognized, especially over time, by identifying particular individuals rather than by identifying “official” political parties per se. In Ukraine, more often than not, official political parties change their names before every election. They also often change their ideological views during and between elections. Observing an official political party may be indicative of an alliance between political groups at a particular moment, but it is not a good indicator of actual political groups per se.

Moreover, political groups are often discussed in this thesis as “related” to “banks.” The term “bank” or “commercial bank” is used to describe a licensed corporation that constitutes as a deposit-taking institution as defined by the Ukrainian state in the law *On Banks and Banking*. The term “related” is mostly used in the same way it is by the law *On Banks and Banking*, whereby a party is said to be “related” to a bank when they control a share in a bank, when they are an employee of a bank, or if they control an organization or institution which carries an interest in a bank. However, the term is also used in cases where there are certain material connections between a political group and a bank that goes beyond a connection established by a share or employment, such as the transfer or flow of money or the establishment of informal or formal alliances. The term “related” may also be used interchangeably with the term “tied” or “linked.”

⁶⁰ Puglisi, “The Rise of the Ukrainian Oligarch,” 101.

1.4 LIMITATIONS

There are a number of limitations in this thesis associated with variable selection (operationalization), measurement, data reliability, and omitted variable bias. Together, these limitations reduce the reliability of the results found, particularly in the statistical chapter.

One of the major limitations in this thesis is linked to the proxy variable used to operationalize the effect of banks on the dependent variable (democracy). This proxy is constructed by identifying the total number of licensed banks in operation in Ukraine in a given year. This choice relies on the assumption that if a bank is licensed and operational in Ukraine, then it must be related to at least one political group. This group, in turn, is likely benefitting in some way from this relationship, impacting the overall quality of the country's political regime. The less this assumption holds, the less the statistical association identified in the statistical analysis between the banking variable and the dependent variable is based on causal mechanisms identified in the hypothesis-generating chapter. Notwithstanding, I argue that the proxy is sufficient for the purpose of an initial test given three key observations: 1) the structural context in which banks operate in Ukraine is such that it is very difficult (if not impossible) to remain operational, and even licensed, if political connections are not sought and maintained given the degree to which banking regulators lack political independence; 2) a large number of banks can be readily linked to politically-exposed persons ("PEPs"), including the large foreign-owned banks operating in Ukraine; and, 3) virtually all banks in Ukraine engage in related party lending, including the foreign-owned banks operating in Ukraine connected to large international conglomerates. I discuss the pros and cons of the proxy variable in further detail in the statistical chapter.

Furthermore, the sample period for the statistical analysis includes 2014 to 2017. This means that the statistical analysis partially overlaps with the armed conflict which erupted in Eastern Ukraine after March 2014 (the war in the Donbas). It is currently not clear what impact the conflict has had on the country's overall political development (i.e., the dependent variable of

this thesis). As a result, no variables which could account for the effect of the conflict could be incorporated into the statistical analysis. Some studies have preferred to omit data and analysis for this period.⁶¹ This thesis does not omit the 2014-2017 data since it is available, and omitting it would shrink the already small sample size. If anything, omitting would add a negative bias against the model presented in the statistical chapter.

Lastly, this thesis focuses on Ukraine's political regime solely from a national level perspective. Some researchers, for instance, have been found guilty of carrying what is known to be a "national fixation" in research on political regimes. This is a tendency to observe units of analysis that incorporate subnational elements, processes, or phenomena to explain variation in democracy levels at the national level.⁶² This is considered a problem of measurement incompleteness, that may and could lead to forms of "fallacious reasoning", which happens when "traits or processes specific to a well-studied region or other subnational units are improperly elevated to the status of national paradigm."⁶³ Admittedly, there are theoretical costs for not recognizing subnational units in this thesis. However, scholars who originally operationalized the concept of democracy, as this thesis does, focused on phenomena at the national level.⁶⁴ Moreover, the analysis may suffer from the measurement incompleteness problem much less given that Ukraine is a highly unitary and non-peripheralized territorial regime- unlike "uneven" federations with instances of subnational variation in regime quality (e.g., Russia, Argentina, the United States, and even Canada). Further, provided that subnational territorial boundaries are porous in Ukraine, it would be difficult to isolate effects that are local from those that are national. There is also limited data readily available for all the variables operationalized in this thesis at the subnational level, preventing any systematic analysis on subnational democracy in Ukraine.

⁶¹ For example, Markus and Charnysh, "The Flexible Few."

⁶² Edward L. Gibson, *Boundary Control: Subnational Authoritarianism in Federal Democracies*, (New York: Cambridge University Press, 2012): 10.

⁶³ Richard Snyder, "Scaling Down: The Subnational Comparative Method," *Studies in Comparative International Development* 36 (2001): 99; see also Kelly M. McMann, "Measuring subnational democracy: toward improved regime typologies and theories of regime change," *Democratization* (2017): 1-20.

⁶⁴ Samuel P. Huntington, "Will more countries become democratic?" *Political Science Quarterly* 99, no. 2 (1984): 193-218.

1.5 OUTLINE

This thesis begins with a review of the research on post-Soviet political regimes in Chapter 2, with an emphasis on material related to Ukraine, competing evidence, and gaps in the current research. In Chapter 3, I initially discuss how a relationship between banks and political groups can be identified from the existing peer-reviewed literature, then I trace the process by which banks appear to further the power of political groups, and develop a testable hypothesis about how this may be impacting the overall quality of Ukraine's political regime. In Chapter 4, I engage in a hypothesis-testing statistical analysis. I present the variables which are operationalized during the statistical analysis, outline the estimations in detail, and then highlight the results of the analysis. I conclude with Chapter 5, wherein I summarize the key findings of this thesis and discuss contributions to knowledge, policy implications, and survey potential avenues for future research.

CHAPTER 2. THEORIES ON POST-SOVIET POLITICAL REGIMES

From Ukraine to Russia to Kyrgyzstan, post-Soviet regimes have displayed remarkable degrees of variation in national democracy levels over the last 30 years. To explain these fluctuations, in the 1990s analysts considered sociocultural variables, the design of governmental institutions, and geographic factors; especially in cases where democracy struggled to survive. But after the Color Revolutions in the 2000s, which gave way to higher levels of democracy in countries where it was least expected, explanations centered more on the role of civil society, transnational diffusion, and political groups. Do these explanations account for the fluctuations in Ukraine's post-Soviet political regime over the last three decades? I begin this thesis with a review and discussion of existing theories as they relate to the case of Ukraine. I show that further research is needed, most notably when it comes to the frequently drawn link between political groups and regime outcome.

2.1 MASS ATTITUDES, CULTURE, HISTORY, AND SOCIAL CLEAVAGES

Many of the early post-Soviet case studies of democracy draw upon deeply rooted mass attitudes, culture, and history to explain regime outcomes.⁶⁵ Jowitt argues that democracy as a political system is incompatible with lingering "Leninist legacies" that have instilled a "ghetto political culture" in post-Soviet societies.⁶⁶ Such a culture is thought to have left post-Soviet societies deeply distrustful of the state. Similarly, Gati links poor democracy levels in the post-Soviet region to popular disillusionment with democratic rule.⁶⁷ Others contended that the "causal role of historical experience and cultural formation," such as the Mongol invasion of several hundred years ago and the legacies of state dominance over property ownership and religion, have made it virtually impossible for democracy to take hold in post-Soviet regimes.⁶⁸

⁶⁵ Some of these approaches find their inspiration from well-known work on civic culture that highlight citizen attitudes toward activism, political participation, and social cohesion. For example: Gabriel A. Almond and Sidney Verba, *The Civic Culture: Political Attitudes and Democracy in Five Nations* (Princeton: Princeton University Press, 1963); see also Robert D. Putnam with Robert Leonardi and Raffaella Y. Nanetti, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton: Princeton University Press, 1993) which focuses more on micro-level social cohesion and attitudes that lead to democracy.

⁶⁶ Jowitt, "After Leninism," 13.

⁶⁷ Gati, "Mirage of Democracy," 6-12.

⁶⁸ Brzezinsky, "Ten Years After the Soviet Breakup," 23.

Cohen writes that democratic “experiments” in Russia failed because of mass attitudes toward property and capital markets, since “a fully capitalist system is in conflict with Russia’s tradition.”⁶⁹ For a long time, this tradition had been cultivated by imperial and soviet regimes which were far from democratic. These perspectives suggest that fluctuations in democracy levels in Ukraine may be the result of fluctuations in Ukrainian sociocultural institutions.

Another argument has been centered around national, ethnic, and linguistic cleavages. Kuzio, for instance, questions the extent to which Ukraine would be able to build strong liberal democratic institutions without a coherent national identity.⁷⁰ Some research shows that regional and linguistic divisions have hampered the formation of key institutions such as political parties.⁷¹ Further, virtually no political party has been able to form national support since independence in the early 1990s. Indeed, the country’s post-Soviet party system has been heavily fragmented, poorly institutionalized (frequent party turnover, fly-by-night formations, low links to civil society, and so on), and this has widely been seen as a major factor for parliament’s weakness in terms of legislating and holding the executive branch of government to account.⁷² Based on this view, changes in political outcomes in Ukraine may trace back to changes in national, ethnic, or linguistic disparities.

However, there is a considerable amount of evidence that pushes back against these perspectives. In the early 2000s, Colton and McFaul successfully demonstrated via survey data that people in Russia were “anything but satisfied with their government [... yet,] contrary to some assertions... democracy is not a dirty word.”⁷³ Likewise, Ukrainian survey data collected in the 1990s revealed a high degree of tolerance among Ukrainians vis-a-vis opposing political viewpoints and commitments to democracy (despite low levels of democracy at the time and repeated and severe economic downturns).⁷⁴ More recently, researchers found that higher voter turnout during

⁶⁹ Cohen, *Failed Crusade*, 48.

⁷⁰ Kuzio, “National Identity and Civil Society.”

⁷¹ Wilson and Birch, “Voting Stability, Political Gridlock.”

⁷² Melanie G. Mierzejewski, “When the Colors Fade: Party Politics, Institutionalization, and Democratization in Ukraine and Georgia,” *Indigo University Library* (2014).

⁷³ Colton and McFaul, “Are Russians Undemocratic?”

⁷⁴ Paul D’Anieri, “Democracy Unfulfilled,” 18.

electoral cycles in Ukraine correlated with higher support for democratic institutions, and that “electoral integrity is a significant predictor of satisfaction with democracy.”⁷⁵ This evidence has cast doubt on the idea that mass attitudes and sociocultural institutions in Ukraine are incompatible with democratic institutions, or, put another way, that attitudes actively work against democratic institutions and their betterment. Researchers also report a lack of evidence for the idea that social cleavages account for the fragmentation of Ukraine’s political party system when analyzing data from parliamentary elections.⁷⁶ As a result, it has been increasingly argued that differences in social disparities, like fluctuations in popular attitudes toward democracy, may be more of a *reflection* rather than a *cause* of fluctuations in democracy levels.⁷⁷

2.2 INSTITUTIONAL DESIGN

While debates about the degree to which sociocultural factors are an element in regime outcome are by no means settled, in other corners of the post-Soviet literature scholars have emphasized a link between democracy and institutional design. Institutional theories suggest that regime quality as a whole may largely depend on: the design of certain governmental and non-governmental institutions; how the design of these institutions translates public opinion into policy; and, the degree to which these institutions constrain individuals in politics from abusing their political privileges or power.⁷⁸ For instance, despite the real and perceived social divisions in Ukraine, there is evidence to suggest that the fragmentation of the political party system may have less to do with social cleavages and more to do with institutional design. After all, once in parliament, political parties tend to vote along left-right cleavages rather than social ones.⁷⁹

Given this, a few different ingredients are thought to be at play. For starters, Ukraine’s presidential system (how it functions) appears to undermine the way political parties behave in parliament. Secondly, the fragmentations of Ukraine’s political party system - and by extension

⁷⁵ McAllister and White, “Electoral Integrity and Support for Democracy,” 92.

⁷⁶ Hinich, Khmelko, and Ordeshook, “Ukraine’s 1998 Parliamentary Elections,” 183.

⁷⁷ For a similar point see Ellen Carnaghan, “Thinking about Democracy: Interviews with Russian Citizens,” *Slavic Review* 60, no.2 (2001): 336-366.

⁷⁸ See Giovanni Sartori, *Comparative Constitutional Engineering: An Inquiry into Structures, Incentives, and Outcomes* (New York: New York University Press, 1997).

⁷⁹ D’Anieri, “Democracy Unfulfilled,” 18.

parliament - appears to be caused by the country's electoral regime. Both institutional components seem to have a negative effect on democratic outcomes: the presidential system allows for considerable amounts of unilateral executive rule (increasing presidentialism), while the electoral regime has typically produced weak legislative assemblies that are ineffective at challenging or holding the the executive branch to account (increasing presidentialism).

At this point it is worth considering the institutional reform debates of the 1990s to understand how the presidential system in Ukraine appears to undermine democracy. These debates essentially boiled down to whether the executive branch of government (and, by extension, cabinet) in post-Soviet regimes should be a part of parliament (a parliamentary system) or a separate political body (a presidential system).⁸⁰ Advocates of a presidential system argued that a separate political body would be better equipped to deal with rapid economic and political transformations (such as those that were underway after the dissolution of the Soviet Union), rather than a parliamentary system (which was thought to be prone to coalition-building). Market-oriented reformers (including some economists) feared that parliamentary systems would not be able to muster the necessary "skill and will" to carry out difficult policies that post-Soviet systems required in order to emerge as liberal democracies.⁸¹ These market reform theorists and their political economy models emphasized the need to create an autonomous state,⁸² powerful executives,⁸³ and insulated technocrats⁸⁴ to mitigate the pressures brought on by those on the losing-end of economic and political transformations (the majority). In this instance, democratization - the transition from Soviet institutions to liberal democratic ones - was envisioned as a sequence of events in the form of a "J-curve," whereby democracy levels would initially fall before rebounding and moving higher over time. Theoretical models indicated that a

⁸⁰ Guisepppe DiPalma, *To Craft Democracies* (Berkeley: University of California Press, 1990).

⁸¹ Anders Aslund, *How Russia became a market economy*, (Washington, D.C.: Brookings Institute, 1995), 11; For a critique see Rosaria Puglisi, "The rise of the Ukrainian oligarchs." and Gould and Hetman, "Market Democracy Unleashed?"

⁸² Peter Evans, "The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change," in Stephan Haggard and Robert R. Kaufman, eds., *The Politics of Economic Adjustment* (Princeton: Princeton University Press, 1992).

⁸³ Stepan Haggard and Robert Kaufman, *The Political Economy of Democratic Transitions* (Princeton: Princeton University Press, 1995).

⁸⁴ John Williamson, "The Search of a Manual for Technopols," in Williamson, ed., *The Political Economy of Policy Reform* (Washington, D.C.: Institute for International Studies, 1994).

strong presidential system was the ideal form of government to ensure that democratic reform efforts would get passed the bottom of the curve, or what Przeworski called the “valley of transition”⁸⁵ and Schmitter called the “valley of tears.”⁸⁶

Advocates of a parliamentary system, on the other hand, argued that if the functions of checks and balances (the rule of law) which play an important role in restraining executive power were weak or missing, presidential systems could facilitate the rapid accumulation of power in the hands of presidents. Linz warned about the “perils of presidentialism,” whereby weak rule of law, fixed office terms, and winner-take-all electoral systems could likely produce politically ineffective parliaments.⁸⁷ In one of the earliest studies on the matter, Fish found that Russia’s “low-caliber democracy” was the result of “a single critical institutional choice” that led to the creation of a super-presidential system which undermined the consolidation of democracy and resulted in high levels of presidentialism.⁸⁸ Similarly, the adoption of a presidential configuration in Ukraine seems to have trapped the country in Schmitter’s ‘valley of tears’. As D’Anieri pointed out, Ukraine has experienced numerous presidential administrations that undermine parliament in the legislative assembly; the president has the right to appoint the prime minister and has effective control over the executive branch, which encourages intra-executive conflict that is almost always settled in the president’s favor.⁸⁹ Wolczuk contended that these types of problems have stemmed mainly from Ukraine’s constitutional design.⁹⁰

One way to test whether or not the presidential configuration or constitution is responsible for regime outcome in Ukraine is to examine the changes in the formal composition of its constitution, relative to the fluctuations in its political regime: in the early years of

⁸⁵ Adam Przeworski, *Democracy and the Market* (New York: Cambridge University Press, 1991): 138; Przeworski did not believe the view that isolating government from the “losers” of reforms was a good idea because of the negative impact it would have on the consolidation of democracy.

⁸⁶ Philippe Schmitter, Claudius Wagemann, and Anastasia Obydenkova, “Democratization and State Capacity,” Paper for X Congreso Internacional del CLAD sobre la Reforma del Estado y de la Administracion Publica, Santiago, Chile (2005).

⁸⁷ Juan Linz, “The Perils of Presidentialism,” *Journal of Democracy* 1 (1990): 51-69

⁸⁸ M. Steven Fish, “Conclusion: Democracy and Russian Politics,” in Zoltan Barany and Robert Moser (eds.), *Russian Politics: Challenges of Democratization* (Cambridge, Cambridge University Press, 2001): 231.

⁸⁹ D’Anieri, “Democracy Unfulfilled,” 21.

⁹⁰ Wolczuk, *The Moulding of Ukraine*.

independence, the country operated under the Soviet constitution (Fundamental Law); in 1996, a new constitution was introduced which established a semi-presidential system (president-parliamentary) with a separate and strong executive branch to function as head of state (the president had powers to dismiss the prime minister); in 2004, the constitution was changed to a premier-parliamentary system wherein the executive branch became dependent on parliamentary majorities, substantially reducing the formal powers of the presidency (only the legislature could dismiss the prime minister, for example); in 2010, the Constitutional Court of Ukraine overturned the 2004 changes and reinstated the president-parliamentary system; and, in 2014, the country returned to the 2004 constitution that formally weakened the presidency and strengthened parliament, once more. These many constitutional changes may thus be linked to changes in the quality of Ukraine's political regime because the premier-parliamentary constitutional order, by which the president's powers are reduced, can be conceived as more conducive to democracy.⁹¹

From an institutional perspective, however, fluctuations in Ukraine's political regime could also be connected to changes in the country's electoral regime. Like the constitution, Ukraine's formal electoral regime has undergone various rounds of change: the first parliamentary elections in 1994 were held under majority-runoff; the elections in 1998 and 2002 were conducted under a mixed-member system; the 2006 and 2007 elections were done under proportional representation; and, for the 2012 and 2014 elections, the mixed-member system was reinstated. Under the majority-runoff configuration, which allowed for a second-round vote, parliamentary candidates were not incentivized to join political parties since elections were largely defined by local popularity and funding, rather than political affiliation and party dues per se. In the 1990s, this was not anticipated by theories on institutional design.⁹² The fragmentation that this caused in the 1994-1998 legislative assembly eventually led to the mixed or hybrid system whereby half of all parliamentary candidates ran under proportional representation, while the other half ran under single-member rules. Typically, single-member

⁹¹ For an in-depth discussion on Ukraine's semi-presidential system see Choudry, Sedelius and Kyrychenko, "Semi-presidentialism and Inclusive Governance."

⁹² Sarah Birch, *Elections and Democratization in Ukraine* (New York: St. Martin's Press, 2000).

systems that require a plurality of votes produce two-party outcomes, while proportional representation tends to produce a more diverse range of views to be represented in parliament.⁹³ According to Herron, the mixed system left parliament fragmented the most.⁹⁴ Therefore, fluctuations in Ukraine's political regime may be tied to changes in the composition of its electoral regime as well, wherein the mixed-member arrangement is the least conducive for democracy.

Notwithstanding the above, institutional explanations face several obstacles. Firstly, the 2006 and 2007 elections held under proportional representation - which attempted to rectify issues with the mixed-member system - were followed by a sharp decline in liberal democracy levels. Further, even though the turn to a premier-parliamentary configuration in 2004 weakened the formal powers of the presidency relative to parliament, and led to a brief period of rising democracy levels (until about 2007), the same constitution coincided with rapidly declining democracy levels and facilitated executive abuses analogous to those which were committed under the president-parliamentary system.⁹⁵ Even more puzzling is the fact that Ukraine saw some of the highest levels of democracy over the last 30 years during the early 1990s when parliament (then, the Supreme Soviet) still operated under the Soviet constitution.

It should be noted that institutional researchers have also considered Ukraine's civil society to be an important component of the country's democratic development. According to Tarrow, the influence of civil society largely depends on the degree to which groups are able to organize, the skills and resources available to them, government policies that could either strengthen or undermine them, and importantly, the perceived influence of mass demonstrations.⁹⁶ During the late 1990s, observers pointed out how Ukraine's civil society lacked essential organization and resources, and that this was an important contributing factor to the democratic backsliding that

⁹³ Rein Taagepera and Mathew Soberg Shugart, *Seats and Votes: The Effects and Determinants of Electoral Systems* (New Haven: Yale University Press, 1999).

⁹⁴ Herron, "Measuring Electoral Influence."

⁹⁵ Choudry, Sedelius, and Kyrychenko, "Semi-presidentialism," 9-10.

⁹⁶ Sidney G. Tarrow, *Power in Movement: Social Movements and Contentious Politics* (New York: Cambridge University Press, 1998).

occurred then.⁹⁷ But since that time, researchers have taken notice of the growth in the country's civil society in terms of their skills, the resources at their disposal, their organization, as well as their influence.⁹⁸ Indeed, Ukraine's civil society organizations demonstrated their influence during the 2004 Orange Revolution and the 2014 Euromaidan Revolution. However, recent analysis has suggested that the links between civil society and democratic outcomes in Ukraine may have been exaggerated. The most devastating account of this was put forward by Cleary who concluded that, while civil society has been on the rise in Ukraine - and has often been credited as achieving "triumphs" for democracy by way of the 1991, 2004, and 2014 revolutions along the way - on two out of the three occasions, authoritarianism has taken hold.⁹⁹

2.3 TRANSNATIONAL DIFFUSION

Research on institutional design has led some regime scholars to the idea that democracy in the post-Soviet region may ultimately depend on geographic proximity to other democracies. Whitehead pointed out that "empiricism might indicate that one of the best predictors of democratization in any particular territory is propinquity to other democracies (and distance from nondemocracies)."¹⁰⁰ This observation led to what is now known as the "spatial-dependence" hypothesis. This idea essentially states that proximity to Western democracies could be a determining factor that either enables or disables the diffusion of norms (ideas), resources, and institutions that are fundamental for liberal democracy to grow.¹⁰¹ In other words, political behavior in one state can be thought of as a function of behavior in adjoining states.

In the 2000s, specialists concluded that transnational diffusion from Western liberal democracies, or attempts to export institutional designs from the West, were unlikely to provoke any substantial changes in Ukraine's political regime. Given that geographic proximity is largely fixed and Ukraine lacked substantial ties with the West, researchers noted that diffusion would

⁹⁷ D'Anieri, "Democracy Unfulfilled," 20.

⁹⁸ Jennifer Smith, "Explaining the New Influence of Ukrainian Civil Society" (MA diss., *Dalhousie University*, 2016); Way, "The Maidan and Beyond."

⁹⁹ Cleary, "Half measures and incomplete reforms."

¹⁰⁰ Whitehead, "Geography and Democratic Destiny," 79.

¹⁰¹ Kopstein and Reilly, "Geographic Diffusion."

likely have “limited effects”¹⁰² because “democratization was far more likely in regions with close ties to the West (Central Europe and Latin America), as the combination of Western linkage and Western leverage dramatically increased the costs of authoritarian crackdown.”¹⁰³ However, it *has* been argued that the EU’s regional integration efforts are likely an exception.¹⁰⁴ The EU’s integration efforts have established special bilateral institutions between itself and third countries that, over time, have built ties through trade. In certain cases, these arrangements can progress into EU membership opportunities. Regardless of membership status though, the trade policies that initially form tend to carry strong incentives for third countries to commit to certain principles that are, at their core, liberal democratic. As a matter of fact, the EU has been building closer ties with Ukraine since at least the inception of the European Neighborhood Policy in the early 2000s: an instrument of EU enlargement. In 2009, Ukraine joined the EU’s Eastern Partnership forum under the umbrella of the European Neighborhood Policy, which provided grounds for discussing trade and strategic agreements. This quickly led to the initialization of an association agreement (including deep and comprehensive free trade) between the EU and Ukraine in 2012, and the ratification of the EU-Ukraine Association Agreement in 2014.

Despite these landmark developments, the anticipated effects of the EU’s regional integration efforts in Ukraine have proven elusive. Research efforts to date have failed to identify clear trends between EU integration policies (and any resulting diffusion) and changes in Ukraine’s political regime. Some scholars argue that proximity to Russia (an influential regional actor) may be a contributing factor, with the Kremlin acting as an illiberal “counter hegemon” through “anti-democratic diffusion.”¹⁰⁵ However, there does not appear to be a correlation between sectoral changes in Ukraine and Russia’s regional integration efforts, either. In a thorough review of the literature on the matter, Ademmer, Delcour, and Wolczuk found that there is a “strong disconnect between participation in the EU’s or Russia’s macro-frameworks for regional

¹⁰² Thomas Carothers, *Aiding Democracy Abroad: The Learning Curve*. (Washington: Carnegie Endowment for International Peace): 308-10.

¹⁰³ Levitsky and Way, “Ties that Bind?”

¹⁰⁴ *Ibid.*

¹⁰⁵ *Ibid.*

integration and domestic sectoral reforms.”¹⁰⁶ Moreover, the authors note how “despite the increased external competition over the post-Soviet space, *domestic actors* remain the key agents to account for patterns of change in the contested neighborhood.”¹⁰⁷ Similarly, in an analysis of Ukrainian energy sector policies, Wolczuk observed how domestic political interests and business actors with close ties to political decision-makers have appeared to be key to understanding political outcomes in Ukraine.¹⁰⁸

2.4 ELITES (BALANCE THEORY)

Alternatively, an area of post-Soviet regime studies that appears to have had some of the most traction - in terms of explaining overall patterns of change in Ukraine’s political regime - focuses on the behavior of political groups or elites who occupy or influence Ukraine’s political institutions.¹⁰⁹ As Easter pointed out, “the structure of the old regime elites as they emerged from the bread-down phase best explain the preference for presidentialism exhibited in the newly independent states.”¹¹⁰ In other words, the quality of Ukraine’s political regime may not necessarily depend on the design of Ukraine’s institutions per se, but on the behavior of political groups who support or undermine them.

As Puglisi explains, elites are “small and cohesive groups of strategic actors who control *administrative* and *economic* resources and through them exercise substantial and regular influence on the country.”¹¹¹ The basic logic at work within theories that observe elites or political groups is that democracy is “rooted much less in robust civil societies, strong democratic institutions, or democratic leadership than in the ability of incumbents to maintain power or concentrate political control.”¹¹² Conceptually, this can be conceived as an instance of a “state-society balance” theory, whereby regime outcome (democracy) is understood as a function

¹⁰⁶ Ademmer, Delcour, and Wolczuk, “Beyond geopolitics.”

¹⁰⁷ Ibid.; emphasis added.

¹⁰⁸ Wolczuk, “Managing the Flows of Gas and Rules.”

¹⁰⁹ The terms “political groups” and “elites” are used interchangeably in this thesis.

¹¹⁰ Gerald Easter, “Preference for Presidentialism: Post Communist Regime Change in Russia and the NIS,” *World Politics* 49, No.2 (1997): 184.

¹¹¹ Puglisi, “The Rise of the Ukrainian Oligarch,” 101; emphasis added.

¹¹² Way, “Authoritarian State Building,” 232.

of a balance of power between incumbents (seeking to *maintain* political control) and opposition groups (seeking to *gain* political control).¹¹³ In studies specific to Ukraine, changes in this balance of power appear to be driven by the degree to which incumbents and/or opposition groups exercise control over certain industrial, financial, and media resources that further their political power.

This theoretical finding departs slightly from studies centered on balance theory, which typically argue that development is fundamental to the empowerment of oppositional groups and their capacity to deny incumbents the opportunity to consolidate power.¹¹⁴ In the case of Russia, for example, democratic deficits have been associated with poor development levels.¹¹⁵ However, a variant of this theoretical tradition has found that an important explanatory variable in between development and democracy may be economic statism (the degree to which governments dominate over the local economy). Robert Dahl - a well-known scholar of democracy - pointed to the dangers of government's potential monopoly over "socioeconomic sanctions,"¹¹⁶ while others have found that "centralized state control over the economy [has enabled] conditions inimical to a favourable power of balance between state and civil society."¹¹⁷ In instances of high economic statism, there is evidence that members of civil society, activists, and politicians tend to gravitate toward the party in power.¹¹⁸ Despite development levels, differences in economic statism can alter conditions for opposition groups and make it harder for them to grow and then mobilize any significant political opposition against incumbents.

McMann found that in the case of Russia differences in "economic autonomy," or citizens'

¹¹³ Robert Dahl, *Polyarchy: Participation and Opposition*, (Yale University Press, 1971); Evelyne Huber, Dietrich Rueschemeyer, and John D. Stephens, "The Impact of Economic Development on Democracy," *The Journal of Economic Perspectives* 7, no.3 (1993): 71-86; Carlos Gervasoni, "A Rentier Theory of Subnational Regime: Fiscal Federalism, Democracy, and Authoritarianism in the Argentine Provinces," *World Politics* 62, no.2 (2010).

¹¹⁴ Seymour Martin Lipset, "Some Social Requisites of Democracy: Economic Development and Political Legitimacy," *The American Political Science Review* 53, no. 1 (1959): 69-105; Adam Przeworski and Fernando Limongi, "Theories and Facts," *World Politics* 49, no. 2 (1997): 155-183.

¹¹⁵ Kelly M. McMann and Nikolai V. Petrov, "A Survey of Democracy in Russia's Regions," *Post-Soviet Geography and Economics* 41, no.3 (2000): 167.

¹¹⁶ Dahl, *Polyarchy*, 50.

¹¹⁷ Huber, Rueschemeyer, and Stephens, "The Impact of Economic Development on Democracy."

¹¹⁸ Kenneth Greene, *Why Dominant Parties Lose: Mexico's Democratization in Comparative Perspective*, (New York: Cambridge University Press, 2007).

abilities to earn income beyond reliance on the state, explain differences in subnational democracy levels.¹¹⁹ In McMann's case, a lack of economic autonomy generates predictable individual-level consequences that are detrimental to democracy; where the state dominates the local economy, people have often acquiesced or turned a blind eye to politics because they depend on the state for their livelihoods.¹²⁰ When the livelihoods of certain opposition groups depend on the state, the cost of rebellion may then be high (e.g., potential loss of job or welfare), while the cost of tolerance is low (e.g., earning income from the state or collecting welfare).

On the other hand, Fish found that Russia's democratic reversal in the 1990s and early 2000s was likely linked to natural resource (oil) revenues, which helped expand the economic dominance of the state over the local economy.¹²¹ Similarly, but in other contexts, researchers have found that the origin, nature, and size of government revenues are important for explaining dynamics of political power between incumbents and opposition groups (i.e., rentier theories of the state).¹²² Incumbents tend to dominate when they collect "unearned resources"¹²³ or "nontax revenues"¹²⁴ that: 1) come with few strings attached (unconditional); 2) originate from outside of the local economy (are independent of broad domestic taxation), and; 3) are unproportional to the size of the local economy (or tax base).¹²⁵ The type of resources that qualify under these terms have been found to extend well beyond natural resource (oil and minerals) revenues in other contexts to include unconditional foreign aid,¹²⁶ and even certain forms of unconditional

¹¹⁹ Kelly M. McMann, *Economic Autonomy and Democracy: Hybrid Regimes in Russia and Kyrgyzstan*, (Cambridge, UK: Cambridge University Press, 2006): 4-6.

¹²⁰ *Ibid.*

¹²¹ Steven M. Fish, *Democracy Derailed in Russia: The Failure of Open Politics*, (Cambridge: Cambridge University Press, 2005).

¹²² Ellis Goldberg, Erik Wibbels, and Eric Mvukiyehe, "Lessons from Strange Cases: Democracy, Development, and the Resource Curse in the U.S. States," *Comparative Political Studies* 41, no.4 (2008): 4-5; Jay Ulfelder, "Natural-Resource Wealth and the Survival of Autocracy," *Comparative Political Studies* 40, no.8 (2007): 995-1018; For an alternative perspective, see Thad Dunning, *Crude Democracy: Natural Resource Wealth and Political Regimes*, (Cambridge: Cambridge University Press, 2008).

¹²³ Alastair Smith, "The Perils of Unearned Income," *Journal of Politics* 70, no.3 (2008): 780-793.

¹²⁴ Kevin Morrison, "Oil, Nontax Revenue, and the Redistributive Foundations of Regime Stability," *International Organization* 63, no.1 (2009): 107-138.

¹²⁵ For an in-depth review of this literature see Gervasoni, "A Rentier Theory," 306.

¹²⁶ The most interesting cases that emphasize similar dynamics between foreign aid and resource rents include: Smith, "The Perils of Unearned Income." and Morrison, "Oil, Nontax Revenue."

intergovernmental fiscal transfers (but only in subnational case studies).¹²⁷ When incumbents have collected these “rents,” the cost of suppressing dissent or opposition groups tends to be low (e.g., losing tax revenues), while the cost of tolerance tends to be high (e.g., losing power).

In the context of Ukraine, it is not clear whether these causal mechanisms are at work; incumbents have typically lacked access to sufficient quantities of fiscal or resource rents that would enable them to dominate over the local economy to the same extent as incumbents do in Russia, for instance. As a result, researchers have not found much evidence to be concerned with the economic dominance of the state.¹²⁸ However, some analysts argue that, while balance theories are often understood in economic terms, the explanatory logic can be framed in a much more general sense since “factors other than modernization affect the political resources available to elites and societal challengers.”¹²⁹ In the context of Ukraine, Way has argued that the resources at the disposal to incumbents (and opposition groups) for the purpose of monopolizing political power (or subverting it) have been more abstract.¹³⁰

One of these more abstract forms of resources are known as “administrative resources,” which are essentially a set of bureaucratic functions of the state that can be understood as key dimensions of state power.¹³¹ According to Allina-Pisano, administrative resources provide incumbents with quasi-legitimate access to public resources like infrastructure, labour compensation, and social services, which can be leveraged in political struggles.¹³² For instance, Protsky and Wilson found that administrative resources in Ukraine enabled the distribution of public expenditures during and between elections for the purpose of harvesting votes (and ultimately winning elections).¹³³ While Way has shown how Ukraine's State Tax Administration has been used to punish regime opponents and their members by applying arbitrary tax rules and

¹²⁷ Gervasoni, “A Rentier Theory.”

¹²⁸ Haran, “From Viktor to Viktor,” 105-106.

¹²⁹ Carlos Gervasoni, “A Rentier Theory,” 306.

¹³⁰ Way, “Authoritarian State Building,” 232.

¹³¹ Jessica Allina-Pisano, “Social contract and authoritarian projects in post-Soviet space: The use of administrative resource,” *Communist and Post-Communist studies* (2010): 373-382.

¹³² *Ibid.*, 373.

¹³³ Oleh Protsky and Andrew Wilson, “Centre politics in Russia and Ukraine,” *Party Politics* 9, no. 6 (2003): 703-727.

penalties.¹³⁴ The Security Bureau of Ukraine and the Prosecutor General's office are also well-known dimensions of state power often leveraged by Ukrainian incumbents for the purpose of undermining or outright repressing political opposition, burying crimes, and facilitating illegal raiding activities. It is worth pointing out that, while administrative resources are generally understood as tools capable of furthering the power of incumbents, empirical evidence also shows that former governing elites who defect to opposition groups have frequently utilized administrative resources *against* incumbents.¹³⁵ Moreover, administrative resources are often appropriated with varying levels of decorum, making them difficult to observe or track, especially over longer periods of time.

As a result, many analysts have opted to focus more on the extent to which Ukrainian incumbents (and opposition groups, for that matter) manage to organize and capture the loyalty of business elites and their economic resources. Indeed, research shows that both incumbents and opposition groups often *rely* on arrangements with business elites who control industrial, financial, and mass media resources that can be leveraged during political struggles.¹³⁶ These resources are often linked to large political bases (local labor economy that can be mobilized for specific political purposes, such as voting or protesting),¹³⁷ and are a form of tangible material assets (often with marketable products) that can be used to: pool resources in political struggles; develop patronage networks; and, even buy political representation or protection.¹³⁸ Media resources in particular have been shown to be important drivers of political outcomes during and between elections in Ukraine.¹³⁹ As the fall of the Soviet Union gained momentum in the late 1980s and early 1990s, an overwhelmingly large portion of Ukraine's local economy (industrial, financial, and media) fell into the private hands of a select few business groups.¹⁴⁰ Thus, political

¹³⁴ Lucan A. Way, "The sources and dynamics of competitive authoritarianism in Ukraine," *Journal of Communist Studies and Transition Politics* 20, no. 1 (2004): 154.

¹³⁵ For a discussion on this see Way, "Authoritarian State Building," 237.

¹³⁶ Markus and Charnysh, "The Flexible Few," 1634.

¹³⁷ Andrei Shleifer and Robert W. Vishny, "Politicians and firms." *Quarterly Journal of Economics* 109, no 4 (1994): 995-1025.

¹³⁸ Gould and Hetman, "Market Democracy Unleashed?" 16

¹³⁹ Way, "The Source of Dynamics" 154.

¹⁴⁰ For a discussion on just how quickly Ukraine's economy privatized and how banking facilitated this transition see Peter Sochan, "The Banking System in Ukraine," *Russian and East European Finance and Trade* 34, no.3 (1998): 70-93.

actors have been incentivized to build ties with these groups as a way of monopolizing the local economy and fueling their political activities.

Multiple empirical accounts link the fluctuations in Ukraine's political regime to the way in which incumbents and opposition groups broadened their scope of control over business elites and their resources. Way, for example, found that the period of higher levels of democracy in the mid-1990s and then again during the mid-2000s in Ukraine can be traced back to the incumbent's "lower scope of state control over *economic actors* [which] undermined authoritarian consolidation."¹⁴¹ Similarly, Gould and Hetman found that periods of weak political contestation (a core tenet of democracy) in Ukraine are byproducts of the monopolization of economic activity by incumbents.¹⁴² Their analysis borrows from work by Hellman, Jones, and Kauffman, who found that the monopolization of economic activity by incumbents in post-Soviet contexts is largely facilitated by the establishment of control over business elites and their resources, whereby the former has sought political funding while the latter has demanded profit guarantees (rents) in return.¹⁴³ In the late 1990s, Hellman wrote about how this relationship between business elites and incumbents in post-Soviet countries led to a "partial reform equilibrium" that prevented most post-Soviet regimes from establishing liberal democracy and market-oriented institutions.¹⁴⁴ However, in Ukraine this "equilibrium" has been proven to be unstable in allowing for periods of democratic breakthroughs. As Haran showed, defections by business elites or changes in their allegiances often turn out to benefit oppositional groups or former governing elites who end up on the receiving end of significant sums of financial backing or access to resources that have been subsequently used to launch an effective challenge against incumbents.¹⁴⁵

Hale's investigation of organizational political power in post-Soviet regimes has also described a similar dynamic at work, whereby control over business elites (and their resources) can be

¹⁴¹ Way, "Authoritarian State Building," 233.

¹⁴² Gould and Hetman, "Market Democracy," 2.

¹⁴³ Hellman, Jones, and Kaufmann, "Seize the state, seize the day."

¹⁴⁴ Hellman, "Winners Take All."

¹⁴⁵ Haran, "From Viktor to Viktor," 105-106

described as fundamental to establishing political power. In Hale's words:

“three broad sets of collective actors typically constitute the most important building blocks of the political system, the moving parts in its regime dynamics: (1) local political machines that emerged from reforms of the early 1990s, (2) *giant politicized corporate conglomerates*, and (3) various branches of the state that are rich either in cash or in coercive capacity. Whoever controls these bosses, ‘oligarchs,’ and officials controls the country.”¹⁴⁶

Overall, the idea that regime outcome depends on the extent to which elites manage to control resources in the local economy appears to be well-established. What is more, changes in the resources of elites appears to be crucial for explaining changes in the quality of Ukraine's political regime.

Notwithstanding the above, and although many case studies exist on the matter, no empirical inquiry has attempted to systematically examine changes in Ukraine's political regime relative to changes in the resources that exist at the disposal of Ukrainian political groups. This may be due to methodological challenges inherently associated with theory. Over time, scholars have extensively theorized on the pathologies of elites, but as Hellman put it, “It is difficult to measure with any precision the concentration of power in the hands of short-term winners in transition economies.”¹⁴⁷ If, as theory posits, changes in the resources of elites are crucial for understanding political outcomes, this would require dealing with the pernicious problem of secrecy often associated with tracing private wealth when constructing proxy variables and collecting data. Some studies observe political parties and mass media when attempting to measure the resources of elites. For example, party financing has served as evidence in research in some contexts,¹⁴⁸ including in studies on Eastern European regimes.¹⁴⁹ Others have considered media ownership in analysis on how political groups expand their strategies in power struggles.

¹⁴⁶ Hale, *Patronal Politics*, 6-8; Emphasis added.

¹⁴⁷ Hellman, “Winners Take All,” 229.

¹⁴⁸ Vineeta Yadav, *Political parties, business groups, and corruption in developing countries*. (New York: Oxford University Press, 2011).

¹⁴⁹ Much of this literature has concentrated on eastern and central Europe, including Bulgaria, Hungary and Poland, see David Stark and Balasz Vedres, “Political holes in the economy: The business network of partisan firms in Hungary,” *American Sociological Review* 108 (2012): 235-251 and Roger Schoenman, *Networks and institutions in Europe's emerging markets*. (New York: Cambridge University Press, 2014).

¹⁵⁰ Ukrainian political groups also often leverage political institutions indirectly.¹⁵¹ However, these studies are not concerned with regime outcome, and show the extent to which it is difficult to trace the political influence of Ukraine's most powerful political groups.

2.5 SUMMARY

To summarize, scholars have drawn on a large body of structural theories to explain political outcomes across the post-Soviet space. Some have found that deeply rooted mass attitudes, history, and social cleavages affect regime outcome, but these findings have been met with competing evidence that tend to show how the causal arrow points in the other direction. There are also institutional explanations which suggest that certain fluctuations in institutional design cause fluctuations in democracy. However, institutional design may be at least partially endogenous in calculations of regime outcome.¹⁵² Meanwhile, others argue that changes in Ukraine could be linked to certain changes in EU or Russian regional policy. Yet, the anticipated effects of transnational diffusion have been elusive in studies on Ukraine. To be fair, Ukraine has only recently begun more firmly committing to certain international arrangements with the EU, and so the effect of transnational diffusion stemming from these arrangements may not have yet become apparent in data. On the other hand, theories centered on elites or political groups appear to have more explanatory power in regime studies, but they also show that it is challenging to systematically observe the key explanatory variable: changes in the resources of political groups. In the preceding chapters herein, however, I offer a slightly different interpretation that 1) emphasizes that banks have been a key resource furthering the power of groups in Ukrainian politics, and 2) shows that changes in the number of banks operating in Ukraine (surmised to be furthering the power of political groups) appears to be correlated with fluctuations in Ukraine's liberal democracy levels.

¹⁵⁰ For instance, media ownership is found to have allowed Russian business elites to gain considerable wealth during the early 1990s under Yeltsin (see Juliet Johnson, "Russia's emerging financial-industrial groups," *Post-Soviet Affairs* 13 (1997): 333-365), and more recently in Ukraine (see Markus and Charnysh, "The Flexible Few.").

¹⁵¹ Markus and Charnysh, "The Flexible Few," 1636; Henry Hale, *Patronal Politics. Eurasian Regime Dynamics in Comparative Perspective*, (Cambridge: Cambridge University Press, 2014).

¹⁵² Easter, "Preference for Presidentialism," 184.

CHAPTER 3. BANKING AND DEMOCRACY IN UKRAINE

In this chapter, I propose a new interpretation to explain the fluctuations in the quality of Ukraine's political regime. This interpretation remains focused on political groups but emphasizes that the key explanatory variable may lie in certain interactions political groups have with banks¹⁵³ rather than with other industrial, financial, or media resources per se. Two decades of research on Ukraine has revealed that elites related¹⁵⁴ to banks have often held outsized levels of political influence and that elites' ties to banks help explain certain political outcomes.

Drawing on new evidence, I have found that the situation with elites and banks in Ukraine can be thought of as a special case of rentierism, as well. For these reasons, and given that changes in the resources furthering the power of elites are crucial for explaining changes in the quality of Ukraine's political regime - as theory suggests - I posit that fluctuations in the quality of Ukraine's political regime may be linked to changes in the number of banks furthering the power of elites.

In the first section of this chapter, I cover literature touching on the idea of banks as a resource for Ukrainian political groups and the connection which exists between political groups, banks, and political outcomes. In the second section, I show how banks have been a source of rent in Ukraine. I conclude by generating a hypothesis about the effect of banks on the fluctuations in Ukraine's political regime.

¹⁵³ By the term "commercial bank" or "bank" I mean a licensed corporation in Ukraine that constitutes as a deposit-taking institution under the law *On Banks and Banking*.

¹⁵⁴ By the term "related" I mean a "related party" as defined by Ukraine's legislation *On Banks and Banking*, which states that a bank's related parties include: "bank controllers; persons having a qualifying holding in [a] bank, and persons through which indirect ownership of the qualifying holding in [a] bank is exercised by such persons; bank managers, head of internal audit services, chairman and committee members of [a] bank; [a] bank's congenerous parties and affiliates including banking group participants; persons having a qualifying holding in [a] bank's congenerous parties and affiliates; managers of legal entities and banks' managers who are bank's congenerous parties and affiliates, head of internal audit service, chairmen and committee members of such persons." (page 52-53). As specified by the definition, this also includes legal entities where these individuals are managers or shareholders.

3.1 BANKS AS A RESOURCE FOR POLITICAL GROUPS IN UKRAINIAN POLITICS

My argument stems from a careful reading of the literature on the pathologies of Ukrainian political groups. As mentioned above, these studies show that: 1) groups related to banks have often held outsized levels of political influence; and, 2) that group ties to banks have helped to explain certain political outcomes. Such theoretical findings suggest banks may serve as important resources furthering the political power of groups in Ukraine that should be accounted for in theory.

3.1.1 The Outsized Political Influence of Political Groups Related to Banks

Kudelia wrote about how “*komsomol* leaders [who] turned into bankers” after the collapse of the Soviet Union played some of the most important roles in the formation of early elite networks that dominated Ukraine’s Supreme Council (parliament) between 1991 and 1994 under President Leonid Kravchuk.¹⁵⁵ Puglisi’s case study of Ukrainian elites showed that *the most* active political candidates during the parliamentary elections in 1998 were those related to banks operating within Ukraine’s banking sector: that year at least 50 individuals related to banks ran for representative institutions and at least 14 of them were elected.¹⁵⁶ Gould and Hetman reported that sweeping reform efforts spearheaded by parliament between 1999 and 2001 appeared to have failed, largely due to the organized influence of Rinat Akhmetov (owner of First International Investment Bank), Viktor Pinchuk (owner of Bank Credit Dnipro), and Igor Kolomoisky (owner of PrivatBank), all bank owners who gained the loyalty of groups of parliamentary deputies.¹⁵⁷ Moreover, in a study on the matter of patronage in Ukraine’s banking sector, Baum et al. found that at least five major political groups with dominance over parliament and the presidential administration between 2003 and 2005 were related to banks via the cross-ownership of shares (they also found that 25 members of parliament were *publicly* related to 22 banks).¹⁵⁸ Even Hellman has pointed to the outsized political influence of “commercial bankers” in his seminal work on post-Soviet regimes since individuals with careers

¹⁵⁵ Kudelia, “The Source of Continuity,” 419.

¹⁵⁶ Puglisi, “The Rise of the Ukrainian Oligarchs,” 109.

¹⁵⁷ Gould and Hetman, “Market Democracy Unleashed,” 13.

¹⁵⁸ Baum, et al., “Political Patronage,” 543; The informal affiliations were likely much higher.

in the banking industry were some of the biggest “early winners” of the privatization era that swept newly independent former Soviet states.¹⁵⁹

Indeed, going back to at least the late 1990s, many of Ukraine’s most infamous politicians can be traced back to at least one bank - that is, one in which they either owned shares or served as high-ranking employees - when they took hold of national representative institutions. Valerii Khoroshkovsky and Fedir Shpig, who first won seats in parliament in 1998, were the owners of Ukrspotsbank and Bank Aval, respectively. Oleg Ishchenko and Leonid Chernovetskii, who became parliamentary deputies alongside the above, were bank executives right before assuming office (the former was chair of Ol-bank while the latter was chair of Praveksbanks). That year, Pinchuk and Petro Poroshenko (owner of Mriya Bank at the time) also won seats in parliament. In 1999, Viktor Yushchenko became prime minister by appointment in Kuchma’s government after serving as governor of the National Bank of Ukraine (“NBU”), the country’s central bank.

¹⁶⁰ Before his time as NBU governor, Yushchenko was an official in Ukraine’s state agro-industrial bank.¹⁶¹ In that same year, a co-founder of PrivatBank, Sergei Tihipko, also became Minister of Economics and carried out sweeping economic reforms. And, in 2002, the co-owner of Brokbusinessbank, Oleksandr Buriak, and the owner of Ukrsibbank, Oleksandr Yaroslavsky, entered parliament.

Many well-known politicians who took office after the Orange and Euromaidan revolutions were also related to banks. In 2006, Akhmetov won a seat in parliament. Sergeii Buriak and Leonid Klimov (owner of Imexbank) won seats in 2007. During the 2010 presidential elections, Tihipko (then owner of Tascombank) won 13 percent of the popular vote with his own political party called Strong Ukraine.¹⁶² While Tihipko did not win the elections, he went on to become vice prime minister in Yanukovich’s government (Tihipko lost to Yanukovich, whose son, Oleksandr

¹⁵⁹ Hellman, “Winners Take All,” 229; Hellman actually called on researchers to include bankers in their models to help explain certain origins of wealth and power.

¹⁶⁰ Taras Kuzio, “The 2002 Parliamentary Elections in Ukraine: Democratization or Authoritarianism?” *Journal of Communist Studies and Transition Politics* 19, no. 2 (2003): 32.

¹⁶¹ Kudelia, “The Sources of Continuity and Change,” 419.

¹⁶² Haran, “From Viktor to Viktor,” 104.

Yanukovych, was the owner of UkrBusinessBank). In 2014, Poroshenko (then owner of International Investment Bank) won the presidential elections, while a shareholder of his bank, Igor Kononenko, was elected as People's Deputy of Ukraine. Before that, Kolomoisky was appointed as governor of Dnipropetrovsk by interim president Oleksandr Turchynov. During the parliamentary elections in 2014, Vadim Navinsky (owner Forum Bank), Sergei Tihipko, and Konstantin Zhevago (owner of Finances and Credit) all won seats in parliament. Lastly, in 2016 at least four members of the Banking Committee of the Verkhovna Rada (parliament) were related to banks: Ruslan Demchack, a member of Poroshenko's faction, owned RVC Bank (formerly Omega Bank); Mykhaylo Dovbenko, also a member of Poroshenko's faction, owned shares in Bank Khreshchatyk; and, Leonid Klimov and Ivan Fursyn sat on the committee (the latter was the owner of two banks, Misto Bank and Clearing House Bank).¹⁶³

Remarkably, between 1992 and 2018, three out of five Ukrainian presidents (Kuchma, Yanukovych, and Poroshenko) had direct ties to at least one Ukrainian bank when they assumed office, while the rest (Kravchuk and Yushchenko) had at least indirect ties to Ukrainian banks when they took office.¹⁶⁴ Researchers who have identified this trend note that banks appear to be a characteristic feature of political groups in Ukraine. In Eppinger's words, successful political groups in the country unite "several forms of private property - *a private bank or other institution specialized in arranging credit or formalizing informal financial arrangements*; a powerful industrial enterprise or sector; media outlets - and several conduits to elected officials or state bureaucracies."¹⁶⁵ Indeed, the major political-industrial groups that emerged out of the partial reform era of the 1990s integrated banks into their structures, such as Kolomoisky's Privat Group (Privatbank), Pinchuk's Interpipe Group (Bank Credit Dnipro), Ahmetov's System Capital

¹⁶³ Kyiv Post, "Banking: Part 2, Banking Crisis: What Rock-Bottom Will Feel Like," *Kyiv Post Legal Quarterly* 3, no. 4 (2016).

¹⁶⁴ Leonid Kuchma's son-in-law was the owner of Bank Credit Dnipro when he took office. Viktor Yushchenko's son owned UkrBusinessBank when he took hold of power. Petro Poroshenko was the owner of International Investment Bank in 2014. Because share capital is difficult to trace in Ukraine, it is not clear if these individuals owned shares in other banks. As of writing, I was not able to establish whether Leonid Kravchuk (Ukraine's first president) or Viktor Yushchenko (Ukraine's third president) owned shares in a bank when they assumed office. However, many of Kravchuk's political allies in the 1990s had direct ownership over commercial banks. The same applies to Yushchenko, who was a former official of a state bank right before privatization. Yushchenko was also the governor of Ukraine's central bank before becoming prime minister and later president.

¹⁶⁵ Eppinger, "Property and Political Community," 872; emphasis added.

Management Group (Ukrainian First International Bank), and the Medvedchuk-Surkis Group (Ukrainian Credit Bank).

3.1.2 Elites' Ties to Banks as a Variable to Explain Political Outcomes

Studies also show that elites' ties to banks may help explain certain political outcomes, particularly between the late 1990s and mid-2000s. For example, Puglisi found that President Leonid Kuchma's ties to Bank Ukraina (via chair Mikhailo Bairaka) and Prominvestbank (via chair Vladimir Matvienko) were key to his hold on national power during the 1990s.¹⁶⁶ Funding from these banks helped Kuchma build and maintain his patronage networks as well as command a significant presence in parliament. Ukrainian Credit Bank, a privately-held bank owned by Grigori Surkis, also provided Kuchma with patronage spending to gain and maintain the loyalty of deputies in parliament at the time.¹⁶⁷ Meanwhile, in the run-up to the Orange Revolution, Kuchma's hand-picked successor, Yanukovich, is reported to have received financial contributions from Akhmetov (First Ukrainian International Bank).¹⁶⁸ However, funding from elites related to banks was also instrumental in Yushchenko's successful bid to defeat Yanukovich during the 2004 presidential elections, despite the latter's access to administrative resources. Baum et al. have noted how one of the main financial players behind Yushchenko's political faction in the run-up to 2004 was Poroshenko (Mriya Bank).¹⁶⁹ Moreover, Way has highlighted how Yushchenko was also supported financially by Viktor Topolov, a top executive at state-owned Ukreximbank.¹⁷⁰ The electoral race was highly competitive, and bankers like Poroshenko - who was informally known as the "purse" of Yushchenko's political movement - and Topolov were key figures behind the US \$100 million raised for Yushchenko's presidential campaign.¹⁷¹

¹⁶⁶ Puglisi, "The Rise of the Ukrainian Oligarchs," 112.

¹⁶⁷ Ibid., 115. In return for this support, Ukrainian Credit Bank was on the receiving end of significant assets from the state when Kuchma's government transferred the Zaporizhia Ferrous Alloy Plant and several power engineering firms in Kirovograd, Ternopil, and Kherson to the bank.

¹⁶⁸ Baum et al. "Political Patronage in Ukrainian Banking," 546.

¹⁶⁹ Ibid.

¹⁷⁰ Way "Rapacious Individualism," 200.

¹⁷¹ Way, "Kuchma's Failed Authoritarianism," 139-140; Way notes how it is widely believed that these funds originated from domestic sources, and not from abroad.

What is more, changes in the allegiances of elites with ties to banks appear to have been detrimental to Kuchma/Yanukovych's bid for power in the mid-2000s. Poroshenko was a founding member of the Party of Regions, to which Kuchma and Yanukovych belonged, but by the beginning of 2001, he had splintered from the party and had joined Yushchenko in 2002. Had Poroshenko remained with the Party of Regions, many of the funds raised for Yushchenko's political campaign may have gone to Yanukovych. Similarly, Akhmetov had switched sides to support Yushchenko at the end of 2003, severing Yanukovych's access to yet another political group related to a bank.¹⁷² It seems that Kuchma/Yanukovych's *lower* scope of control over elites related to banks affected the political playing field in favor of Yushchenko in the mid-2000s. Or, put another way, Yushchenko's ability to gain a *higher* scope of support from elites related to banks (i.e., Poroshenko, Topolov, Akhmetov, etc.) helps to explain why Yanukovych lost the elections and Ukraine experienced electoral turnover in 2004.

There are other examples where political groups appear to have lost political struggles or influence when their control or ties to banks were severed. In his memoirs, Kuchma readily admits that the conflict with his prime minister, Pavlo Lazarenko, in 1996 began only after he was informed that Lazarenko "took over factories and banks."¹⁷³ From there, not only did Kuchma freeze bank accounts related to Lazarenko and his political party ally, Yulia Tymoshenko, but he pressured state institutions to seize and eventually wind down a bank in which they had an interest - Slaviansky Bank. According to Kloc, Slaviansky Bank was one of the largest and most profitable banks in Ukraine during the late 1990s with direct ties to Lazarenko and Tymoshenko, but despite its size and profitability it was subject to a politically-motivated audit in 2000 by the NBU (the central bank responsible for licensing chartered banks) and was subsequently taken into administrative control.¹⁷⁴ Regulators at the central bank and officials at the State Tax Administration seized the bank's assets and claimed that the bank was insolvent, citing over 95 percent of its assets (loans) consisting of non-performing loans for which it did not have sufficient "reserves."¹⁷⁵ That year, Tymoshenko

¹⁷² Ibid.

¹⁷³ Kosta Bondarenko, *Leonid Kuchma: Portret na Foni Epokhi*, (Folio: 2007): 206-207.

¹⁷⁴ Kloc, "Banking Systems and Banking Crises," 64.

¹⁷⁵ Ibid.

resigned from parliament.

Comparably, in the run-up to the 1999 presidential elections, Kuchma used the state security apparatus, the Security Bureau of Ukraine, to investigate allegations of embezzlement within two banks related to his then-political rival and prime minister, Yushchenko. The investigation was only called off after Yushchenko agreed to support Kuchma's re-election bid *and* transfer shares in Bank Ukraina and Ukrsotsbank to Kuchma's loyalists.¹⁷⁶ More recently, in 2016, following a political conflict between Kolomoisky and President Poroshenko, PrivatBank was subject to an audit by the NBU and then nationalized after auditors with close ties to Poroshenko alleged that a large portion (up to 92 percent) of the bank's balance sheet consisted of non-performing loans.¹⁷⁷ By the end of 2016, Kolomoisky was forced into exile. A similar set of circumstances unfolded in the case of Dmytro Firtash, who permanently fled to Austria after Nadra Bank was liquidated by the NBU in 2015.¹⁷⁸

3.2 BANKS AS A SOURCE OF RENT (MONEY)

My argument is also linked to certain pieces of evidence that I have discovered throughout the course of my research. This evidence shows that banks may have acted as a special source of rent (money) for political groups in Ukraine since the 1990s. Recall that, in their most basic form, rentier theories (typically, of the state) argue that elites tend to dominate politics when they collect resources that: 1) are gained independently of the local economy; 2) carry few constraints in relation to how they are spent; and, 3) are disproportionately large relative to what can be reasonably extracted from the local economy. Below I show that the situation with elites and banks in Ukraine appears to fit these criteria, except in this case banks (via rents) tend to further the power of competing groups and not merely incumbents. Groups that control banks benefit from the ability to discretionarily spend disproportionately large quantities of money relative to the local economy without relying too much on the local economy. This helps explain why elites

¹⁷⁶ Kudelia, "The Source of Continuity," 422.

¹⁷⁷ Josh Kovensky, "State buys PrivatBank; taxpayer losses will be at least \$5.6 billion," *Kyiv Post Legal Quarterly* 3, no. 4 (2016).

¹⁷⁸ For details on Nadra Bank insolvency, see National Bank of Ukraine, "CB NADRA PJSC declared insolvent," *bank.gov.ua* (2015).

with control over banks tend to exhibit higher levels of political performance, and why political struggles have often gone in favor of those with control over at least one bank.

3.2.1 Banks' Capacity to Create Money

To fully grasp this perspective, the theoretical, technical, and legal literature on banking in the context of Ukraine must be considered. In short, this literature shows that banks have the *potential* to act as a source of rent. They can issue large quantities of deposit money through their marketable product - the loan contract - which does not entirely originate from the local economy in the strictest sense. Bank management teams also have significant levels of discretion in terms of who is on the receiving end of these funds and under what terms and conditions. And, as a rule, banks in Ukraine are even allowed to distribute these funds via loans to related parties, and as a whole, they have done so in quantities that have been disproportionately large relative to the local economy.

Economists often define banks as special businesses that create money *ex nihilo* (out of nothing) through their accounting operations.¹⁷⁹ Leading central banks such as the Bank of England, the US Federal Reserve, and the European Central Bank have repeatedly published research and statements identifying how commercial banks engage in credit creation or financing through money creation.¹⁸⁰ In one of the only peer-reviewed empirical tests of banking theories, Werner found that bank accounting operations at Raiffeisenbank Wildenberg e.G. (a cooperative bank in Germany) were consistent with the description of banking in credit creation theory.¹⁸¹

Schumpeter in *History of Economic Analysis* (1954) has also discussed how banks create money

¹⁷⁹ This perspective does not go unchallenged. The economics literature currently maintains three major definitions of banking. One is the “financial intermediation” theory, which observes banks as firms that specialize in brokering money in the form of savings from savers to borrowers (see Franklin Allen and Anthony M. Santomero, “The Theory of Financial Intermediation,” *Center for Financial Institutions Working Papers* (1996): 96-132.). Another theory is the “fractional reserve” approach, which also defines banks as brokerage firms that intermediate deposit money from savers to borrowers, but through this process the banking system as a whole creates money through accounting operations facilitated by a system of reserves (see Mark Lovewell, *Understanding Economics: A Contemporary Perspective*, (McGraw-Hill Ryerson: Toronto, 2009)). However, given that bank accounting practices and laws do not allow for deposit intermediation in any known country, as per the loanable funds models, a third approach known as the “credit creation” theory has gained traction which I use to inform my argument.

¹⁸⁰ For a list of comments and statements see Clavero, “A contribution to the Quantity Theory,” 5-7. See also McLeay, Radia, and Thomas, “Money creation in the modern economy.”

¹⁸¹ Werner, “Can banks individually create money.”; See also Richard Werner, “A lost century in economics.”

through their business practices when he suggests that “banks are no longer said to ‘lend their deposits’ or ‘other people’s money,’ but to ‘create’ deposits or bank notes: they appear to manufacture money.”¹⁸² In other words, banks create it.

Technical literature has shown that banks engage in money creation through lending by disbursing new deposit money in the form of an accounts payable liability termed a “customer deposit” together with an asset entry.¹⁸³ During this process, banks are able to create an asset (that typically earns interest) and a liability (that normally costs interest) at the same time in a customer’s name through double-entry bookkeeping. According to Mcleay, Radia, and Thomas, the deposits (bank liability) that are created through this process are known as “fountain pen money,” created at the stroke of a pen or keyboard when a loan contract (bank asset) is signed by a borrower and approved by bank management.¹⁸⁴ Others have called this form of money “inside money,” or endogenous money, which composes more than 90 percent of a country’s money supply.¹⁸⁵ Werner has estimated that commercial bank-issued deposit money composes around 97 percent of “broad money” in the United Kingdom, with the remaining 3 percent originating from the central bank’s balance sheet in the form of physical notes and coins.¹⁸⁶ While terminology for the money created through the issuance of loans by banks seems to vary in the literature, the *process* by which money is created through the issuance of a loan via an accounts payable liability and an asset entry appears to be identical at a technical level in virtually all modern banking systems.¹⁸⁷

Contrary to popular belief, banks cannot lend out existing bank deposits once they are electronically or physically deposited by customers from the local economy. This is because

¹⁸² Joseph Schumpeter, *History of Economic Analysis*, (Oxford University Press, 1954): 304

¹⁸³ Michael Kumhof and Zoltan Jakab, “The Truth about Banks,” *Finance & Development* 53, no. 1 (2016); The accounts payable liability is an obligation on the part of the bank to disburse a loan in return for the right to receive payments of principal and interest in the future.

¹⁸⁴ McLeay, Radia, and Thomas, “Money creation.”

¹⁸⁵ Markus K. Brunnermeier, Harold James, Jean-Pierre Landau, *The Euro and the Battle of Ideas*, (Princeton University Press, 2016), 163.

¹⁸⁶ Richard A. Werner, “Towards a new research programme on ‘banking and the economy’ - Implications of the Quantity Theory of Credit for the prevention and resolution of banking and debt crises,” *International Review of Financial Analysis* 25 (2012): 1-17.

¹⁸⁷ Clavero, “A contribution to the Quantity Theory.”

bank deposits reside on the *liability* side of bank balance sheets once they are deposited by customers.¹⁸⁸ According to Werner, in the United Kingdom, banks are legally distinct from non-banks where the former are exempt from certain rules that allow them to hold bank deposits on their corporate balance sheet by holding a valid bank license.¹⁸⁹ This is also the case in Ukraine, where the law *On Banks and Banking* states that companies who hold a valid banking license can accept deposits as “payment,” whereby “the funds in cash or non-cash form in hryvnia or foreign currency which are placed by the client into their personal accounts with a bank according to an agreement with the bank...[is] subject to *repayment* to the depositor...”¹⁹⁰ Moreover, as Sheard has explained, only banks can accept bank deposits since deposits cannot actually leave the banking system.¹⁹¹

At this point, it is worth noting that there are constraints on banks and their ability to engage in financing through money creation that prevent them from issuing unlimited quantities of deposit money. Such constraints mainly include: 1) the profitability of the loan (interest rates); 2) the creditworthiness of borrowers (credit risk); and, 3) capital requirements.¹⁹² However, legal literature shows that, under normal conditions, these constraints are subject to considerable discretion by bank management.

In terms of the profitability of loans and the creditworthiness of borrowers, Ukrainian banking law has privileged banks with the ability to independently set the cost of money and commissions charged on loans, and to assess credit risk (although, as of 2018, banks must use the NBU’s Credit Register to assess the creditworthiness of borrowers).¹⁹³ In terms of capital requirements, Article 49 of Ukraine’s banking law privileges banks with “the right to extend

¹⁸⁸ McLeay, Radia, and Thomas, “Money creation.”; Liabilities cannot be lent out, only assets.

¹⁸⁹ Werner, “Can banks individually create money.”; Depositors become a general creditor to the depository institution.

¹⁹⁰ *On Banks and Banking*, Law of Ukraine No. 2621-VIII (2018): 6.

¹⁹¹ Paul Sheard, “Repeat After Me: Banks Cannot and Do Not Lend “Lend Out” Reserves,” *Standard and Poor’s Rating Services* (2013): 1-15.

¹⁹² See McLeay, Radia, and Thomas, “Money creation.” For a discussion on the first and second constraint on lending. The third constraint I have identified from the law *On Banks and Banking*.

¹⁹³ *On Banks and Banking*, Law of Ukraine No. 2621-VIII (2018): 3.

unsecured loans on conditions that economic ratios are met.”¹⁹⁴ The legislation stipulates that banks must maintain this economic ratio primarily as a “capital adequacy ratio” (“CAR”) which is calculated by taking a bank’s total “regulatory capital” and dividing it by the bank’s total assets (loans) and any off-balance sheet liabilities weighted by a credit risk coefficient.¹⁹⁵ Regulatory capital is composed of both “core” and “additional” capital. According to Article 30 in the legislation, core capital includes retained earnings and shareholder equity, while additional capital varies more widely from fixed assets to subordinated debt. Banks are required to have a minimum CAR of 0.05 or 5 percent of risk-weighted assets. This component constrains banks from lending unlimited amounts of deposit money, but it also privileges banks with the ability to issue newly created money in orders of magnitude higher than the face value of their regulatory capital.

The CAR can be considered a hard constraint on bank lending, but it is conditional on a successful regulatory intervention. Legislation stipulates that bank financial assessments are to be undertaken by an independent external auditor, annually.¹⁹⁶ If any auditor discovers discrepancies they are legally obligated to report to them to the NBU. From there, the central bank has the authority to assess the credit risk coefficients placed on any assets by banks under its regulatory framework, which could alter a bank’s CAR negatively or require the bank being assessed to increase its regulatory capital (e.g., by increasing the share value of the bank, engaging in debt issuance, or calling in/selling bad loans). If a bank fails to comply, the NBU could levy penalties, apply administrative sanctions, or even withdraw its license to operate.

Thus, banking rules and supervision in Ukraine give banks considerable discretion in terms of how much money they lend, when, to whom, for what purpose, and at what cost, given that they maintain an adequate CAR. Commercial banks and their management teams ultimately decide who is approved or denied credit and whether the bank has the necessary capital at any particular

¹⁹⁴ Ibid., 51.

¹⁹⁵ Ibid., 8.

¹⁹⁶ Ibid., 80.

time to lend.¹⁹⁷

As a matter of fact, bank management teams in Ukraine even have the discretion to loan to parties that are related to the bank through related-party lending (“RPL”).¹⁹⁸ According to the law *On Banks and Banking*, a bank may dedicate up to 20 percent of its balance sheet for loans to insiders, such as individuals or companies who are shareholders or employees of the bank:

“The total amount of the transactions, generating the credit risk, between the banking group participants and their related parties that are not financial institutions shall not exceed 20 percent of the consolidated authorized capital of the banking group. The total amount of the transactions, generating the credit risk, between the banking group participants and a related party of the banking group that is not a financial institution shall not exceed 5 percent of the consolidated authorized capital of the banking group.”¹⁹⁹

According to the NBU, the ratio for loans to related parties is calculated for individual banks as a regulatory ratio called “N9,”²⁰⁰ while the ratio for loans to a related party is calculated for individual banks as a regulatory ratio called “N10.”²⁰¹ A “Financial Stability Report” released by the NBU in June 2018 showed that the percentage of loans to related-parties on bank balance sheets may even exceed the 20 percent stipulated in the legislation:

“The NBU’s current regulations are soft: the N9 ratio allows banks to have an RP portfolio (excluding guarantees of international financial institutions and cash collaterals) of an amount that

¹⁹⁷ Some banking specialists believe that central bank reserves can constrain lending. However, in practice, bank reserves are mainly for the purpose of setting monetary policy (i.e., through the overnight interest rate) and to facilitate interbank settlement, among other things. Bank reserve requirements, if they exist, do not constrain a bank’s abilities to lend (see Karl Brunner and Allan Metzger, “Money Supply” in *Friedman and Hahn’s Handbook of Monetary Economics* (1990)). In fact, most central banks do not employ reserve requirements and supply them on demand, such as the Bank of Canada, the European Central Bank, and the Bank of England. The European Central Bank, which has the most influence on the National Bank of Ukraine in terms of policy, provides banks with any reserve needs as a matter of policy (see European Central Bank, “Monthly Bulletin, May 2012,” (2012)). See also Claudio Borio and Piti Disyatat, “Unconventional Monetary Policies: An Appraisal,” *Bank for International Settlements Working Papers* no. 292 (2009) where the authors discuss how reserve requirements play little role in banking lending constraints. Sheard (2013) even shows how reserves can be used to encourage bank lending, and that “Central banks don’t constrain the amount of bank reserves they supply. Rather they supply whatever amount of reserves that the banking system demands given the reserve requirements and the amount of deposits that have been created.”

¹⁹⁸ For the definition of “related-party” see the footnote on “related” at the beginning of this chapter.

¹⁹⁹ *On Banks and Banking*, Law of Ukraine No. 2621-VIII (2018): 21; emphasis added.

²⁰⁰ National Bank of Ukraine, “The Banking System’s Capital Adequacy Continues to Increase for the Fourth Month in a Row,” *bank.gov.ua* (2016) https://old.bank.gov.ua/control/en/publish/article?art_id=38321907&cat_id=92536

²⁰¹ *Ibid.*

does not exceed 25% of their regulatory capital.”²⁰²

As of the end of the second quarter of 2018, the N9 ratio for Ukraine’s entire banking sector amounted to just over 25 percent of total loans in the banking system, down 26 percent from levels in 2016.²⁰³ Based on monetary statistics published by the NBU, 25 percent of total outstanding loans to resident sectors (excluding loans to other banks) in 2018 amounted to UAH 268 billion (approximately US \$10.7 billion at an exchange rate of UAH 25 to US \$1), or 26 percent of annual gross domestic product in constant UAH terms - a significant portion of Ukraine’s total annual economic output.²⁰⁴

The fact that banks in Ukraine are privileged by law and regulators to engage in financing through money creation with related parties - along with the existence of large quantities of RPL on bank balance sheets as late as 2018 - does not in and of itself constitute as evidence to support the idea that banks have been a source of rent for Ukrainian political groups. However, imagine for a moment that a group of individuals heavily involved in politics were to take advantage of this privilege that has been bestowed upon banks to loan large quantities of newly created money to companies which they control, and subsequently use the funds for politically-motivated ends. Below I show how at least one politically-active group is suspected of doing so over the period of at least two decades.

3.2.2 The Case of PrivatBank

The case of PrivatBank demonstrates, to a large degree, how a Ukrainian bank has acted as a source of rent for at least one Ukrainian political group. Founded in 1991 by Igor Kolomoisky and Gennadiy Boglyubov, PrivatBank became the largest national commercial bank in Ukraine (in terms of assets) by the turn of the century.²⁰⁵ At least one of its founders and major shareholders, Kolomoisky, began heavily influencing politics as early as the late 1990s (particularly through political party financing and mass media), and he eventually directly

²⁰² The National Bank of Ukraine, “Financial Stability Report,” *bank.gov.ua* (2018): 67.

²⁰³ *Ibid.*, 66.

²⁰⁴ National Bank of Ukraine, “Loans granted by deposit-taking corporations (excluding National bank of Ukraine),” *bank.gov.ua* (2019).

²⁰⁵ See Appendix A.

occupied a political post as governor of Dnipropetrovsk.²⁰⁶ Kolomoisky and members of his clan (informally known as PrivatGroup) are known to have leveraged PrivatBank to issue billions of dollars worth of insider loans to companies in which they controlled an interest over the period of at least two decades. This became apparent only after PrivatBank was nationalized by the Ukrainian government at the end of 2016 following allegations from Ukraine’s central bank that hundreds of millions of dollars from these insider loans were never repaid, resulting in the bank failing a regulatory assessment. This triggered a number of legal proceedings in various jurisdictions around the world, the contents of which I present below.

In 2017, following PrivatBank’s nationalization by Ukraine’s finance ministry, the Organized Crime and Corruption Reporting Project (OCCRP) received a copy of PrivatBank’s corporate loan book and reported on some of its contents.²⁰⁷ According to the report, Kolomoisky and other shareholders of PrivatBank leveraged the bank’s balance sheet to issue over 28 billion hryvnias (local currency) in loans to related parties between 2015 and 2017, equal to over 1 percent of Ukraine’s annual economic output.²⁰⁸ At least 20 percent of the sum was not backed by any collateral, and the proceeds were deposited into the PrivatBank commercial accounts of at least 28 different companies registered in Kharkiv, the majority of which individually held less than UAH 1,000 (US \$38) in equity and had no viable business models. As per the report, these Kharkiv companies were controlled by the following individuals, with the following affiliations to Kolomoisky, and received the following sums of bank deposits:

Table 1 PrivateBank loans to related parties associated with Kolomoisky. Loan values in UAH were converted into US dollar equivalents by the source.

Individuals linked to loans	Position and relation to Kolomoisky	Loans received
-----------------------------	-------------------------------------	----------------

²⁰⁶ Before serving as governor of Dnipropetrovsk, Kolomoisky organized and funded armed volunteer battalions which were credited with countering Ukrainian separatists and Russian armed forces in the Donbass region during the conflict in Eastern Ukraine in 2014.

²⁰⁷ As of writing a copy of the corporate loan book was not made publicly available, presumably due to ongoing court proceedings in various jurisdictions around the world.

²⁰⁸ Stack, “Ukraine's Top Bank.”

Viktor Shkindel	Former CEO of Dnipropetrovsk airport, controlled by Kolomoisky.	Received US \$154.1 million in credit from PrivatBank (US \$81.5 million went to Naftaenergy, and US \$72.6 million went to Zebrina).
Igor Malachak	Director of Skorzonera-Zakarpattya, a tourism company owned by Kolomoisky. CEO of Kolumbini, owned by Kolomoisky.	Received US \$149.8 million in credit from PrivatBank (US \$42.8 million went to Natel, US \$75.7 million went to Oilstream, and US \$31.3 million went to Taimar).
Ivan Makoviichuk	Director of Skorzonera-Zakarpattya, a tourism company owned by Kolomoisky.	Received US \$154.4 million in credit from PrivatBank (US \$41.8 went to Labi Trade, US \$70 million went to Palmira Trading, and US \$42.6 went to Tais River).
Viacheslav Plakasov	CEO of Optima 770, a business group with shares in resource extraction and agriculture owned by Kolomoisky.	Received US \$136.8 million in credit from PrivatBank (US \$22.1 million went to Capital Oil, US \$32.3 million went to Masben, US \$50.3 million went to Petroil, US \$23.5 million went to Segment Oil, US \$4.5 million went to Shkoder-S, and US \$4.1 million went to T-Alfa).
Volodymyr Golovko	Chair of Zaporishnaftoprodukt, an oil refinery owned by Kolomoisky.	Received US \$141.2 million in credit from PrivatBank (US \$31.8 million went to Adamant Oil, US \$41 million went to Capital Trade, US \$23.4 million went to Fabritsius, US \$25 million went to Foburg, and US \$20 million went to Pavlis).
Sergey Kazarov	Former Director of Tsyurupinskiy Agropostach, a fuel supply company owned by Kolomoisky.	Received US \$155.6 million in credit from PrivatBank (US \$29.3 million went to NK Franko, US \$87.6 million went to Migora, and US \$38.7 million went to Yuniks Group).
Vitaly Nemov	Owner of Olymp Oil and Manager for Avias, a chain of petrol stations controlled by Kolomoisky.	Received US \$27 million in credit from PrivatBank (proceeds went to Olymp Oil).
Vadim Andreyuk	CEO at Khmelnytskyi Avias-2000, a company controlled by Kolomoisky.	Received US \$115.3 million in credit from PrivatBank (US \$41.7 million went to Alfa Trade Oil, US \$17.6 million went to Brook Oil, US \$41.1 million went to Maksi-V, and US \$14.9 million went to Yukon Service Group).
Anatoliy Derkach	Owner of Avaris, a chain of petrol stations controlled by Kolomoisky.	Received US \$23.6 million in credit from PrivatBank (proceeds went to Avaris).

The report claims that the bank accounts of the Kharkiv companies that received the loan proceeds were liquidated and that there was no evidence that Ukrainian authorities were able to freeze or recover the loaned funds, even after PrivatBank was nationalized at the end of 2016. Moreover, given that all of the companies that received the proceeds of the loans were owned or affiliated to Kolomoisky and other shareholders of the bank at the time, the report concludes that Kolomoisky et al. were the ultimate beneficiaries of the loaned funds.

A civil case filed with the Court of Chancery in the US State of Delaware by PrivatBank's new management team (the plaintiffs) in 2019 offered details about another scheme carried out by Kolomoisky et al. similar to the one described in the OCCRP report. The filing in Delaware alleges that Kolomoisky and his entourage used the bank's corporate loan book for the purpose of self-enrichment through an elaborate process known as the "Optima Schemes."²⁰⁹ According to details provided by the plaintiffs, the Optima Schemes ran from at least 2006 until the end of 2016 during which time Kolomoisky and members of his team used PrivatBank to generate "hundreds of millions of dollars' worth of illegitimate, inadequately-secured loans" and misappropriated the funds using a "secretive business unit within PrivatBank's operations (the 'Shadow Bank') to fund the fraudulent loans and launder those loan proceeds through a sophisticated money laundering process."²¹⁰ This involved the crafting of supporting documents by the secret business unit for the purpose of generating loans to Ukrainian companies controlled and owned by the bank's shareholders under "general corporate financing" in such a way as to not be flagged by auditors and the NBU. Once loans were disbursed, the proceeds were transferred through various internal bank accounts, including accounts owned by offshore entities and entities in the United States owned by Kolomoisky et al., and then drawn down by the recipients. Because the scheme operated for years, a loan recycling scheme was used. When past loans came due, new loans were issued to new recipients controlled or owned by related parties in order to pay down existing or previous loan obligations and any accrued interest.

²⁰⁹ PrivatBank v. Kolomoisky, 377 Del Chanc 1 (2019)

²¹⁰ Ibid., 3-4.

An approved judgment handed down by the High Court of Justice in London in 2018 offers even further details about a third scheme Kolomoisky et al. used to extract money from PrivatBank. This third scheme appears to be similar to the Optima Scheme in practice. It involved the use of loan recycling and the dispersion of nearly US \$2 billion in loans between 2008 and 2016 to dozens of related companies registered in the United Kingdom and the British Virgin Islands under supply contracts. These supply contracts promised large quantities of commodities but were never honored (no delivery of commodities actually took place). The following details are provided in the case by Justice Fancourt:

“The scheme that the Bank described to Nugee J. was one in which US\$1.91 billion of funds were drawn down and prepaid to a supplier; then repaid to the borrower within ninety days in order to comply with foreign exchange controls in Ukraine, then repeated, and then returned by way of a new prepayment to one of the English or BVI Defendants at some time between May and September 2014. So, the very monies that were drawn down were held for up to ninety days by a supplier, then repaid to the borrower, and the same monies again paid (after in some cases several further 90-day loops) to one of the relevant Defendants. At that stage, the Bank’s case was that these monies were transferred by the English and BVI Defendants to other, unidentified companies and dealt with in such a way that it was impossible to identify what had happened to the particular funds.”²¹¹

In terms of the validity of the allegations pertaining to the loan schemes used by Kolomoisky et al., Justice Fancourt wrote the following in the judgment:

“While it is not part of my function at this stage to make final factual findings about the scheme, the evidence is nevertheless strongly indicative of an elaborate fraud perpetrated by someone, allied to an attempt to conceal from any auditor or regulator the existence of bad debts on the Bank’s books, and money laundering on a vast scale.”²¹²

In this case, remarkably, the judge noted that “the Defendants admit that the Bank has a good arguable claim against them for at least hundreds of millions of dollars.”²¹³

In terms of how PrivatBank under Kolomoisky funded the insider loans involved in the schemes, the Delaware case notes the following:

“To fund this expansion (i.e., to be in a position to issue more and more corporate loans),

²¹¹ Privatbank v. Kolomoisky, EWHC 3308 (2018), 7.

²¹² Ibid., 6.

²¹³ Ibid., 33-34.

PrivatBank -- under the direction and control of the UBOs -- predominately raised funds by public debt issuances and by attracting new deposits domestically from both retail and corporate customers.”²¹⁴

PrivatBank was mainly able to fund these insider loans through debt issuances, with deposits attracting additional reserves (liquidity) to allow for large loan transactions. According to the *Kyiv Post*, PrivatBank issued Eurobonds through a special purpose vehicle registered in London called UK SPV Credit Finance PLC.²¹⁵ This legal entity also allowed individuals and companies related to the bank to invest in the bank and enabled the bank to repay existing credit arrangements, refinance debt, and make acquisitions for the purpose of maintaining an adequate CAR in Ukraine.

Overall, the case of PrivatBank has served as an example of how a bank in Ukraine has acted as a significant source of rent via loan schemes for a group of individuals heavily involved in politics. Hundreds of millions of dollars worth of newly created Ukrainian currency (hryvnia) were extracted by Kolomoisky et al. through companies with no viable business models over the period of decades made possible by PrivatBank’s capacity and ability to issue loans. It is reasonable to suspect that a portion of these funds were likely spent on the political activities of Kolomoisky and his political allies. This group is mainly known for operating and financing political parties, mass media (including the influential Channel 1+1), and even paramilitary groups (i.e., Azov Battalion) since the early 1990s.²¹⁶

3.2.3 Generalizability of the PrivatBank Case

The case of PrivatBank does not seem to be an isolated one. As I show below in this section, the government-led consolidation of the banking sector in Ukraine between 2014 and 2018 revealed

²¹⁴ Ibid., 24.

²¹⁵ Anna Myroniuk, “What is happening with PrivatBank court cases and why is this such a big deal,” *kyivpost.com* (2020). <https://www.kyivpost.com/business/what-is-happening-with-privatbank-court-cases-and-why-is-this-such-a-big-deal.html>

²¹⁶ Amanda Taub, “We just got a glimpse of how oligarch-funded militias could bring chaos to Ukraine,” *vox.com* (2015) <https://www.vox.com/2015/3/23/8279397/kolomoisky-oligarch-ukraine-militia>; Interfax-Ukraine, “Kolomoisky to head supervisory board of 1+1 TV channel,” *Interfax.com.ua* (2019) <https://en.interfax.com.ua/news/economic/631571.html>

that many of Ukraine's banks, like PrivatBank, were being leveraged by various groups through loan schemes. Moreover, the history of Ukraine's banking sector has shown that RPL has been a common feature within the industry since the Soviet era. As well, the transition Ukraine's banking system experienced between the late 1980s and early 1990s from the Soviet monobank structure to the current multibank one did not sever the practice - or the traditional role - of banks serving the interests of political actors. For decades now, specialists have repeatedly flagged how the overwhelming majority of the Ukrainian banking system continues to service the politically-motivated interests of shareholders and high-ranking employees that control its privately and publicly-held banks.

The degree to which banks in Ukraine have been used by various groups to extract rent became apparent between 2014 and 2018 when the Ukrainian government (via the NBU and ministry of finance) liquidated and nationalized over half of the entire banking sector (over 90 commercial banks) as a result of extensive NBU audits that discovered widespread insider lending abuses. While the audits were never made public, officials at the NBU stressed that most of the banks subject to closure or nationalization were being leveraged by groups (many with obvious political ties) via RPL schemes that resulted in unsustainable business models, as has been reported extensively by the *Kyiv Post*.²¹⁷ Moreover, the Deposit Guarantee Fund ("DGF"), Ukraine's deposit insurance agency, and the NBU filed nearly 3,000 court cases with the Prosecutor General's Office and law enforcement agencies seeking to recover funds loaned in various schemes.²¹⁸ Widespread PrivatBank-like cases as those exemplified herein exist, but the details of which have yet to be made public.

The history of Ukraine's banking sector also suggests that PrivatBank was not the only case of its kind: built and operated mainly for the purpose of servicing political interests. Before 1987, banking and the money creation process in the Soviet Union were entirely monopolized by the state-owned and operated Gosbank (founded in 1922), which primarily processed paperwork and

²¹⁷ *Kyiv Post*, "Ukraine's \$11.4 billion bank robbery" *Kyiv Post Legal Quarterly* 3, no. 2 (2016); *Kyiv Post*, "Banking: Part 2.," *Kyiv Post*, "Banking," *Kyiv Post Legal Quarterly* 5, no. 3 (2018).

²¹⁸ Ilya Timtchenko and Brian Bonner, "Vorushylyn: Deadbeats should be exposed publicly; nation should hire asset-recovery prosecutors," *Kyiv Post Legal Quarterly* no. 2 (2016), 15.

oversaw financial accounting for credits obtained by state enterprises and their projects as determined by the communist party's five-year plan. This "monobank" system, according to Sochan, served governing elites in government ministries rather than the enterprises who were on the receiving end of credit subsidies.²¹⁹ In other words, the Soviet banking system (of which Ukraine was an integral part) mostly gave loans to state-owned related parties as determined by senior-level bureaucrats and communist party officials.

Under Gorbachev in 1987, during the *perestroika* period that initiated a transition in the Soviet Union from a state-led economic system to a market-based one, banking started to become a new and prominent form of private business in the USSR. First, the monobank structure began to transition to a multibank structure (along sectoral lines) to streamline the massive banking bureaucracy that had formed, resulting in the creation of several state-owned banks for the purpose of financing the government, agriculture, industrial production, foreign trade, and savings. But then, in 1988, private commercial banking became permitted by the *Law on Cooperatives*. That year, the number of commercial banks increased to 34 across the Union, and by the end of 1991 there were over 2,250 commercial banks (not branches) in operation.²²⁰

However, the transition from state-led banking to market-based commercial banking did not result in a clean break for banks from spheres of political power. In actual fact, as late as 1991 the International Monetary Fund ("IMF") noted that most commercial banks (including the thousands of newly created ones) remained closely related to government ministries, agencies of the union, local municipal governments and the individuals who ran these institutions through the cross-ownership of shares.²²¹ According to Rumer, who witnessed events on the ground, the passing of the *Law on Cooperatives* allowed senior-level bureaucrats and communist party officials to transform former state-owned banks into private commercial banks, at least partially,

²¹⁹ Peter Sochan, "The Banking System in Ukraine," *Russian and East European Finance and Trade* 34, no. 3 (1998): 70; In the Soviet Union there was no real difference between subsidies and credit. The funds disbursed were equivalent to what we regard as "grants" in the West. Interest and principal free money.

²²⁰ Johnson, Kroll, and Horton "New Banks in the Former Soviet Union," 6.

²²¹ International Monetary Fund, The World Bank, Organization for Economic Co-operation and Development, and European Bank for Reconstruction and Development, *A Study of the Soviet Economy*, (Washington D.C: 1991), 115.

for their own personal gain.²²² For instance, Promstroibank (which funded the development of the energy sector in western Siberia) became the privately-held Commercial Bank of Western Siberia, headed by former communist party elites and industrial bosses. The privately-held Rossiya commercial bank was founded using funds from the Leningrad Regional Committee of the Communist Party. The deputy of the all-Union parliament and the deputy mayor of Moscow became the owners and presidents of privately-held MosbiznesBank. Moreover, the deputy of the Russian parliament became a member of privately-held Kredobank. Rumer posited that the transition triggered by *perestroika* enabled political elites across the Soviet Union to leverage and then convert their political power into economic power at least in part through the newly reformed banking system.²²³

The close relationships that formed between the new commercial banks and communist elites led to significant scrutiny from the IMF in 1991:

“There is some concern that the newly organized commercial banks could, if they provided loans to their owners on anything other than regular commercial conditions, become vehicles for enterprises to get around the ‘hard budget constraint’. The concept of conflict of interest does not appear to be well developed in the USSR, and there are currently no regulations to avoid it.”²²⁴

Thus, in 1991, not only were many of the new commercial banks in the Soviet Union largely controlled by political elites who, for decades, leveraged the Gosbank to fund their political ambitions via loans to state-owned enterprises, but these banks also operated under very few rules and regulations that could deter the same type of practices that had gone on in previous years.

After the dissolution of the Union, a report by a group of researchers from Duke and Harvard based on interviews with bank managers and directors in Kyiv found that Ukraine’s commercial banks were, like those in Russia, “owned by relatively small groups of connected firms, and they lend to firms closely connected to their owners. These banks obtain funding by issuing shares,

²²² Boris Rumer, “New Capitalists in the USSR,” *Challenge* 34, no. 3 (1991): 21.

²²³ In hindsight, this perspective appears profoundly astute, but was unfortunately dismissed.

²²⁴ International Monetary Fund et al., *A Study of the Soviet Economy*, 115.

but most of their assets are in the form of short-term debt.”²²⁵ The report demonstrated widespread links between Ukraine’s new commercial banks, government ministries, and former governing elites, as well as widespread and pervasive RPL.²²⁶

Despite the Duke/Harvard report and IMF concerns, over the course of the 1990s, no processes were implemented in Ukraine to prevent political actors or former governing elites with political ambitions from assuming control over banks, nor were any effective processes put in place to prevent bank owners/managers from lending money to themselves or to others for political activities.

In fact, the liberalization of Ukraine’s banking sector in 1991 caused, according to one observer, an “undisciplined rush by private entrepreneurs to establish new banks.”²²⁷ Between 1991 and 1995, one did not require sufficient banking experience to qualify for a bank license.²²⁸

Extremely low barriers to entry facilitated this process: bank licensing only carried a statutory-fund requirement of approximately US \$150,000 in 1992 (reaching a low of US \$40,000 later that year due to hyperinflation).²²⁹ Business groups and individuals also became owners of state sectoral banks through share transfer schemes. For example, in 1993, when the government of Ukraine declared that shares of state enterprises (including banks) would be transferred to the Ministry of Finance, many employees refused to turnover shares and, instead, transferred them to newly incorporated holding companies or to themselves.²³⁰

²²⁵ Johnson, Kroll, and Horton, “New Bank in the Former Soviet Union,” 21.

²²⁶ It should be noted that Johnson, Kroll, and Horton (1991) could not confirm whether banks were directly lending money to political groups due to a lack of access to bank balance sheets. This remains a problem for researchers to this day.

²²⁷ Philip Moore, “Banking in Ukraine: Ukraine’s high transfer cost,” *Central European* 24 (1993): 45-47.

²²⁸ The NBU had a requirement for founders of banks to possess at least 5 years of relevant experience. In reality, this was impossible to uphold since the country had virtually no experience with modern commercial banking.

²²⁹ Sochan, “The Banking System,” 85; It should be noted that the author found that at the end of 1994 only 1/3 had met the statutory capital requirement. In part, this is because inflationary pressure rapidly ate away at the capital. The statutory-fund requirement of \$150,000 was comparable to the value of a three bedroom apartment in Kyiv at the time.

²³⁰ *Ibid.*, 83; As a result, some individuals gained considerable quantities of stock of state-owned banks like Ukrsootsbank which played a critical role during the late 1980s under Soviet credit-allocation policies as sectoral banks. By the end of 1994 only 2 percent of the equity of joint-stock Ukrsootsbank was owned by the state. This was concerning because Ukrsootsbank had access to preferential credit at the central bank and had claims on many key assets that were collateralized on its balance sheet,

Moreover, from its inception in 1992 with the law *On Banks and Banking*, the role of the NBU was “essentially a theoretical concept.”²³¹ The central bank lacked staff capable of adequately executing administrative functions, and the Ukrainian government did not understand its own role or that of the NBU in regulating the banking sector. Disillusionment in Ukraine with centralized policy-making compounded problems by preventing the central bank from implementing effective policy over commercial banks.²³²

The central bank also abandoned the credit-allocation programs of its predecessor (Gosbank), creating a credit vacuum which only commercial banks could fill.²³³ As a result, one of the primary motivating factors to open a bank during the 1990s was to fund businesses and industrial groups (agriculture, defense, resource extraction, manufacturing, and so on) that traditionally relied on state-allocated funding. But, according to Sochan, a lack of access to capital markets and state funding forced many industrial groups to provision their own credits by setting up a bank and having that bank fulfill vital treasury functions.²³⁴ These treasury functions consisted mainly of loans to shareholders.²³⁵ In one interview with a banker it was revealed that such close arrangements were the norm, and not the exception, otherwise “Why else would anyone set up a bank?”²³⁶ From the moment a bank’s license was approved, it would issue loans directly to shareholders set at artificial values and use loan insurance schemes (related parties received preferential credit treatment both in terms of interest rates and disbursement).²³⁷ Sochan notes how this arrangement eventually captured the attention of the Ukrainian public, who witnessed

²³¹ Ibid., 71.

²³² This was particularly exacerbated when the former Soviet foreign-trade bank, Vneshekonombank, issued a statement that it had a USD \$7 billion hole in deposit holdings that went missing. This meant that foreign payments could no longer be processed for Ukraine and other former republics. This was devastating for the 1992 agriculture season that was dependent on foreign farming supplies. After parliament instructed the NBU to fund Ukrainian agriculture expenses needed for the 1992 agriculture season, the government later reneged on any responsibility to pay the debt incurred by the central bank on behalf of the Ministry of Agriculture. Later, it was also revealed that the NBU did not document the transactions.

²³³ Ibid., 72

²³⁴ This came naturally to former red directors and factory managers who were used to vertical integration.

²³⁵ Moore, “Banking in Ukraine,” 45

²³⁶ Sochan, “The Banking System,” 85

²³⁷ Moore, “Banking in Ukraine,” 47.

the exponentially growing living standards and political influence of bankers.²³⁸

It is clear from the post-1990s literature on Ukraine's banking sector that much of the same banking practices continued at the turn of the century. In 1999, researchers wrote that "There is still evidently a high 'politicization' of [the] financial sector. All the large state-owned and former state-owned banks are still used for direct lending to loss-making enterprises for 'social' reasons under political pressure."²³⁹ In 2002, Kloc wrote that "factions combining regional, industrial, or political interests have sought [successfully] to create their own banks and influence how the central bank and banking supervisory authorities treat these banks."²⁴⁰ And, in a review of Ukraine's banking sector published as recently as 2015, Barisitz and Fungacova reported that "a big number of so-called 'pocket banks' or 'agent banks'" continued to operate as financial departments for their shareholders.²⁴¹

What is more, data shows that Ukraine has made little progress since the early 1990s in terms of strengthening bank governance, reforming banking practices, and enhancing the supervision of its banking system. Transition indicators from the European Bank for Reconstruction and Development ("EBRD"), a European agency that closely monitors Ukraine's banking sector, demonstrate just how little progress was made in terms of strengthening governance practices and budgetary constraints in banking between 1989 and 2014. Figure 3.1 shows that Ukraine's EBRD governance and enterprise score improved only marginally during that period.²⁴² More specifically, between 1989 and 1994, Ukraine had a score of 1, indicating the presence of "Soft budget constraints" and a general lack of "reforms to promote corporate governance."²⁴³ Between 1995 and 2014, the score rose marginally to a high of 2.3. A score of 2 is defined by the EBRD as "Moderately tight credit and subsidy policy, but weak enforcement of bankruptcy legislation

²³⁸ Sochan, "The Banking System," 82.

²³⁹ Małgorzata Markiewics, Marta Dekhtiarhuk, and Urban Gorski "Monetary Policy in Ukraine in 1996-1999," *Centre for Social and Economic Research* (1999): 22.

²⁴⁰ Kloc, "Banking Systems," 62.

²⁴¹ Barisitz and Fungacova, "Ukraine: Struggling Banking Sector," 8.

²⁴² The European Bank for Reconstruction and Development used to provide data for banking reforms, but at some stage eliminated the data set. I could not locate this time series data.

²⁴³ European Bank for Reconstruction and Development, "Transition indicators methodology 1989-2014." *ebrd.com* <https://www.ebrd.com/transition-indicators-history>

and little action taken to strengthen competition and corporate governance,” while a score of 3 is given to countries with ”significant and sustained actions to harden budget constraints.”²⁴⁴ A score of 4+ is given to countries that meet standards comparable to those of developed nations. As of writing, it is not clear if Ukraine has even achieved a score of 3.

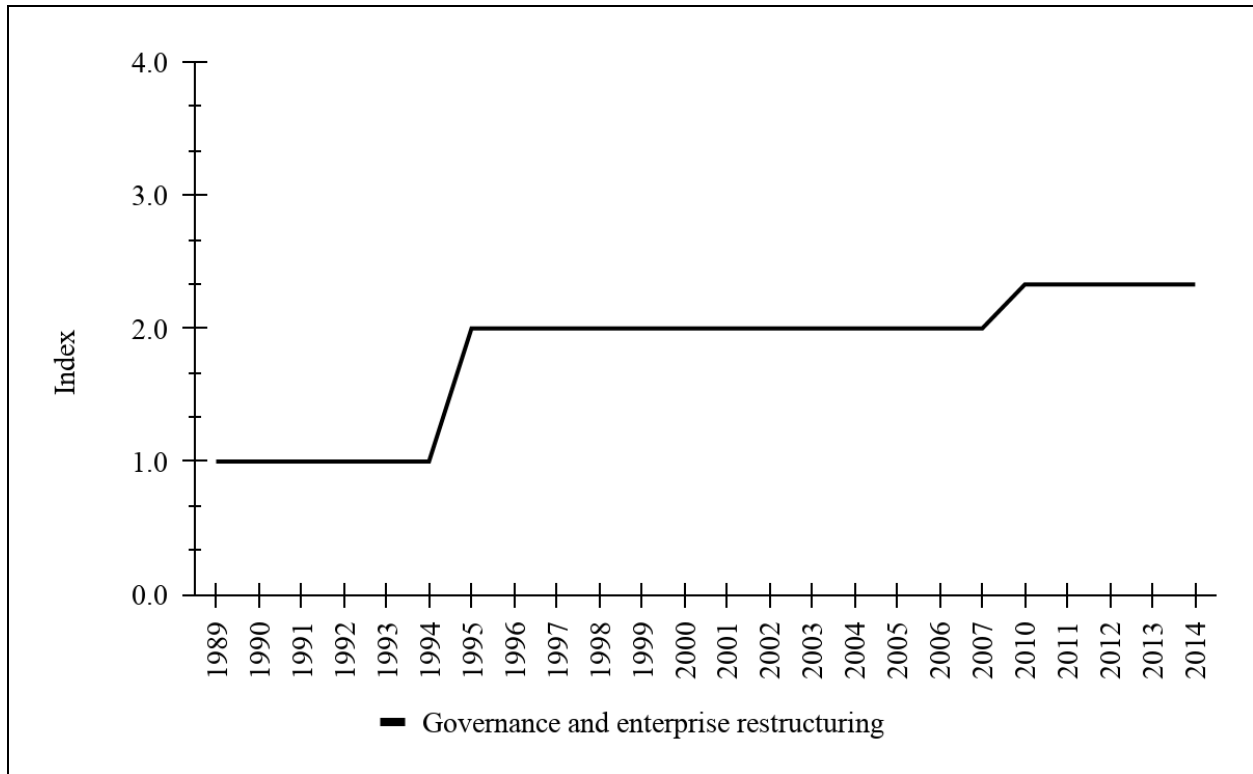


Figure 1 EBRD Transition Indicators for Ukraine for the period between 1989 to 2014.

Based on the above, including the EBRD data, the case of PrivatBank is likely one of many. Over the last 30 years, one of the biggest functions Ukrainian banks have been tasked to perform has been RPL, often under the management of groups with political linkages - a pattern of behavior that traces back to the Soviet era.

3.2.4 Incentives for Banks to Form Political Linkages

Another reason to suggest that the case of PrivatBank is one of many is that banks in Ukraine have long been incentivized to form political linkages. As I discuss below, it has been

²⁴⁴ Ibid.

well-documented that political linkages help businesses (especially banks) survive within Ukraine's weak institutional environment. Banks are highly sensitive to political fluctuations as they are susceptible to interference from politicized regulatory bodies (i.e., the NBU, ministry of finance, the DGF, and so on). Distributing rents is one obvious way to form political linkages. Granted, a bank that distributes rent to a shareholder or employee for the purpose of running for political office, or to an incumbent politician for that matter, may appear to be an unsustainable loss-making enterprise. However, establishing a political "roof"²⁴⁵ and having the ability to pull strings around political processes can increase a bank's odds of business continuity. Political linkages also reduce regulatory burdens and often open doors to lucrative business opportunities that would otherwise not be attainable. In some cases, banks in Ukraine have even collected rents from the state as a result of their political ties. Together, these benefits may offset the costs and risks associated with distributing rents.

During the transformative years when Ukraine began transitioning away from the Soviet state-led economic system to a market-oriented one, a select few business groups with ties to communist elites managed to capture a significant share of Ukraine's wealth throughout numerous rounds of privatization between the late 1980s and early 1990s.²⁴⁶ However, research on "wealth defense" has shown that the absence of the rule of law, weak market-oriented institutions, and persistent corruption during this transition created conditions that induced permanent structural concerns among these business groups.²⁴⁷ To remain in control of their wealth and to sustain business continuity, these groups maintained and expanded their linkages into politics by forming ties with political actors or directly entering politics. Winters suggested that one of the major problems facing medium to large-scale businesses operating in post-Soviet contexts like Ukraine is that property rights and contracts are not guaranteed by the state (courts are highly susceptible to bribes, coercion, and judicial override, and property is vulnerable to

²⁴⁵ In Ukraine, businesses who establish political linkages for the purpose of gaining political protection in the absence of stable and effective rule of law (or because they are engaged in illegal activities) are said to possess a "*krysha*," the Russian word for roof.

²⁴⁶ Dalia Marin and Monika Schnitzer, "Disorganization and financial collapse," *European Economic Review* 49, no. 2 (2005): 387-408.

²⁴⁷ Markus and Charnysh, "The Flexible Few."

raiding), and so businesses often incorporate strategies of wealth defense that involve interfering in politics out of necessity.²⁴⁸ Hellman posited that these conditions (e.g., weak rule of law, etc.) also facilitate the generation of profits that enable these groups to be competitive not only in business but also in politics.²⁴⁹

In Ukraine's weak institutional environment where legal insecurity is a structural fact of life, the various privileges made available to politicians tend to be useful to businesses. Parliamentary deputies have access to policy-making through parliament. Constitutionally, deputies have the right to vote on all matters presented to parliament. Up until 2019, deputies were also exempt from many laws by the law "On Deputy Status," which entitled them to parliamentary immunity (although a supermajority vote in parliament could strip this immunity). Deputies even have the ability to submit formal inquiries (a type of access to information request) to executive, judicial, local government, and corporate bodies. Recipients of such inquiries are legally obligated to respond. The presidential administration also enjoys immunity, acts as a check on the authority of parliament by vetoing bills (barring a $\frac{2}{3}$ parliamentary majority), can craft legislation, and has the power to dissolve parliament.²⁵⁰ The president also has the power to appoint and dismiss powerful regional governors who control subnational executive bodies, as well as often even rule over local mayors. And, of course, governing officials have access to administrative resources.

Since the early 1990s, Ukrainian business groups have typically infiltrated parliament and the presidential administration by funding suitable political candidates to represent their interests, but business owners have also directly occupied representative institutions. Those who end up directly occupying political offices but ultimately representing business interests - so-called "business candidates"²⁵¹ - wind up gaining from accessing political immunity, the ability to veto or challenge government policy, craft policy, and asymmetric informational advantages. While it

²⁴⁸ Jeffrey A. Winters, *Oligarchy*. (Cambridge: Cambridge University Press, 2011).

²⁴⁹ Joel S. Hellman, "Winners Take All," 229.

²⁵⁰ Interestingly, parliament was dissolved twice during the presidency of Viktor Yushchenko in 2007 and 2008, which was a peak in Ukraine's liberal democracy index.

²⁵¹ Scott Gehlbach, Konstantin Sonin, and Ekaterina Zhuravskaya, "Businessman Candidates," *American Journal of Political Science* 54, no. 3 (2010): 718-736.

is not legal for incumbents to sit in business management positions while holding representative institutions, in practice, they often continue to hold sway over their business empires by remaining as large shareholders and sitting on advisory boards.

This strategy of wealth defense has been vital for banks and their shareholders, as well. As Kloc has shown, banks that lose or have weak political connections often and suddenly experience liquidations and the prosecution of their shareholders despite the fact that they may have been in good standing with regulators only months prior (e.g., Slaviansky Bank and PrivatBank).²⁵² Political connections grant Ukrainian banks the powerful ability to influence the way in which politicized regulatory bodies treat/evaluate them via regulatory supervision.²⁵³

For example, during the NBU-led banking sector clean-up between 2014 and 2018, the most politically-connected banks managed to avoid heavy scrutiny. President Poroshenko's bank, International Investment Bank, was one of them. Many of Poroshenko's allies sat on parliament's banking committee, as mentioned earlier in this chapter. Moreover, the head of the DGF at the time, Konstantin Vorushylin, was a seasoned banker who previously worked for International Investment Bank (and Mriya Bank before it was sold off to Russian-owned VTB Bank) and held a 5.2 percent stake in the bank during his tenure at the government agency, according to disclosures.²⁵⁴ Similarly, the Governor of the NBU, Gontareva, previously held a professional relationship with Poroshenko while at Investment Capital Ukraine, a fund in which she held an interest and where she managed Poroshenko's financial affairs.²⁵⁵ Both the NBU and the DGF under Gontareva and Vorushylin failed to notify the public of any audits into International Investment Bank, a bank which only had 24 automatic teller machines across the country but registered over US \$300 million in assets with the NBU in 2018 (making it one of Ukraine's top

²⁵² See Kloc, "Banking Systems," 64. for discussion on Slaviansky Bank. It caught Ukraine's banking industry by surprise, beginning with the arrests of the bank's board chair, vice president, chief accountant, head of debit operations, and head of finance on suspicion of tax evasion. Moreover, in the case of PrivatBank, only months before it fell under intense media scrutiny it was an award-winning financial institution in Ukraine.

²⁵³ Kloc, "Banking Systems," 64.

²⁵⁴ Olena Savchuk, "Vorushylyn, Poroshenko's business partner, heads up fast-growing Deposit Guarantee Fund," *Kyiv Post Legal Quarterly* no. 2 (2016), 17.

²⁵⁵ Brian Bonner, "Governor Gontareva says that corrupt legal system is biggest obstacle to fighting bank fraud," *Kyiv Post Legal Quarterly* no. 2 (2016), 6.

25 banks by assets).²⁵⁶

Baum et al., contend that having political linkages can help banks and their shareholders to build political forms of protection in the absence of strong rule of law.²⁵⁷ Individuals who occupy political institutions but operate in the interest of a bank may vote on any matter in parliament and attempt to pass or craft legislation favorable to a bank. Meanwhile, parliamentary immunity ensures that they are not legally liable or accountable for statements made or for any voting conduct that may have benefited the bank to which they are loyal while they are in positions of power.

Having ties to parliament or the presidential administration has increased business opportunities for banks. These banks have had the privilege of providing treasury functions for state institutions (effectively financing government spending).²⁵⁸ They have benefited from financing the assets being sold off or bought by the state in privatization or nationalization schemes, and have received priority access to buy certain assets at fire-sale pricing to then sell them on the open market at market rates. For example, during the early 2010s, the ties Firtash developed with Yanukovich enabled him to buy 14 out of 18 state-owned gas enterprises being sold in a mass privatization auction at below-market prices, and allowed his bank (Nadra Bank) to finance the purchase through a UAH 250 million related-party loan to Gaztek and Finleks Ukraina (companies owned by Firtash).²⁵⁹

Banks with political linkages have also performed better. Johnson et al. found that banks with close ties to government ministries in the years directly after the fall of the Soviet Union enjoyed more rapid growth.²⁶⁰ Baum et al. also identified that banks with public ties to members of parliament in the mid-2000s enjoyed higher capitalization ratios.²⁶¹ The study noted that these

²⁵⁶ Kyiv Post, “Banking: Part 2,” 10; Investigative journalists attempted to track down any corporate or private customers who may have borrowed money from the bank or held money at the bank to no avail.

²⁵⁷ Baum et al., “Political Patronage,” 545.

²⁵⁸ On banks financing government, see: Sochan, “The Banking System,” 82.

²⁵⁹ Yurchenko, “Black Holes in the Political Economy,” 142.

²⁶⁰ Johnson, Kroll, and Horton, “New Bank in the Former Soviet Union,” 21.

²⁶¹ Baum et al., “Political Patronage,” 545.

higher capitalization ratios also had the effect of attracting foreign investment. For example, in 2005, Austrian Raiffeisen International took a stake in Aval Bank owned by Fedir Shpig (who began a political career as a member of parliament in 1998). In 2006, France's BNP Paribas took a stake in UkrSibbank owned by Oleksander Yaroslavsky (who became a member of parliament in 2002). Moreover, in 2011, Unicredit Bank Austria AG secured shares in UkrSotsbank owned by Valery Khoroshkovsky (who first entered parliament in 1998 and later became Minister of Economy).

Politically-connected banks appear more eligible to receive bailouts, as well, even if they come at great cost to the state. During the financial crisis around 2008, the NBU issued refinancing loans to commercial banks close to then-president Yushchenko in amounts exceeding US \$1 billion (Yushchenko also reportedly received a 5 to 7 percent commission).²⁶² In several cases between 2014 and 2016, bank owners were able to leverage their ties to government officials to secure loans before their banks were officially declared insolvent by regulators. The most famous examples include Imexbank (owned by Klimov), VAB Bank/Financial Initiative Bank (owned by Oleg Bakhmatyuk), and Delta Bank (owned by Mykola Laguna).²⁶³ Bakhmatyuk allegedly made an informal arrangement with the Deputy Governor of the NBU, Alexander Pisaruk, in 2014 for a loan as large as UAH 11 billion (approx US \$440 million) before VAB Bank and Finance Initiative were liquidated by the NBU.²⁶⁴ Pisaruk subsequently went on to lead Raiffeisen Bank Aval.

There are clear incentives for banks in Ukraine to form political linkages. Such ties can help banks survive by reducing regulatory burdens, leading to profitable opportunities, increasing investment and performance, and qualifying for certain state backstop programs. The fact that banks are incentivized in this way is what likely leads to the reduced risks for banks to distribute rents to a loyal individual for the purpose of running for political office or to an incumbent who

²⁶² Kudelia, "The Source of Continuity," 424.

²⁶³ Kyiv Post, "Ukraine's \$11.4 billion bank robbery.," Kyiv Post, "Banking: Part 2.," Kyiv Post, "Banking."

²⁶⁴ Elina Kent, "Head of major bank arrested on suspicion of embezzling \$49 million," *kyivpost.com* (2019) <https://www.kyivpost.com/ukraine-politics/head-of-major-bank-among-7-arrested-on-suspicion-of-embezzling-49-million-through-bakhmatyuks-bank.html>

can help reduce exposures and present opportunities that outweigh the costs associated with distributing rents. At the same time, one could make a case that most Ukrainian banks likely err on the side of caution by forming political ties. Kuznetsova showed in a report that nearly all of Ukraine's commercial banks have typically operated with significant shortcomings in their regulatory capital, with models indicating that gaps have only grown over time.²⁶⁵ Likewise, Koziuk reports that the NBU has consistently turned a blind eye to banks within the banking sector with regulatory capital shortfalls since virtually all of Ukraine's banks have been inadequately capitalized.²⁶⁶ If these assessments are correct, political link formation along with rent distribution may be an unavoidable and integral part of the business of banking in Ukraine.

3.3 HYPOTHESIS

I have shown that banks appear to be an important resource furthering the power of political groups in Ukrainian politics. Several studies show that elites related to banks via ownership or employment tend to be more politically-influential than those who are not. Dozens of Ukraine's most influential national politicians over the last 30 years are able to be traced back to at least one bank when they took office, and all of Ukraine's presidents between 1992 and 2018 have had some kind of tie to banks when they took hold of the presidential administration. Successful political organizations appear to often integrate banks into their structures. Certain political struggles can also be explained by the degree to which political contestants have controlled banks or have managed to attract the support of elites who controlled banks. Kuchma's ability to monopolize political power in the late 1990s hinged to some extent on his relationship with bankers, who financed his patronage networks. Yushchenko's electoral success in the mid-2000s can also be traced back to his ties to bankers, who collected an extravagant sum of money for his presidential campaign. In circumstances where elites have lost access to banks we see that their political influence became more limited, as was the case with Tymoshenko when Slaviansky Bank was liquidated and Kolomoisky when PrivatBank was nationalized.

²⁶⁵ Anzhela Kuznetsova, "Implementation of the "bail-in" mechanism in the banking system of Ukraine," *Banks and Bank Systems* 12, no. 3 (2017): 271.

²⁶⁶ Viktor Koziuk, "Transformation of Bank Capital Regulations in Ukraine: the Role of Institutional Distortions," *Financial Markets, Institutions, and Risks* 1, no. 4 (2017): 22.

If we dig deeper into the inner workings of banking, the situation between banks and elites increasingly seems analogous to the situations described in rentier theories. Rentier theories extend the explanatory logic of balance theory to understand how certain resources collected by political actors, such as oil and minerals,²⁶⁷ foreign aid,²⁶⁸ and fiscal transfers²⁶⁹ affect political outcomes. We know that political actors who collect resources that are gained independently of the local economy, carry few strings attached in relation to how they are spent, and are disproportionately large relative to the local economy tend to have a higher propensity to dominate in political struggles. Banks in Ukraine, like in all modern banking systems, create money when they issue loans; they operate under special regulatory and accounting rules that allow them to leverage their balance sheets and issue large quantities of deposit money; only a fraction of which originates from the local economy. They have significant discretion operating their loan books and are legally permitted to allocate a large share of their lending capacity (between 20 and 25 percent) for loans to related-parties such as shareholders, employees, and companies to which they are related. As of 2018, they have lent the equivalent of 26 percent of the country's annual gross domestic product to related parties. Taking this into consideration, including the case of PrivatBank, the history of Ukraine's banking sector, and the incentives which exist for banks to form political linkages, banks appear to be a source of rent furthering the power of political groups in Ukraine.

We can observe the impact banks have had on elites in other ways, as well. Data from Pleines' study on Ukrainian elites shows how groups related to banks have captured a significant share of Ukraine's mass media market.²⁷⁰ Akhmetov's System Capital Management Group, for instance, which owns First Ukrainian International Bank also owns the influential *Ukraina* television network that held over 10 percent of Ukraine's market share in 2011. Over the last 20 years, the widely watched *Inter* media channel, which has been consistently owned by political groups with ownership over banks, has also held between 10 and 20 percent market share. Initial control

²⁶⁷ Steven Fish, *Democracy Derailed in Russia*.

²⁶⁸ The most interesting cases that emphasize similar dynamics between foreign aid and resource rents include: Smith, "The Perils of Unearned Income." and Morrison, "Oil, Nontax Revenue."

²⁶⁹ Gervasoni, "A Rentier Theory."

²⁷⁰ Pleines, "Oligarchs and Politics in Ukraine," 124; This data can be found in modified form in Appendix A.

of *Inter* went to Surkis and his allies as early as 1996, but in 2007 ownership was passed on to Khoroshkovsky and in 2013 it went to Firtash. Other news channels that have remained influential are also controlled by groups that own banks, like *1+1* (owned by Kolomoisky), *5 Kanal* (owned by Poroshenko), and *ICTV* (owned by Pinchuk). Figure 2 shows that at least 50 percent of Ukraine’s media market has been held by groups with ties to banks (bank owners) since 2006, while the share held by groups with no ties to banks (non-bank owners) has rapidly fallen.

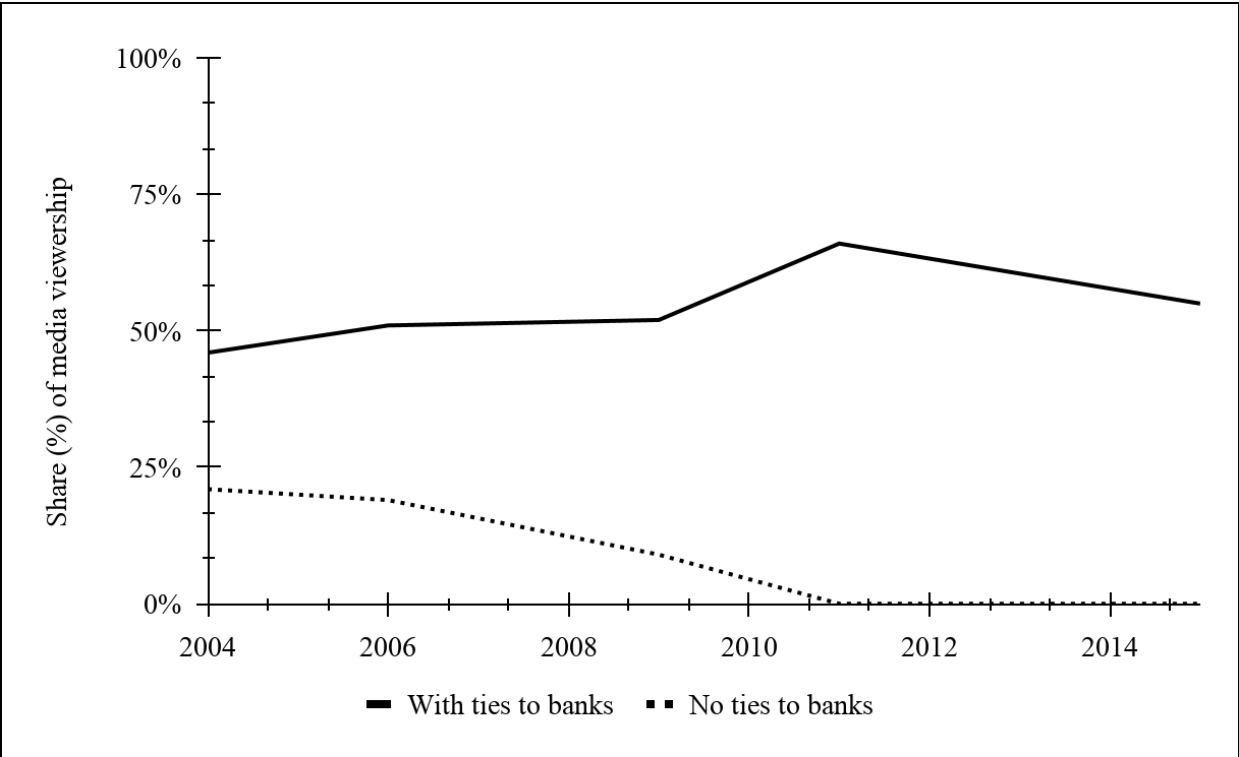


Figure 2 Estimated media market share of top 29 Ukrainian elites based on author’s own calculations using data from Pleines (2016) provided online (see Appendix A).

Groups related to banks have also managed to accumulate a large portion of wealth in comparison to groups with no ties to banks, Figure 3 shows that elites with ties to banks (bank owners) have consistently held more wealth than elites with no ties to banks (non-bank owners). This may be because banks have effectively facilitated soft budgetary constraints for their proprietors, allowing them to accumulate significant wealth by leveraging RPL rules in various ways. These groups that have accumulated a significant share of wealth are the same groups that

have accumulated a significant share of Ukraine’s news media industry. It is well known that media assets offer little return on capital in Ukraine due to the country’s relatively small advertisement market and the high regulatory burden that gets placed on news agencies by the state.²⁷¹ Despite these costs, media assets provide their owners with political capital during and between elections. Having access to a bank may be an important intermediate variable that allows groups to gain media assets and their political capital.

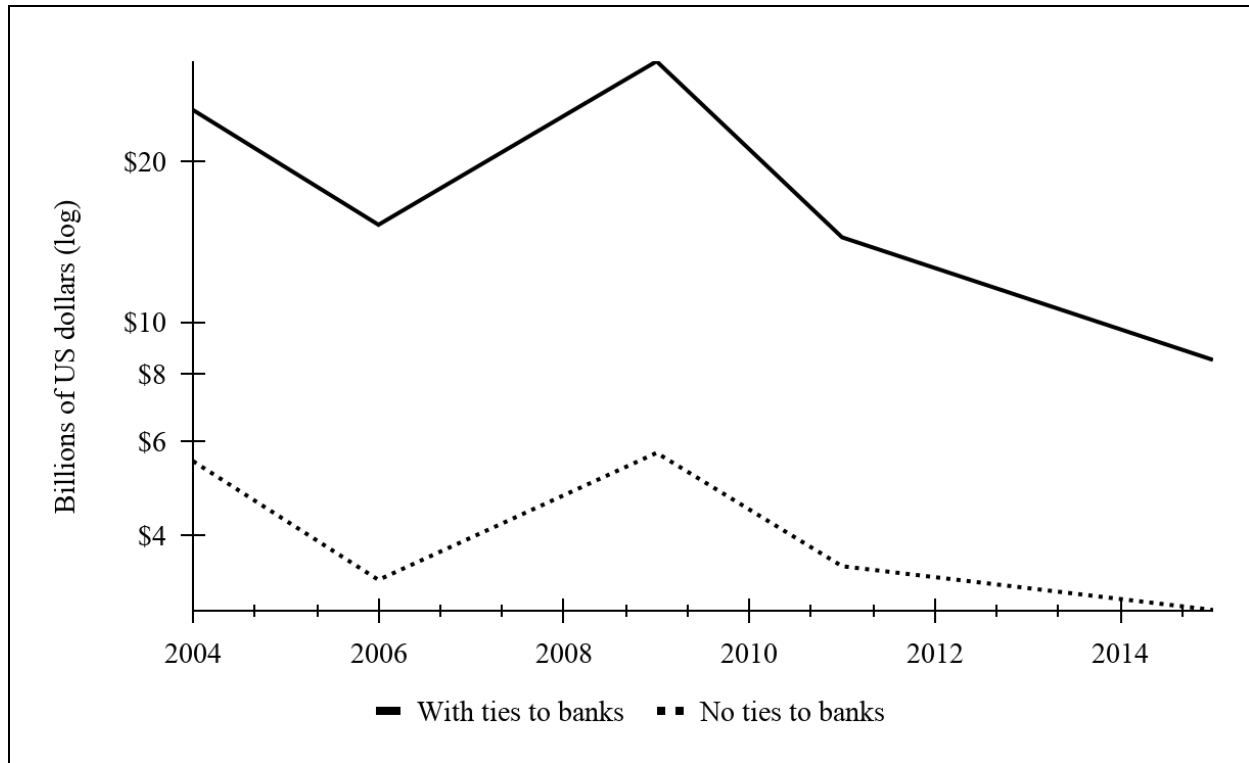


Figure 3 Estimated wealth of top 29 Ukrainian elites based on author’s own calculations using data from Pleines (2016) provided online (see Appendix A).

Lastly, political groups with control over a bank may be more politically influential and wealthier because they are more protected from various forms of existential threats. According to Chernenko, there are potentially insurmountable challenges to groups in Ukraine if they fail to incorporate a bank into their corporate structure; they may face higher levels of information asymmetries, have limited access to preferential credit treatment (such as lower interest rates and underwriting standards), and have a harder time proving they are creditworthy in situations

²⁷¹ Natalya Ryabinska, “The media market and media ownership in post-communist Ukraine: Impact on media independence and pluralism,” *Problems of Post-Communism* 58, no. 6 (2011): 4-6.

where borrowing is needed.²⁷² Banking with a competitor's bank may lead to various forms of unwanted exposures and elevate competitive risks due to legally required disclosure of information, such as blackmail, corporate raiding, or revelations with regard to the location of documents associated with valuable assets.

Recall that theoretical accounts often link the fluctuations in Ukraine's political regime to the way in which incumbents and opposition groups have broadened their scope of control over business elites and their resources; changes in the resources at disposal to elites is considered crucial by theory. The findings in this chapter suggests that the situation with banks is not unlike the situation with industrial, financial, and media resources discussed in the previous chapter. Parliamentary elections in Ukraine require upwards of US \$1 million to secure a candidacy and compete in the polls, while presidential elections can require upwards of US \$100 million. It is easy to conceive the various ways in which a bank could be used to, say, provide the necessary funding to compete in the polls, gain the necessary media exposure in order to be successful in those polls, or gather enough political capital to thrive between electoral cycles, among other things. As a result, I argue that fluctuations in the quality of Ukraine's political regime may be linked to fluctuations in the number of banks furthering the power of political groups. This perspective remains focused on elites but emphasizes that the key explanatory variable may lie in the interactions elites have with banks rather than with other resources identified by theory thus far, per se.

So, the hypothesis and the null hypothesis of this thesis can be expressed as follows:

H_1 : There is a relationship between the number of banks furthering the power of political groups in Ukraine and the quality of Ukraine's political regime.

H_0 : There is no relationship between the number of banks furthering the power of political groups in Ukraine and the quality of Ukraine's political regime.

²⁷² Demid Chernenko, "Capital Structure and Oligarch Ownership," *Munich Personal RePEc Archive* (2018), 3.

I add that structure likely underpins any statistical association between banking and regime outcome, while agency-based factors are important for understanding the connection between the explanatory variable (banks) and the dependent variable (regime outcome). Those with control over banks in the context of Ukraine are motivated to secure their interests and prefer to allocate at least a portion of the resources they can extract from their banks to ensure those interests are met. The ways in which these resources are generated or spent likely differ over time and in different contexts due to technological, regulatory, and/or other exogenous constraints. Individual actions ultimately determine how banks are used to influence political outcomes while structure determines whether or not banks can be leveraged in any particular way. In the chapter that follows, I explore the hypothesis above by conducting an empirical test using quantitative data from Ukraine and present the findings.

CHAPTER 4: DATA, MODEL SPECIFICATION, AND STATISTICAL ANALYSIS

The findings of the previous chapter strongly suggest that banks have furthered the power of political groups in Ukraine over the last three decades, and that the quality of the country's political regime may be impacted by this phenomenon. In this chapter, I explore this relationship further by applying a statistical test: the GETS empirical modeling approach.²⁷³ The GETS method involves creating a general unrestricted model GUM using variables that are informed by theory. The GUM is then subject to linear restrictions and subsequently reduced step-by-step by systematically eliminating statistically insignificant variables (at the 5 percent significance level) until a parsimonious model remains. The parsimonious model allows for no more reductions and holds only statistically significant variables. If, after the step-by-step reduction from the GUM to parsimonious state, the model complements theoretical expectations, then it constitutes as strong empirical support for those theoretical expectations. The small-n but congruent model that I construct in this chapter offers some initial empirical support for the hypothesis advanced in the previous chapter: I find that fluctuations in the quality of Ukraine's political regime are strongly and positively related to fluctuations in the number of licensed banks operating in Ukraine for the period of 1992-2017.

In the first section of this chapter, I discuss the proxies that are operationalized for both the dependent and explanatory variables, and present summary statistics. In the second section, I present the GUM, the step-by-step estimations, and the parsimonious model. In the third section, I discuss the determinants, some problems associated with estimations, eliminated and omitted variables, and the shortcomings of the proxy variable for banks used for the statistical analysis. I conclude with a summary of the chapter and a discussion on the interpretability of the parsimonious model.

²⁷³ For a detailed discussion on this method, see Campose, Ericsson, and Hendry, "General-to-specific modeling."

4.1 OPERATIONALIZATION

The GETS modeling approach begins by building a statistical model that captures key variables of an inquiry (the variable that is to be explained and the explanatory variables).²⁷⁴ I use an aggregate measure of democracy to observe the dependent variable - the quality of Ukraine's political regime - in the statistical analysis. I also use several measures to observe potential explanatory variables. The selection of these variables is informed by theory, data availability, and data reliability.

4.1.1 Dependent Variable

There is some disagreement between researchers about whether the term “democracy” can be broadly applied in the context of Ukraine. Some specialists have argued that liberal or democratic institutions in post-Soviet countries are a “façade,”²⁷⁵ and that political competition is “fiction.”²⁷⁶ These perspectives suggest that, while liberal democratic rules of the game may be formally in place, they are not meaningful and elections are not the true source of power for governments. As a result, a measure based on the conceptualization of autocracy may be more appropriate.

However, since incumbent politicians and societal challengers in Ukraine do in fact interact with Ukrainian liberal democratic institutions (e.g., elections, parliament, rule of law, and so on) in practice, and some level of political competition does indeed exist, I argue that Ukraine's political regime *can* be conceived in terms of democracy.²⁷⁷ It is true that in Ukraine there are substantial restrictions on freedom of speech, regular abuses of civil and political rights, electoral irregularities (such as vote-stealing and bribing), harassment and arrest of opposition figures, access to media issues, and a severe lack of the rule of law. As a result, political

²⁷⁴ Ibid., 3.

²⁷⁵ Jowitt, “Dizzy with Democracy.”

²⁷⁶ Mariana Ottaway, *Democracy Challenged: The Rise of Semi-Authoritarianism* (Washington DC: Carnegie, 2003): 3 and 15.

²⁷⁷ Over the last 5 years, particularly under the tenure of president Petro Poroshenko, influential academics have often even argued that Ukraine is now a full democracy following the Euromaidan. See Paul Hockenos, “You Only Wish You Had Ukraine's Democracy,” *Foreign Policy* (2019) and Alexander J. Motyl, “How Poroshenko Could Win and Zelensky Could Lose,” *Atlantic Council* (2019).

competition is “skewed” in favor of incumbents.²⁷⁸ But unlike fully authoritarian regimes, elections have proven to be a real path to power.²⁷⁹ For example, Ukraine experienced transitions of power in the executive branch of government in 1994, 2004, 2014, and 2019 whereby incumbent presidents have actually lost the elections. Realistically, the country hangs somewhere between democracy and autocracy as a kind of hybrid regime.

Several concepts or measures of “regime type” have been proposed that attempt to capture the hybrid nature of Ukraine’s political system.²⁸⁰ For example, D’Anieri considers Ukraine to be an “electoral authoritarian” state, wherein elections are real but power mostly resides with the executive branch of government.²⁸¹ Similarly, Way conceptualizes Ukraine as a “competitive authoritarian” regime whereby elections are the main way to gain or lose power, but incumbents and opposition groups regularly abuse the liberal democratic rules of the game to such an extent that it is impossible to call the country a functioning democracy.²⁸² Others focus on citizenship and ethnic criteria,²⁸³ checks and balances on executive power,²⁸⁴ and on the quality of elections.

285

Currently, there are much more standardized and substantive measures of regime type available to researchers. One of the most cutting-edge measures is provided by V-Dem. This organization is responsible for one of the largest social science data collection projects in history; one that collects data (via a survey of country experts) on micro-level indicators of democracy at some of the lowest (least abstract) levels possible from around the world. V-Dem subsequently groups together these micro-level indicators that measure key components of democracy to then compose higher (more abstract) measures.²⁸⁶ One of these aggregated measures has been titled

²⁷⁸ Way, “The Sources and Dynamics,” 144.

²⁷⁹ Ibid.

²⁸⁰ David Collier and Steven Levitsky, “Democracy with Adjectives: Conceptual Innovation in Comparative Research,” *World Politics* 49, no. 3 (1997).

²⁸¹ D’Anieri, “Democracy Unfulfilled,” 33.

²⁸² Levitsky and Way, “Competitive Authoritarianism.”

²⁸³ Philip Roeder, “Varieties of Post-Soviet Authoritarian Regimes,” *Post-Soviet Affairs* 10, no. 1 (1994): 61-101.

²⁸⁴ Guillermo O’Donnell, “Delegative Democracy,” *Journal of Democracy* 5, no.1 (1994): 55-69.

²⁸⁵ Andreas Schedler, “The Menu of Manipulation,” *Journal of Democracy* 13, no.2 (2002): 36-50.

²⁸⁶ Coppedge et al. “V-Dem Codebook v9.”

the “liberal democracy index,” which has been made publicly available online in time-series format along with all of the micro-level indicators that compose it.²⁸⁷ I apply this aggregated measure to operationalize the dependent variable (*liberal democracy index*) in the statistical analysis herein.

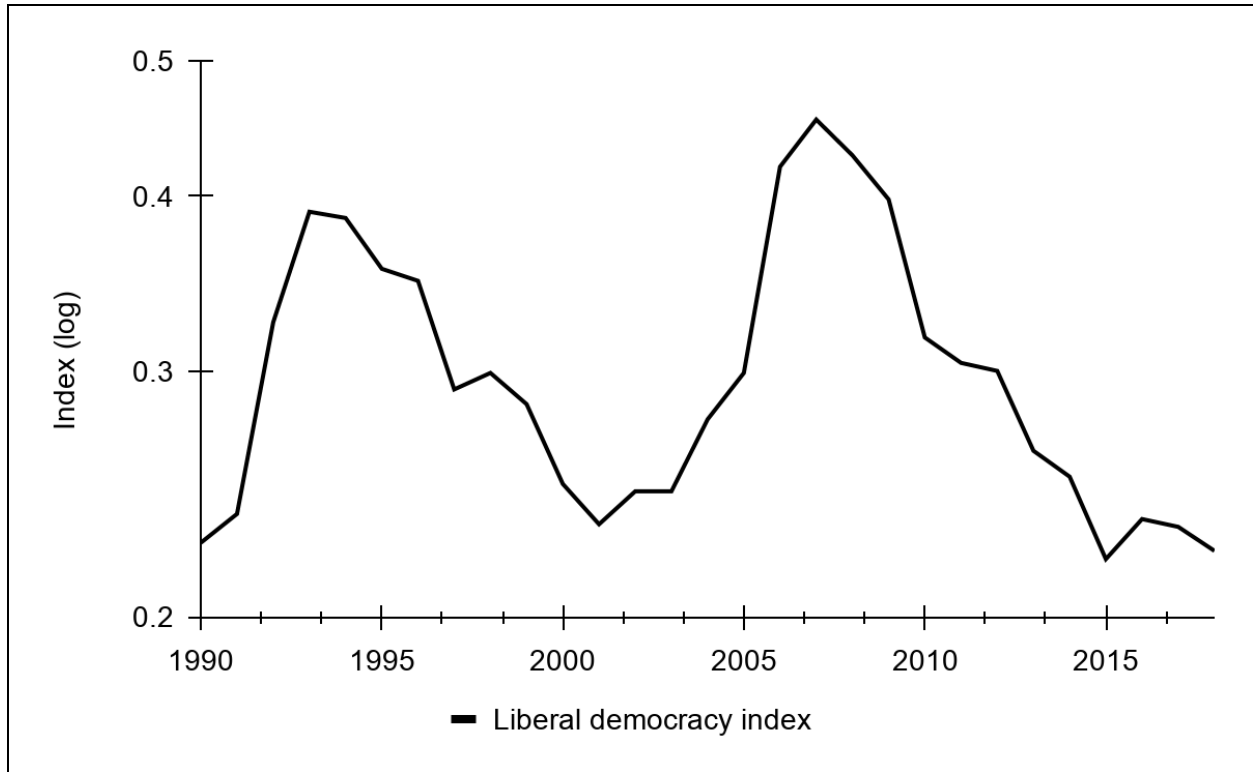


Figure 4 V-Dem’s Liberal democracy index for Ukraine for the period between 1990 and 2018.

The use of this aggregate measure should not be controversial. Figure 4 visualizes the data for “liberal democracy” provided by V-Dem’s version 9 database for Ukraine. The measure ranges from low (0) to high (1). The data shows that Ukraine experienced two waves whereby democracy levels increased between 1990 and 2018: the first wave peaked in 1993/1994 and the second wave peaked in 2007. This is consistent with qualitative observations in the literature. For instance, D’Anieri observed that “democratization in Ukraine appears to have peaked around 1994.”²⁸⁸ Meanwhile Haran’s study, which documented the “Orange split” after the 2007

²⁸⁷ All V-Dem databases can be found at the following URL: <https://www.v-dem.net/en/>

²⁸⁸ D’Anieri, “Democracy Unfulfilled,” 14.

parliamentary elections, notes how this led to the rise of “soft” authoritarianism.²⁸⁹ Neither wave in the data appears to have gone beyond the halfway mark (0.5), either. This is also consistent with the literature, which, as discussed above, often labels Ukraine’s political regime as competitive but ultimately authoritarian.

V-Dem’s “liberal democracy index” is composed of two aggregated indicators. The first, the “liberal component index,” measures the extent to which liberal principles of democracy were upheld in a given year. This includes the degree to which constitutionally protected civil rights and liberties were protected, the strength of the rule of law, the level of independence of the judiciary, the effectiveness of checks and balances on government, and the quality of the limitations placed on the executive body at the national level. Like the aggregate index, it ranges from low (0) to high (1). The index has been formed by V-Dem by averaging the following indicators: “equality before the law and individual liberties,” “judicial constraints on the executive,” and “legislative constraints on the executive.”

The second aggregated indicator, the “electoral democracy index,” measures the extent to which electoral principles of democracy were upheld in a given year. This includes the degree to which: incumbents were responsive to citizens through electoral competition and extensive suffrage; political and civil organizations were free to operate; elections were clean and free; there was freedom of expression; and, the media was independent and presented with alternative political views. Like the aggregate index, it ranges from low (0) to high (1). And, the index has been formed by V-Dem by averaging the weighted average on the one hand, and the multiplicative interaction on the other hand, of the following indicators: “freedom of association thick,” “clean elections,” “freedom of expression,” “elected officials,” and “suffrage.”

Table 2 displays the statistics for *liberal democracy index* and its aggregated indicators and sub-indicators for the period of 1992-2017.

²⁸⁹ Haran, “From Viktor to Viktor,” 95.

Table 2 The index of liberal democracy and its components: summary statistics by year.

Year	Liberal democracy index	Liberal democracy index							
		Liberal component index	Liberal component index			Electoral democracy index	Electoral democracy index		
			Equality before the law and individual liberty index	Judicial constraints on the executive index	Legislative constraints on the executive index		Freedom of association thick index	Clean elections index	Freedom of expression and alternative sources of information index
1992	0.325	0.528	0.683	0.426	0.509	0.539	0.601	0.705	0.794
1993	0.39	0.638	0.697	0.398	0.75	0.569	0.62	0.705	0.818
1994	0.386	0.639	0.738	0.451	0.649	0.555	0.642	0.687	0.821
1995	0.355	0.539	0.734	0.417	0.479	0.583	0.724	0.634	0.825
1996	0.348	0.51	0.695	0.397	0.563	0.584	0.725	0.648	0.803
1997	0.291	0.47	0.702	0.362	0.441	0.532	0.677	0.614	0.782
1998	0.299	0.529	0.721	0.384	0.443	0.492	0.706	0.45	0.725
1999	0.284	0.558	0.675	0.401	0.5	0.437	0.718	0.372	0.704
2000	0.249	0.521	0.724	0.328	0.533	0.403	0.715	0.349	0.611
2001	0.233	0.482	0.703	0.327	0.506	0.387	0.697	0.353	0.59
2002	0.246	0.549	0.715	0.344	0.543	0.364	0.676	0.371	0.574
2003	0.246	0.523	0.721	0.326	0.6	0.389	0.734	0.355	0.571
2004	0.277	0.622	0.698	0.445	0.788	0.382	0.735	0.291	0.575
2005	0.299	0.596	0.753	0.292	0.773	0.442	0.8	0.287	0.841
2006	0.42	0.635	0.782	0.337	0.827	0.616	0.817	0.511	0.872
2007	0.454	0.663	0.798	0.331	0.884	0.645	0.843	0.601	0.863
2008	0.428	0.641	0.804	0.326	0.803	0.635	0.856	0.599	0.885
2009	0.398	0.652	0.808	0.316	0.844	0.581	0.849	0.578	0.869
2010	0.317	0.504	0.719	0.231	0.628	0.554	0.863	0.51	0.719
2011	0.304	0.519	0.735	0.232	0.545	0.521	0.761	0.48	0.742
2012	0.3	0.527	0.695	0.332	0.592	0.485	0.753	0.475	0.708
2013	0.263	0.496	0.757	0.237	0.531	0.461	0.711	0.468	0.719
2014	0.252	0.473	0.571	0.229	0.636	0.438	0.682	0.43	0.657
2015	0.22	0.465	0.513	0.211	0.649	0.393	0.613	0.4	0.649
2016	0.235	0.446	0.51	0.197	0.674	0.417	0.667	0.367	0.655
2017	0.232	0.468	0.51	0.213	0.671	0.392	0.631	0.382	0.619

4.1.2 Explanatory Variables

In terms of the explanatory variables, I use a few indicators from V-Dem’s version 9 database to measure the electoral system (*SMD*, *PR*, and *Mixed (SMD/PR)*), the presidential system (*Presidentialism index*), and civil society (*Civil society participation index*); three factors considered by theory to causally influence the overall quality of Ukraine’s political regime.

V-Dem’s indicator “lower chamber electoral system” captures the type of electoral system that was used in national legislative elections in a given year. In the case of Ukraine, this would be

for the unicameral chamber of parliament or the Verkhovna Rada. V-Dem has configured this measure to capture up to 13 different types of electoral regimes. For Ukraine, the data correctly registers three different electoral regimes for the period of 1992-2017. The first is the two-round system in single-member districts, which was used twice before 1998 (like first-past-the-post whereby candidates with the most votes win, however, a majority threshold is required to avoid a runoff round). The second is a mixed system with single-member districts functioning in parallel with proportional representation in multi-member districts, used in 1998 and 2002 and then again in 2012 and 2014. The third is proportional representation with multi-member districts, used in 2006 and 2007. I control this variable by creating several categorical variables from the “lower chamber electoral system” indicator whereby the active electoral regime has been coded as one in a given year (i.e., *Mixed (SMD/PR)*, *SMD*, and *PR*).

V-Dem’s indicator “presidentialism index” measures the executive system at the national level, which I operationalize as *Presidentialism index*. It is coded low (0) to high (1), with a higher score indicating less institutional constraints, and constraints by other actors on the executive. It has been formed by V-Dem via reversed point estimates from a Bayesian factor analysis model of the indicators: “executive respect for the constitution;” “executive oversight;” “legislature controls resources;” “legislature investigates in practice;” “high court independence;” “lower court independence;” “compliance with high court;” “compliance with judiciary;” and, “EMB (election management body) autonomy.” Thus, the measure is a gauge of how powerful Ukraine’s presidential system has been in practice relative to certain institutions such as the judicial system, the legislature, oversight committees, and electoral bodies. It should also be noted that the sub-indicator data for this measure has been used by V-Dem to calculate “judicial constraints on the executive index,” “legislative constraints on the executive,” and “clean elections index,” which are in and of themselves sub-indicators for V-Dem’s “liberal democracy index.” *Presidentialism index* and *Liberal democracy index* are causally linked, however.

V-Dem’s indicator “civil society participation index” gauges the degree to which civil society organizations have been involved in policy-making, female participation in those organizations,

and the configuration of candidate nominations within political party structures. I operationalize this measure as *Civil society participation index*. It is coded low (0) to high (1). It has been aggregated by V-Dem via point estimates from a Bayesian factor analysis model of the indicators “candidate selection - national/local,” “CSO consultation,” “CSO participatory environment,” and “CSO women participation.” The measure is concerned with the robustness of civil society in terms of the degree to which it is autonomous from the state, and able to operate freely to pursue political and civic goals. The indicator has been used to compose the “participatory component index” which is not aggregated into the “liberal democracy index” or the “electoral democracy index” by V-Dem.

Political culture, transnational diffusion, and development each are difficult to operationalize for Ukraine due to data scarcity and the absence of reliable data. Therefore, to measure Ukraine’s level of development I chose to use data for gross domestic product (“GDP”) in constant local currency terms, published by the World Bank and the OECD, as a proxy variable.²⁹⁰ The data was logged in order to correct for distribution problems (*GDP (logged)*). The World Bank and OECD publish data for net official development assistance disbursements in current US dollars, so I chose to use this as a proxy to operationalize foreign assistance in the absence of a viable alternative for transnational diffusion.²⁹¹ The data has also been logged to correct for distribution problems (*ODA (logged)*). I could not find reliable data to operationalize political culture, and data for social cleavages published by V-Dem is incomplete (I do discuss the limited data below, however).

I use a proxy to operationalize the effect of banks on Ukraine’s political regime. This proxy is the total number of licensed banks in operation in Ukraine in a given year using data published by the NBU and peer-reviewed literature.²⁹² In an ideal situation, the proxy for banks would be compiled using data for the number of politically-connected banks in a given year. One could

²⁹⁰ <https://data.worldbank.org/indicator/NY.GDP.MKTP.KN?locations=UA>

²⁹¹ <https://data.worldbank.org/indicator/DT.ODA.ALLD.CD?end=2017&locations=UA&start=1991>; Recall that foreign assistance has been found to be a potential source of rent in the literature.

²⁹² Collecting this data was a challenge on its own. NBU data available on the statistics section of its website did not have the data for the 1990s. Luckily this data was compiled by Kloc (2002).

also try to tease out which type of political connection (i.e., presidential, legislative, subnational, and so on) particular banks formed in order to formulate some kind of weighted indicator. It would also be good to account for the quantity or share of rent distributed by individual banks (or as a whole), but this would be particularly challenging. Transparency in Ukraine’s banking sector has been very limited, making it exceptionally difficult to compile annual data for banks with (say) links to PEPs. The NBU does not publish data for the quantity of related-party loans at individual banks, either. This is because, until now, banks were not required to report RPL and often under-reported RPL. As per a NBU report:

“Many banks were actively lending to related parties for a long time. This was a common and widespread practice, which lasted for years. Ukrainian legislation and NBU regulations did not limit these operations in practice, as they provided only formal criteria for RP [“related parties”] identification. Hence, loans that were in fact issued to RP were not duly reported as such by banks.”²⁹³

We know from evidence in the previous chapter that many of Ukraine’s banks have been and continue to be linked to political groups. There is also good theoretical reason to surmise that all banks in Ukraine have had to form some level of political ties in order to be operational and remain licensed in the country’s weak institutional environment. Surveys of the top banks in the banking sector published by the *Kyiv Post* have also suggested that the overwhelming share of the banking industry in Ukraine has been composed of banks with political exposure.²⁹⁴ According to Appendix B (wherein I have compiled the survey data), in 2016 the Russian government controlled over 9 percent of the sector (by assets), the Ukrainian government controlled almost 30 percent of the sector (by assets), and Ukrainian individuals/companies (most controlled by infamous politicians or former politicians) controlled over 43 percent of the sector (by assets). In other words, at least 90 percent of the assets in Ukraine’s banking sector were and have been held by politically-exposed bank proprietors. So, for the purpose of an initial empirical test, I contend that it is reasonable to assume that if a bank has a license and it is operational, it likely has some kind of connection to at least one political group.

²⁹³ National Bank of Ukraine, “Financial Stability Report,” *bank.gov.ua* (2018), 61.

²⁹⁴ *Kyiv Post*, “Ukraine’s 11.4 billion bank robbery,” *Kyiv Post* “Banking.”

Table 3 below displays the statistics for the chosen explanatory variables. The sample size is small, as it is composed of annual time-series observations for twenty-six years beginning with 1992 and ending with 2017. 1992 was Ukraine's first full year as a post-Soviet state. Data availability for all of the variables discussed above ended in 2017, as of writing. The ideal alternative would be to use monthly or quarterly statistics in order to generate a higher sample size, but this data is not currently available by any source, and generating such data is beyond the scope of this thesis. For purposes here, allow the small sample size to be seen as a would-be robustness test.

Year	Electoral System			Executive Presidentialism index	Civil Society Civil society participation index	Banking Banks	Foreign Assistance ODA net receipt (log)	Modernization GDP (log)	
	Lower chamber electoral system - 13 categories	Categorical Variables Mixed (SMD/PR).							
		SMD	PR						
1992		0	1	0	0.562	0.564	130	8.75	10.87
1993		0	1	0	0.492	0.514	207	8.52	10.82
1994	1	0	1	0	0.511	0.536	228	8.46	10.72
1995		0	1	0	0.64	0.518	230	8.50	10.68
1996		0	1	0	0.577	0.578	188	8.60	10.65
1997		0	1	0	0.61	0.492	189	8.44	10.70
1998	5	1	0	0	0.633	0.572	178	8.67	10.62
1999		1	0	0	0.596	0.524	168	8.76	10.50
2000		1	0	0	0.636	0.58	153	8.74	10.50
2001		1	0	0	0.617	0.607	152	8.71	10.58
2002	5	1	0	0	0.603	0.641	157	8.68	10.63
2003		1	0	0	0.598	0.637	158	8.52	10.70
2004		1	0	0	0.631	0.603	160	8.58	10.81
2005		1	0	0	0.58	0.737	165	8.61	10.94
2006	8	0	0	1	0.453	0.742	170	8.69	11.03
2007	8	0	0	1	0.44	0.713	175	8.62	11.15
2008		0	0	1	0.493	0.706	184	8.79	11.26
2009		0	0	1	0.503	0.724	182	8.82	11.07
2010		0	0	1	0.536	0.619	176	8.82	11.13
2011		0	0	1	0.718	0.631	176	8.89	11.21
2012	5	1	0	0	0.606	0.603	176	8.89	11.24
2013		1	0	0	0.639	0.69	180	8.90	11.26
2014	5	1	0	0	0.652	0.775	163	9.15	11.13
2015		1	0	0	0.668	0.895	120	9.16	10.96
2016		1	0	0	0.652	0.838	100	9.18	10.97
2017		1	0	0	0.635	0.774	84	9.07	11.05

Table 3 Explanatory variables of Ukrainian liberal democracy: summary statistics by year.

4.2 ESTIMATIONS

The next step in GETS modeling is to run the GUM variables through linear regression analysis, imposing linear restrictions, and then sequentially eliminating statistically insignificant variables

until only a parsimonious model remains.²⁹⁵ To accomplish this, all variables were compiled in Microsoft Excel Office 365 and run through the regression data analysis package. Because the Excel data analysis package is relatively limited, tests for normality of errors, multicollinearity, autocorrelation, and heteroscedasticity were manually calculated. These manual calculations can be found in the Appendices section.

Table 4 General Model (1) of liberal democracy by OLS

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.952
R Square	0.906
Adjusted R Square	0.869
Standard Error	0.025
Observations	26

ANOVA					
	df	SS	MS	F	Significance F
Regression	7	0.105	0.015	24.678	0.000
Residual	18	0.011	0.001		
Total	25	0.116			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Trchim-Donnelly test	Shapiro-Wilk test	Multicollinearity		
							Skewness	Kurtosis	P-value	W statistic	VIF
Intercept	0.239	0.379	0.629	0.537	-0.558	1.035	1.297	-0.354	0.000	0.523	1.972
SMD	0.042	0.016	2.621	0.017	0.008	0.076	1.297	-0.354	0.000	0.523	2.464
PR	0.056	0.018	3.117	0.006	0.018	0.094	1.297	-0.354	0.000	0.523	2.464
Presidentialism index	-0.477	0.104	-4.578	0.000	-0.696	-0.258	-0.521	-0.367	0.118	0.938	2.181
Civil society participation index	0.046	0.088	0.515	0.613	-0.140	0.231	0.715	0.045	0.277	0.953	3.560
Banks	0.001	0.000	2.435	0.026	0.000	0.001	-0.197	1.307	0.081	0.931	2.683
ODA (logged)	-0.004	0.049	-0.088	0.931	-0.108	0.099	0.762	0.139	0.098	0.934	4.540
GDP (logged)	0.022	0.033	0.665	0.514	-0.047	0.091	0.073	-1.364	0.091	0.933	2.686

Autocorrelation	
Durbin-Watson statistic	1.991

Heteroscedasticity	
Breusch-Pagan test	0.707
Abridged White's test	0.569

Given the small number of samples, I did not construct the GUM with lagged variables to account for possible adjustment dynamics, such as a lagging effect. I chose *SMD* and *PR* as the categorical variables to represent change in the electoral system in the GUM, as *Mixed* (*SMD/PR*) holds the higher population sample of ones. The rest of the variables were compiled in Excel and run through the regression data analysis package. The linear regression equation for the GUM is:

$$\text{Liberal democracy index}_i = \beta_0 + \beta \text{SMD}_i + \beta \text{PR}_i + \beta \text{Presidentialism index}_i + \beta \text{Civil society}$$

²⁹⁵ Campose, Ericsson, and Hendry, "General-to-specific modeling." 3.

$$participation\ index_i + \beta\ Banks_i + \beta\ ODA\ (logged)_i + \beta\ GDP\ (logged)_i + \varepsilon_i$$

Table 4 displays the summary output for the GUM formulated (*Model 1*).

There does not appear to be any obvious statistical errors in the summary output for the GUM. The Shapiro-Wilk test demonstrates sufficient results, except for the categorical variables, the data for which are not normally distributed.²⁹⁶ The Trochim-Donnelly test shows good results, with skewness and kurtosis in check.²⁹⁷ The Breusch-Pagen test and the Abridged White's test, calculated using regression residuals, demonstrate no issues related to heteroscedasticity. Further, the Durbin-Watson statistic shows good results, indicating no problems with autocorrelation. However, *ODA (logged)* and *Civil society participation index* register relatively high variance inflation factors, scoring 4.54 and 3.56 respectively. *ODA (logged)* may suffer from multicollinearity. Importantly though, *SMD*, *PR*, *Presidentialism index*, and *Banks* register as significant (at the 5 percent significance level), and the model appears to explain about 90 percent of the variation in *Liberal democracy index*. Meanwhile, *Civil society participation index*, *ODA (logged)* and *GDP (logged)* did not register as significant.

The GUM was subsequently reduced. *ODA (logged)* was dropped as it is the least significant variable in the GUM and likely suffers from multicollinearity issues. The linear regression equation for the reduced model is:

$$Liberal\ democracy\ index_i = \beta_0 + \beta\ SMD_i + \beta\ PR_i + \beta\ Presidentialism\ index_i + \beta\ Civil\ society\ participation\ index_i + \beta\ Banks_i + \beta\ GDP\ (logged)_i + \varepsilon_i$$

Table 5 displays the summary output for the sequentially reduced model (*Model 2*).

²⁹⁶ To calculate the W statistic I used the calculator online: <http://www.statskingdom.com/320ShapiroWilk.html>

²⁹⁷ As per William M. K. Trochim and James P. Donnelly, *The Research Methods Knowledge Base*, (Cengage Learning, 2006): 1-50.

Table 5 General Model (2) of liberal democracy by OLS

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.952
R Square	0.906
Adjusted R Square	0.876
Standard Error	0.024
Observations	26

ANOVA					
	df	SS	MS	F	Significance F
Regression	6	0.105	0.018	30.375	0.000
Residual	19	0.011	0.001		
Total	25	0.116			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Trochim-Donnelly test	Shapiro-Wilk test	Multicollinearity		
							Skewness	Kurtosis	P-value	W statistic	VIF
Intercept	0.217	0.284	0.764	0.454	-0.378	0.812					
SMD	0.042	0.016	2.694	0.014	0.009	0.075	1.297	-0.354	0.000	0.523	1.972
PR	0.056	0.018	3.201	0.005	0.019	0.093	1.297	-0.354	0.000	0.523	2.464
Presidentialism index	-0.481	0.089	-5.385	0.000	-0.668	-0.294	-0.521	-0.367	0.118	0.938	1.693
Civil society participation index	0.043	0.079	0.535	0.599	-0.124	0.209	0.715	0.045	0.277	0.953	3.037
Banks	0.001	0.000	2.776	0.012	0.000	0.001	-0.197	1.307	0.081	0.931	2.242
GDP (logged)	0.021	0.029	0.715	0.484	-0.040	0.081	0.073	-1.364	0.091	0.933	2.182

Autocorrelation	
Durbin-Watson statistic	1.988

Heteroscedasticity	
Breusch-Pagan test	0.580
Abridged White's test	0.574

The adjusted r-squared improved to 0.876 from 0.869 in the reduced model, indicating only a marginally better fit. But no new problems associated with the normality of errors, autocorrelation, heteroscedasticity or multicollinearity can be noted. *SMD*, *PR*, *Presidentialism index*, and *Banks* remain significant (at the 5 percent significance level), and *Civil society participation index* and *GDP (logged)* remain non-significant. Moreover, *Civil society participation index* continues to demonstrate a relatively high variance inflation factor (above 3).

The model was reduced one last time, which can be seen in the foreboding, until the only remaining variables had significant coefficients. *Civil society participation index* and *GDP (logged)* dropped out as they do not register as significant. The linear regression equation for the parsimonious model is:

$$Liberal\ democracy\ index_i = \beta_0 + \beta SMD_i + \beta PR_i + \beta Presidentialism\ index_i + \beta Banks + \varepsilon_i$$

Table 6 displays the summary output for the parsimonious model (*Model 3*).

Table 6 General Model (3) of liberal democracy by OLS

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.947
R Square	0.898
Adjusted R Square	0.878
Standard Error	0.024
Observations	26

ANOVA					
	df	SS	MS	F	Significance F
Regression	4	0.104	0.026	45.973	0.000
Residual	21	0.012	0.001		
Total	25	0.116			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Trochim-Donnelly test		Shapiro-Wilk test		Multicollinearity
							Skewness	Kurtosis	P-value	W statistic	VIF
Intercept	0.481	0.064	7.522	0.000	0.348	0.614					
SMD	0.038	0.015	2.619	0.016	0.008	0.069	1.297	-0.354	0.000	0.523	1.751
PR	0.066	0.015	4.376	0.000	0.034	0.097	1.297	-0.354	0.000	0.523	1.828
Presidentialism index	-0.478	0.087	-5.481	0.000	-0.659	-0.297	-0.521	-0.367	0.118	0.938	1.639
Banks	0.001	0.000	2.866	0.009	0.000	0.001	-0.197	1.307	0.081	0.931	1.524

Autocorrelation	
Durbin-Watson statistic	1.856

Heteroscedasticity	
	P-value
Breusch-Pagan test	0.666
Abridged White's test	0.497

4.3 RESULTS

The final step in the GETS modeling approach is to observe the resulting parsimonious model to see if the model complements theoretical expectations. Indeed, the parsimonious model (*Model 3*) that has been generated offers some good initial support for our hypothesis. *Banks* as a variable remains in the final model and is statistically significant (at the 1 percent significance level): the number of licensed banks operating in Ukraine appears to be strongly related to Ukrainian democracy levels. Importantly, the coefficient for *Banks* has a positive value. In other words, *ceteris paribus*, the total quantity of banks operating in Ukraine appears to have a positive effect on Ukrainian democracy levels.

This is a good initial finding and makes intuitive and theoretical sense in that one should expect higher levels of political competition - and therefore democracy - in situations where there are more banks operating in Ukraine furthering the power of various competing groups. If there are more bank-empowered groups, there may be higher electoral turnover in legislative and presidential elections. There may also be higher levels of competition within Ukrainian

institutions: i.e. courts may be subject to a higher variety of bribes or forms of influence from different groups, and the media industry may become more competitive due to a higher assortment of competing forces. In the polar opposite situation whereby there are fewer banks, then there may be fewer groups that can afford to compete, with the result being the monopolization of (say) political power, institutions, and the media industry by a select few groups.

It should be emphasized at this point, however, that the measure for banks operationalized in the analysis - the total number of licensed banks in operation in Ukraine in a given year - is not an ideal proxy. This is because it relies on the assumption that if a bank has a license and is operational it must be related to at least one political group, which, in turn, is benefiting in some way from being a related party (likely financially via rents distributed through RPL). The less this assumption holds, the less likely it is that the statistical association between *Banks* and *Liberal democracy index* is based on the causal mechanisms (theory) identified in the previous chapter (the statistical association would, instead, be based on some other yet-to-be determined causal mechanisms). There may also be a possibility that the quality of Ukraine's political regime could be impacting the quantity of licensed banks operating in Ukraine (causality reversed). It is not impossible to imagine how a more authoritarian political regime may, for instance, stifle political competition or pressure banking regulators to such an extent that even those banks with political linkages fail to avoid politically-motivated sanctions. So far, this does not seem apparent given that Ukraine has not experienced such an intense bout of authoritarian rule.

For the purpose of an initial test, however, there is good reason to assume that most of the banks in the sample have some form of political ties, simply because it is not easy to imagine how a bank could survive without channels to high political posts due to the weak state of the rule of law in Ukraine and the regular occurrence of corporate raiding. Political connections are necessary to avoid hostile takeovers and to fend off politicized regulatory action. Moreover, as Appendix B at least partially shows, the majority of banks in the sample are either controlled by

shareholders with extensive records of political involvement or are controlled by political institutions. And although the NBU has reported that related-party loan volumes at foreign-owned banks are “negligible,” it appears that foreign-owned banks are not immune from interacting with politically-exposed individuals (as the case of Raiffeisen Bank Aval shows) or dedicating their balance sheets to large-scale RPL, either.²⁹⁸ According to financial statements filed by PJSC Citibank (one of the biggest foreign-owned banks operating in Ukraine) in 2014, the bank had an N9 ratio of 4.69 percent and an N10 ratio of 16.74 percent.²⁹⁹ That is to say, over 4 percent of the bank’s capital was allocated to a single insider, while over 16 percent of the bank’s capital was allocated to various insiders. These are hardly negligible figures, given the fact that Citibank is one of the top banks in Ukraine by assets (in 2016 the bank held over USD \$700 million in assets).³⁰⁰

What is more, the parsimonious model also lends support to theory on the significance of the presidential system and the electoral system on the quality of Ukraine’s political regime. *Presidentialism index*, *PR*, and *SMD* all registered as significant (the first two at the 1 percent significance level and the last one at the 5 percent level). *Presidentialism index* has a *negative* coefficient of 0.478. Everything else being equal, a higher degree of presidential rule appears to negatively affect Ukrainian democracy levels. This is consistent with theory discussed in Chapter 2 on the effect of post-Soviet presidential systems on regime quality, which tends to suffer more when presidential powers go increasingly unfettered. Meanwhile, *SMD* and *PR* have *positive* coefficients of 0.038 and 0.066, respectively. The single-member and proportional electoral regimes used in the early 1990s and the late 2000s appear to have had positive effects on Ukrainian democracy levels; especially the latter arrangement consisting of proportional representation. This is not a surprise. The hybrid electoral regime that runs the single-member districts and multi-member districts in parallel has long been considered an inferior and even damaging arrangement.

²⁹⁸ NBU, “Financial Stability Report,” 62.

²⁹⁹ Public Joint Stock Company “Citibank”, “Annual financial statements in accordance with IFRS,” *citigroup.com* (2015), 52.

³⁰⁰ See Appendix B.

Because *SMD* and *PR* are categorical variables, there may be some issues with the normality of errors in the results. The parsimonious model could contain data that is being “overfitted,” and, if normality is violated as a result, the standard errors in the regression output may not be reliable. To verify that the coefficients are truly significant for at least *Banks* and *Presidentialism index*, I composed four additional models and re-ran them in Excel to collect output data. Table 7 presents the summary output for the resulting additional models alongside the ones covered above.

Table 7 The determinants of liberal democracy for Ukraine for the period between 1992 and 2017.

Table 6
The Determinants of Liberal Democracy for Ukraine, 1992 to 2017

		<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i> (<i>Parsimonious</i>)	<i>Model 4</i>	<i>Model 5</i>	<i>Model 6</i>	<i>Model 7</i>
<i>Banks</i>	Coefficients	0.001**	0.001**	0.001***	0.001**	0.001**	0.001***	0.001***
	Standard error	0.0002	0.0002	0.00017	0.0002	0.0008	0.0002	0.0002
	VIF	2.683	2.242	1.524	2.421	2.568	1.179	1.143
<i>Presidentialism index</i>	Coefficients	-0.477***	-0.481***	-0.478***	-0.493***	-0.642***	-0.645***	-0.688***
	Standard error	-0.104	0.089	0.087	0.097	0.112	0.09	0.096
	VIF	2.181	1.693	1.639	1.984	1.684	1.192	1.143
<i>SMD</i>	Coefficients	0.042***	0.042**	0.038***	0.04**			
	Standard error	0.016	0.016	0.015	0.015			
	VIF	1.972	1.972	1.751	1.798			
<i>PR</i>	Coefficients	0.056***	0.056***	0.066***	0.055***			
	Standard error	0.018	0.018	0.015	0.018			
	VIF	2.464	2.464	1.828	2.448			
<i>Civil society participation index</i>	Coefficients	0.046	0.043			-0.015		
	Standard error	0.088	0.079			0.103		
	VIF	3.560	3.037			3.24		
<i>ODA (logged)</i>	Coefficients	-0.004			0.005	-0.005		
	Standard error	0.049			0.045	0.06		
	VIF	4.540			3.873	4.538		
<i>GDP (logged)</i>	Coefficients	0.022	0.021		0.026	0.062	0.057**	
	Standard error	0.033	0.029		0.031	0.036	0.024	
	VIF	2.686	2.182		2.499	2.194	1.055	
Constant	Coefficients	0.239	0.217	0.481***	0.151	-0.063	-0.064	0.59***
	Standard error	0.379	0.284	0.064	0.333	0.434	0.285	0.076
Overall R ²		0.906	0.906	0.898	0.904	0.8434	0.843	0.8031
Adjusted R ²		0.869	0.876	0.878	0.874	0.8042	0.822	0.786
DW		1.991	1.988	1.856	1.998	1.884	1.865	1.624
Breusch-Pagan		0.707	0.58	0.666	0.788	0.045	0.02	0.37
Abridged White's		0.569	0.574	0.497	0.533	0.271	0.287	0.696
F-test		0.000	0.000	0.000	0.000	0.000	0.000	0.000
Observations		26	26	26	26	26	26	26

*p < 0.10, **p < 0.05, ***p < 0.01.

Model 5 was composed of all variables from the GUM except those accounting for the electoral system. *Banks* and *Presidentialism index* remained significant, but the model did not pass the

Breusch-Pagen test (indicating the presence of heteroskedasticity). With *Model 6*, I dropped the variables with multicollinearity problems, but *Banks* and *Presidentialism index* remained significant at the 1 percent significance level. Interestingly, *GDP (logged)* also registered as significant (at the 5 percent significance level) in *Model 6*, although this could be due to unreliable standard errors in the regression output (since the model scored a p-value of 0.02 on the Breusch-Pagen test). I dropped *GDP (logged)* in *Model 7* to investigate the multicollinearity issue further. The resulting model had no obvious statistical problems and, importantly, *Banks* and *Presidentialism index* remained highly significant when regressed against *Liberal democracy index*. *Model 7* registered an adjusted r-squared figure of 0.786, so the parsimonious *Model 3* with an adjusted r-squared of 0.878 and the variables for the electoral regime remains the favorite. Eminently, it explains almost 90 percent of the fluctuations in *Liberal democracy index*.

To address any potential concerns about the direction of the step-by-step reduction during GETS estimations, I composed *Model 4* as an alternative to *Model 2*, whereby *Civil society participation index* was dropped first rather than *ODA (logged)*. According to Campos, Ericsson, and Hendry, differences in the direction of the step-by-step reduction used should not be considered a major problem.³⁰¹ Nonetheless, no statistical problems could be found and the variables that made their way to the parsimonious model remained significant. There does not appear to be any obvious problems associated with the pathway chosen during the GETS estimation operation.

It is not particularly surprising that *Civil society participation index*, *ODA (logged)*, *GDP (logged)* did not register as significant during any step of the analysis wherein linear restrictions were enforced. The notion that Ukraine's civil society would strongly correlate with the quality of Ukraine's political regime has been scrutinized, and the empirical evidence in this chapter adds to this scrutiny; the effect of civil society on overall patterns of change in Ukraine's democracy levels does not appear to be significant. Also, researchers have not previously identified a strong correlation between foreign assistance and Ukrainian democracy. Here, too,

³⁰¹ Campos, Ericsson, and Hendry, "General-to-specific modeling." 3.

there does not appear to be an overall empirical relationship in the data. Moreover, it has been suspected for a while that economic development (modernization) may not necessarily lead to the betterment of liberal democratic institutions in Ukraine, since economic growth may be disproportionately affecting or empowering groups. However, these findings are far from conclusive given that the data for these eventually eliminated variables may suffer from multicollinearity and constant variance problems. Better data and better proxies developed in the future that would allow for a more accurate estimation on the effect of these variables on regime outcome may show different results.

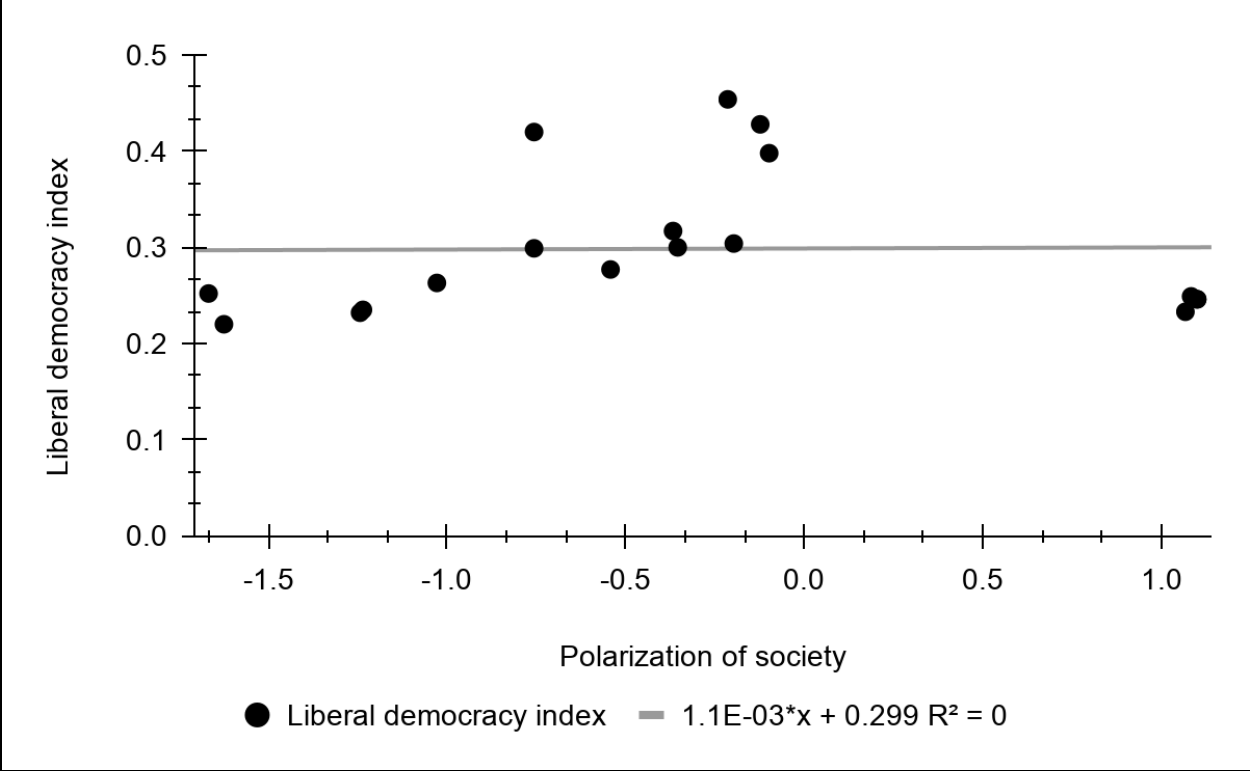


Figure 5 Liberal democracy index vs. polarization of society for Ukraine for the period between 2000 and 2017.

Lastly, indicator data is made available by V-Dem for social cleavages (under the indicator “polarization of society”), but data for Ukraine for the period 1992-1999 is incomplete, which did not make it possible to integrate the indicator into the statistical analysis. Regardless, if we create a scatter plot chart to visually observe the indicator against V-Dem’s “liberal democracy

index” with the data that is available, we cannot observe a clear relationship. Figure 5 shows that there does not appear to be an overall relationship between the societal polarization data and variation in Ukraine’s democracy data for the period 2000-2017. That being said, the lack of a relationship could be related to data quality. According to V-Dem’s codebook, “polarization of society” should score between 0 (serious polarization) and 4 (no polarization). The data for the period 2004-2017 ranges into negative values.³⁰² At this stage, it is not possible to infer how the social cleavages data may impact the results presented above if they were integrated into the GUM, nor is it possible to draw any conclusions about the effect of social cleavages on Ukrainian democracy levels from the incomplete data.

4.5 SUMMARY

To summarize, in this chapter I explored the relationship between banks and the overall quality of Ukraine’s political regime identified in the previous chapter to a greater extent using the GETS empirical modeling approach. I constructed a small-n statistical model from proxies informed by theory to test for their explanatory power. In terms of the dependent variable, I drew on an aggregate measure of democracy published online by V-Dem (based on surveys of country experts). In terms of the explanatory variables, I drew on measures for the electoral system, the presidential system, and civil society published by V-Dem. I also used measures for economic growth and foreign assistance published by the World Bank and OECD. To operationalize the banking variable I compiled data published by the NBU and peer-reviewed research.

The results of the test complemented our theoretical expectations. It provided at least partial empirical support for the hypothesis advanced in the previous chapter on the effect of banks on the quality of Ukraine’s political regime (“partial” is the chosen word here because of certain unfavourable proxy assumptions). The test also complemented theory on the effects of the presidential and electoral systems. These variables seem to complement one another, given the way in which they statistically interact with the dependent variable. Together they also account for up to 90 percent of the variation in the dependent variable. On the other hand, and

³⁰² I could not confirm why this is the case.

unsurprisingly, the measures for civil society, economic development, and foreign assistance did not appear to be significant during any stage of the statistical analysis.

No obvious statistical problems could be identified with the parsimonious model that would cast doubt on the results. Due to the inclusion of categorical variables I even composed four additional models to ensure that standard errors in the regression output were reliable. And, I addressed potential concerns associated with the GETS procedure used to attain the results by formulating an alternative pathway. This alternative pathway led to the same parsimonious model.

While the modeling exercise mainly served as a way to test theoretical expectations, it may also have some predictive value insofar as one can get a rough sense of what it would take in terms of variable scores for the quality of Ukraine's political regime to increase or decrease. The resulting sample regression equation for the model is as follows:

$$\begin{aligned} \text{Liberal democracy index}_i = & 0.481 + 0.038 (SMD_i) + 0.066 (PR_i) - 0.478 (\text{Presidentialism index}_i) \\ & + 0.001 (\text{Banks}_i) + \varepsilon_i \end{aligned}$$

The sample regression equation is easily interpretable. It shows that, on average, and holding all other variables constant, if Ukraine returned to the single-member district electoral system used in the 1990s it could experience an increase in liberal democracy levels of 17.4 percent - a relatively small change when the ideal liberal democracy score is 1 (as of 2017 it was 0.232). Meanwhile, if Ukraine returned to the multi-member district electoral system using proportional representation - as used in the mid-2000s - everything being equal, the country could experience an average increase in liberal democracy levels of 29.8 percent. On the other hand, if Ukraine managed to rein in the executive branch of government back to the low of 0.44 experienced in 2007, holding all other variables constant, it could see an average increase of 42.3 percent in its liberal democracy score. Lastly, if Ukraine was to build a large population of banks comparable to that of the United States or Germany of, say, one thousand banks, everything else being equal, it could potentially see an increase in liberal democracy levels of over 200 percent. Such a

percentage increase from 2017 levels would bring Ukraine closer in line with the liberal democracy scores of many Central and Eastern European regimes.

CHAPTER 5. CONCLUSION

In this thesis I have presented a new account of the fluctuations in the quality of Ukraine's political regime centered on certain interactions between banks and political groups, whereby the former can be seen as fueling the political influence of the latter. Importantly, I have attempted to demonstrate that the effect of these interactions between banks and political groups could have consequences on the quality of Ukraine's political regime over time. Initially, I identified certain gaps in research on post-Soviet political regimes, particularly in literature that focuses on political groups or elites. I subsequently showed that one way to move ahead is to observe the interactions between banks and political groups, because these interactions are frequent and appear to be causally linked to political outcomes. Upon close examination, I demonstrated that banks can be understood as a source of rent for political groups, and that various factions have been on the receiving end of these rents for at least three decades now. As a result, I proposed that the quality of Ukraine's political regime may be linked, to a great extent, to the quantity of banks that further the influence of Ukrainian political groups. Drawing on statistical data, it was shown that there is some initial evidence to support this hypothesis. In this chapter, I conclude this thesis with a final summary and discussion. I also highlight a number of policy implications that may be of interest to the Ukrainian government and international organizations working in and/or with Ukraine. Lastly, I end this chapter by offering some directions for future research.

5.1 SUMMARY AND FINDINGS

This thesis began by surveying existing research on the puzzling matter of fluctuations in post-Soviet political regimes - long a subject of interest in academic and policy circles - casting a wide net on the variables that may be at play. Many studies have suggested that mass attitudes, history, culture, and social cleavages have played a key role or function. Others have found that fluctuations in the design of key democratic institutions could be a determining factor of regime outcome. Further, external forces in the form of ideas, policies, and aid have been noted to be acting as catalysts for domestic change, while the behavior of political groups - and the resources at their disposal - may have important consequences on political dynamics as well. However, in

the case of Ukraine, evidence for the role of mass attitudes, history, culture, and social cleavages is quite mixed, and institutional factors have been found to be at least partially endogenous. Meanwhile, evidence for the impact of external factors is weak or missing, and tracing political groups and the resources at their disposal - one of the most plausible explanations - has been shown to be difficult. A review of the literature reveals that the degree to which these variables play a role in Ukraine is yet to be determined.

It was subsequently suggested that one way to measure the resources at the disposal of political groups is to look at banks. Several inquiries suggest that groups related to banks have often held outsized levels of political influence, and that ties to banks may be an important factor in explaining political outcomes. Over the last 30 years, many of Ukraine's most influential political groups have been related to banks via ownership or employment, particularly when they took hold of representative institutions. Indeed, many of the groups that have dominated parliament and the presidential administration between the early 1990s and late 2010s held some form of linkages into the Ukrainian banking sector. What is more, successful political organizations regularly integrate banks into their structures, at least, they do so informally. Significantly, this integration can be linked to important political struggles and their outcomes, such as the monopolization of political power in the late-1990s by President Kuchma or the electoral successes of President Yushchenko in the mid-2000s, for example. In fact, the political influence of many political groups (or the lack thereof) over the last few decades can be traced back to the extent to which they have held control over banks, as demonstrated with the case of Yanukovich (i.e., UkrBusinessBank), Tymoshenko (i.e., Slavansky Bank), Kolomoisky (i.e., PrivatBank), Firtash (i.e., Nadra Bank), and Poroshenko (i.e., International Investment Bank), among others.

Given the above, the relationship between banks and political groups was thus traced herein, revealing that the situation appears to be analogous to those described by rentier theories; banks are a significant source of a certain type of resource (rent) that is 1) known to generally enhance the political power of political groups on the receiving end, and 2) can result in predictable

consequences in political struggles. Drawing on theoretical, technical, and legal evidence, it was shown that banks create large quantities of deposit money through their day-to-day accounting operations. Banks operate under special regulatory and accounting rules that enable them to expand their balance sheets and issue large quantities of deposit money. Only a small fraction of the money that originates from this process comes from the local economy. As a rule, banks exercise significant levels of discretion when operating their accounting books, so much so in fact, that they are freely able to allocate large portions of their loan books for lending to related-parties, like employees and shareholders. Over a quarter of all outstanding loan balances to resident sectors were, as of 2018, in the form of such loans - a figure which was much higher only a few years prior.

By relying on documents published on the case of Privatbank and the history of Ukraine's banking sector, it was established that for many decades political groups have been on the receiving end of these related-party loans by taking advantage of the money creation process granted exclusively to banks. Court documents filed in the UK and the US detail elaborate schemes used by Privatbank's proprietors to extract cash (sums ranging in the area of billions of US dollars) using loan contracts and a mixture of shell companies. These proprietors have a long history of political activity and involvement. Meanwhile, the history of Ukraine's banking sector shows us that the case of PrivatBank is not unique. Ukraine's post-Soviet banking system largely formed out of the Soviet banking system experience, which functioned explicitly to service political managers. Certain processes native to the Soviet banking era, such as politically-motivated lending to related parties, transcended well into the twenty-first century in Ukraine. After the fall of the Soviet Union, there was little access to capital markets, and government credit subsidies quickly vanished. Political industrial groups turned to banks as the only source of credit big enough to support their demand. Since then, there have been very few obstacles put in place to prevent these political groups from leveraging the banking system or to dismantle the frequent overlap between banking and politics. In fact, it has been shown that banks and political groups in Ukraine are ultimately incentivized and allowed to form linkages

with each other, to the point where it can be viewed or interpreted as a standard operating procedure of sorts.

Due to these findings, I advanced a slightly different interpretation of regime outcome in Ukraine. This newly introduced interpretation remains centered on political groups, but it also underscores these important interactions as discussed in the above between political groups and banks. It was ultimately hypothesized that fluctuations in Ukraine's political system may be linked to fluctuations in the number of banks furthering the influence of political groups. This hypothesis is plausible because of: the frequent overlap between banking and politics; the observations associated with political outcomes involving political groups with ties to banks (or the lack thereof); the finding that banks can be understood as a source of rent, which has served to enhance the political influence of recipients, and tends to lead to predictable political consequences; as well as, the evidence that shows how political groups regularly take advantage of the privileges bestowed upon banks. What is more, data collected by studies on Ukrainian elites has showed that groups with ties to banks are wealthier and hold a much higher share of Ukraine's politicized news media market. As a result, it was argued in the above that a higher or lower number of banks empowering political groups should have consequences on regime outcome.

Drawing on statistical data and the GETS statistical approach, the proposed hypothesis was subsequently tested. The results of the test allowed for a rejection of the null hypothesis (i.e., no statistical association between banks and political outcomes in Ukraine) and offered some initial support for the theoretical expectations described in this thesis. The parsimonious model of change, which was deduced from the GUM and was compiled using theory, accounts for nearly 90 percent of the change in Ukraine's political regime (liberal democracy levels) between 1992 and 2017. Importantly, the quantity of licensed banks operating in Ukraine in a given year (the proxy used of which I surmise can act as a measure of the number of banks furthering the power of various political groups in the country) was found to be *significantly* and *positively* associated with Ukraine's liberal democracy levels going back to 1992. Figure 6 demonstrates this

relationship in a more digestible way. Ebbs and flows in the number of banks operating in Ukraine appears to correlate with the ebbs and flows in regime quality.

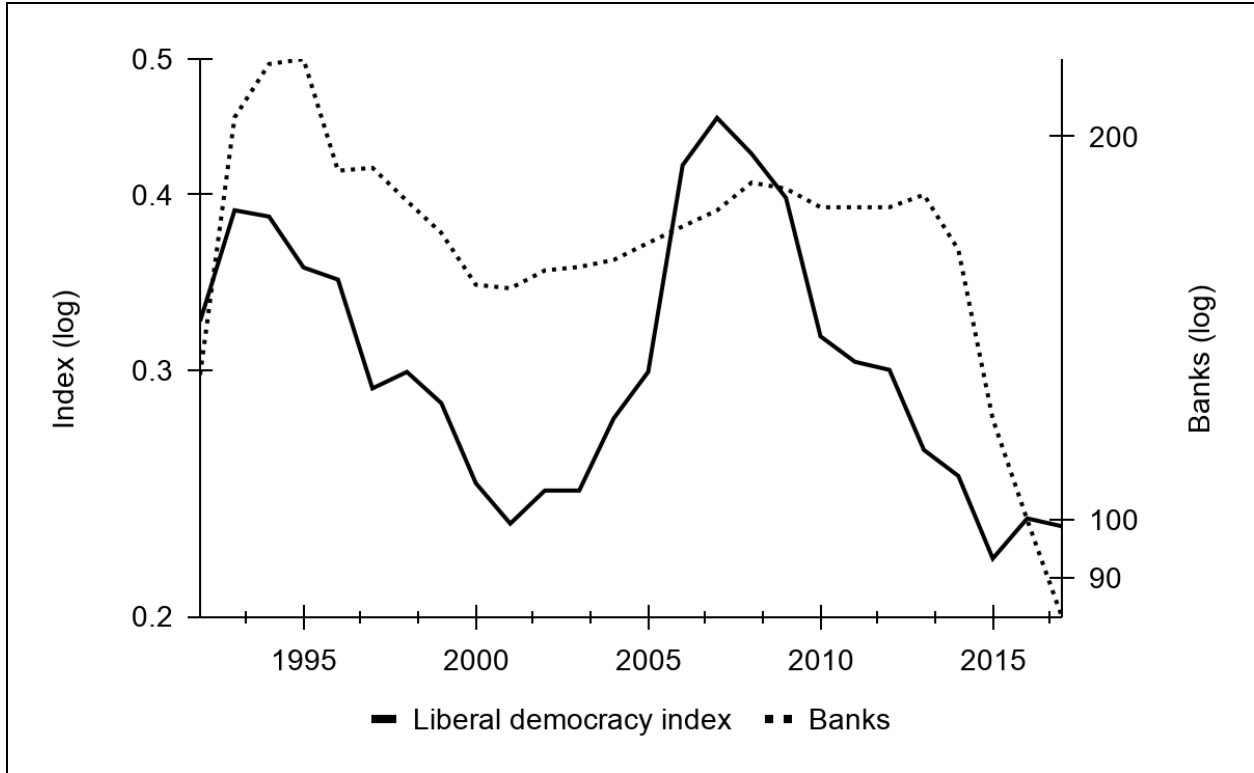


Figure 6 Liberal democracy index vs. banks for Ukraine for the period between 1992 and 2017.

I have suggested that structure underpins the statistical association between the banking variable and the regime outcome variable. It is easy to conceive of how and why groups with control over banks would be motivated, at least partially, by political interests, and it is easy to imagine how and why these groups would want to leverage their control over banks to allocate a portion of the resources they can extract from them to meet their objectives, such as winning an election, influencing policy-making, obstructing justice, and so on. Ukraine’s business environment breeds structural insecurity among groups, and participating in politics is one of the only ways to hedge against legal risks. As a result, political groups and medium to large-scale enterprises often tend to be entities that are one and the same. Those with control over banks have the luxury of leveraging a bank. I have shown that one way this can be done is through the lending process,

whereby a related-party loan or a series of related-party loans can be legally and feasibly generated and the resulting loaned funds can be easily siphoned off for various purposes, including those linked to political activities. I argue this is at least one major causal mechanism that underpins the statistical association identified in this thesis.

Ultimately, the findings in this thesis have suggested that banks (as a resource for political groups) are important to consider when it comes to modeling political dynamics in Ukraine. Theories centered on political groups seem to have been on the right track in terms of identifying major drivers of change in post-Soviet regimes, but are missing a number of important resources that underlie the major drivers of change. As we can see, an increase in the number of banks operating in Ukraine (which, in theory, further the power of different groups) is associated with higher levels of liberal democracy, political competition, justice, and so on. This is a notable finding, as no previous statistical link has been made between the resources at the disposal to political groups and regime outcome. This finding is also worthy of mention because of the positive relationship identified between the two variables. The sample regression equation shows that, on average, and everything else remaining equal, democracy levels in Ukraine respond positively to upward movements in the number of licensed banks operating in Ukraine's banking sector.

Of course, observing interactions between banks and political groups is not a panacea for completely understanding regime outcomes in Ukraine; it is merely a significant contributing factor. The work in this thesis offers some support for other variables identified in the literature to be at play, such as those put forward by institutional theories of regime outcome. The statistical chapter shows that the electoral system and the executive system have a pronounced impact on the quality of the country's political regime, as well. For most of the post-Soviet period, Ukraine has operated under a hybrid electoral regime, consisting of single-member districts and multi-member districts working together in parallel. It is understood that this system usually leads to severely fragmented parliamentary assemblies, which undermines parliament's ability to challenge the executive branch of government or hold it accountable. The work in this

thesis suggests that a full multi-member district electoral system with proportional representation (which was used briefly in the 2000s) is better suited to deal with this problem and should result in higher levels of democracy in Ukraine. Even a return to a full single-member district system with runoff rounds would likely yield better democratic results than the hybrid system. What is more, this thesis has identified that the configuration of the executive branch (the presidential administration) also has a significant impact on the quality of Ukraine's political regime. Periods where the presidential administration exercises a higher degree of authority and rule over parliament, courts, electoral commissions, etc., generally leads to lower levels of democracy in Ukraine. Realistically, a combination of factors must be accounted for in calculations of regime outcome.

There are also some shortcomings in this thesis that I have highlighted when it comes to the statistical results. In an ideal situation, the proxy for banks used in the model would rely on samples generated that measure the interactions between banks and political groups more directly, rather than relying on the assumption that all banks in Ukraine further the influence of various political groups. Nonetheless, I have argued that the proxy chosen leaves the possibility open that other causal mechanisms may be at play, or that there may be other interactions between banks and political groups of which are impacting or could impact the quality of Ukraine's political regime that have yet to be identified. This thesis has also observed regime outcome as the dependent variable and the explanatory variables from a national perspective, which leaves open the possibility that some form of measurement errors may be impacting the results. Lastly, data availability and reliability has been relatively limited, preventing a larger statistical test wherein all possible explanatory variables could be taken into consideration with a higher sample size.

5.2 POLICY IMPLICATIONS

Since the findings of this thesis are rather novel, there are a number of policy implications that can be deduced, which may be of interest to Ukrainian governments and international organizations like the IMF and the EBRD who frequently finance governments and projects

across Ukraine. Firstly, reform-oriented governments may have fallen short over the last two decades due to the introduction of certain policies that have led to a significant reduction in the number of licensed banks operating in the banking system, which has undercut political competitiveness across the country. Secondly, IMF recommendations have underscored the need for consolidation in the banking sector. This recommendation may come at the cost of political competition over the short and medium term. On the other hand, the EBRD has also welcomed consolidation in Ukraine's banking sector, and has financed banks despite it being well-known that there is significant overlap between the banks it finances and politics.

During the Euromaidan Revolution in 2014, which brought the reform-minded Bloc Petro Poroshenko government to power, certain reform processes were introduced by the government and the political appointees of president Poroshenko. One of these reform processes targeted the banking sector. Between 2014 and 2018, the Poroshenko government carried out widespread reforms in the sector. This occurred primarily in order to clean up the industry from decades of heavy insider-lending practices, and to stabilize non-performing loan balances, which had accrued partially as a result. These reform processes have been seen as beneficial to the country's political and economic well-being, given that they have diminished the number of so-called "pocket banks" in the banking sector and have severed many political industrial groups from their long-standing control over banking institutions.

However, this clean-up resulted in a dramatic reduction in the quantity of banks operating in Ukraine. Prior to the reform efforts, in 2013, the NBU reported a total of 180 licensed banks in operation. After three years under the leadership of NBU Governor Gontareva, there were just 84 banks in operation. During this time, Ukraine experienced a deterioration in the quality of Ukraine's political regime, with the Poroshenko regime becoming increasingly authoritarian. V-Dem data shows that in 2013, Ukraine's liberal democracy score came in at 0.263, while in 2017 it came in at 0.232. The findings of this thesis suggest that the clean-up of the banking sector may have had the effect of undermining the country's competitive political landscape. During this period, groups like those led by Igor Kolomoisky and Dmitri Firtash who could

mount a challenge against Poroshenko, lost access to their banks. Interestingly, this wave of bank closures between 2014 and 2017 was not the first of its kind. Between 1995 and 2000, nearly 80 commercial banks were liquidated as well. In 1995, Ukraine had over 230 banks, while in 2000 only 153 banks were left standing. The bank connected to Tymoshenko and Lazarenko, Slaviansky Bank, was caught in this wave of bank closures. In 1995, Ukraine experienced a liberal democracy score of 0.355 - one of the highest scores over the last three decades. But by 2000, it had a score of just 0.249 - one of the lowest. Democracy levels fell markedly, resulting in the rise of the quasi-authoritarian Kuchma regime.

The above does not suggest that the Poroshenko or Kuchma regimes intentionally closed banks to undercut political competition, but rather it highlights that when the number of banks operating in Ukraine's banking sector is reduced, we generally see regime quality suffer as a result. Reform-minded groups and governments in Ukraine may want to take this trend into account when devising a new direction for the country. It may help prevent reform efforts from eventually falling short. In fact, reform-minded groups may want to advocate for an increase in the number of banks operating in the country, which may help finally break the gordian knot that seems to have taken hold of the country since independence; much to the chagrin of the local population. Such a development may lead to some form of democratic consolidation despite an active overlap between banks and political groups.

International organizations operating in Ukraine could also make some changes to their policies in light of the research in this document. The IMF and the EBRD, which are Ukraine's largest investors in dollar terms, make significant investments and recommendations in the area of banking. The latest IMF mission in 2019 supported the "decisive efforts to restructure the banking system," but also called for structural reforms targeting the rule of law, the judicial system, and reducing the role of the government and the select few political groups controlling most of the economy.³⁰³ The consolidation in the banking sector, however, may be undermining any progress from being made in the area of law (or the judiciary more generally), and in fact

³⁰³ International Monetary Fund, "IMF Staff Concludes Mission to Ukraine," *img.org* (2019).

may be increasing the role and strength of a select few political groups in the country. One bank that survived the various rounds of consolidation in the banking sector since the 1990s is First Ukrainian International Bank. It is controlled by Rinat Akhmetov (via SCM Holdings), who remains the majority beneficiary of the bank, and is heavily involved in Ukrainian politics through proxies in parliament and influential media channels. Ironically, the bank has benefited from equity investments from the EBRD. Importantly, in the late 1990s and late 2000s, Akhmetov's political group increased its influence in Ukrainian politics and in business spheres, particularly in banking and energy. In other words, there are real links between consolidation in Ukraine's banking system and the increasing role and strength of a select few political groups in the country.

Lastly, the EBRD may need to revise its investment strategy in Ukraine. Since 1996, the organization has disbursed a large quantity of money in the form of grants, and has made a large number of investments into a number of Ukrainian banks. According to project documents on the EBRD's website, investments have been made into Ukreximbank, Oschadbank, Raiffeisen Bank Aval, Ukrsibbank, Ukrsotsbank, ProCredit Bank, and Kredobank, among others. It should be noted that Ukrsotsbank (owned by Khoroshkovsky until 2011) and Raiffeisen Bank Aval (owned by Shpig and Derkach until 2006), for example, were owned and controlled by politically-exposed individuals at the time of EBRD's investment. It is not immediately clear whether or not EBRD's investments in Ukraine have materially benefited political groups, but the investment into Ukrsotsbank was in the area of 400 million EUR, while the loan into Raiffeisen Bank Aval was in the area of 50 million USD. Alternatively, the EBRD could work to encourage the development of a banking system in Ukraine that is composed of a plurality of small and medium-sized commercial banks owned by a diverse set of stakeholders. Investments could be limited to 'new entrance' into the market, for instance. Given the weak levels of the rule of law and the embedded political linkages in Ukraine's banking system, such a strategy could help reduce the risk of economic and political consolidation in the country. In fact, the findings of this thesis suggest that such a move could help to smoothen out volatility in Ukraine and help

create conditions that would be more conducive to a level playing field among political industrial groups.

5.3 DIRECTIONS FOR FUTURE RESEARCH

Research on the topic in this thesis is by no means exhausted, and several directions for future research can undoubtedly be identified. Further work is needed to better understand and measure the relationship or interactions between banks and political groups in Ukraine. Moreover, given the structural similarities between Ukraine and other post-Soviet regimes, the situation with banks and political groups may be similar in other important contexts such as Russia.

This thesis has shone a light on the interactions between banks and political groups, specifically, the way in which banks have served as a unique source of rent for political actors. Future research could expand on this topic, through identification of other causal mechanisms that may be at work. Moreover, this research could produce detailed narratives of the ways in which banks have been leveraged by individuals (e.g. as a source of rent), and how this tends to translate (or not) into political influence during or between political events. From here, better proxy variables could be developed to use during statistical analysis in order to identify other statistical associations that may be present. Extended research is also needed to flush-out causal mechanisms that may underlie the statistical associations identified in this thesis. These causal mechanisms may change over time due to a vast array of factors, such as the need to conceal activities from regulators or other internal groups, or the need to adapt to change in technology and regulations. The ways in which banks were leveraged in the 1990s may be quite different in the 2010s because of the introduction of advanced banking software, the Internet, international agreements between Ukraine and other jurisdictions, and on and on.

Finally, researchers could also explore whether or not the causal mechanisms and the statistical association identified here also hold true in other post-Soviet contexts. What is arguably one of the most important post-Soviet contexts is that of Russia. While there is no immediate evidence available that would be comparable to the case of (say) PrivatBank, the history of Russia's

banking sector closely follows that of Ukraine in that many of the same patterns have been seen to play out. After the collapse of the Soviet Union, the overlap between banking and politics did not end. Many former communist party members became bankers and owners of banks, consequently remaining highly influential in politics. While it does not appear to be the case that Vladimir Putin controlled or owned a bank before assuming the presidency in the late 1990s, it has become apparent that Putin’s regime uses banks like Vnesheconombank to fund political projects. Fundamentally, data published by the Bank of Russia shows that a similar trend to the one in Ukraine may exist in Russia, whereby the number of licensed banks in Russia is linked to the quality of the country’s political regime. Figure 7 shows the relationship between the number of licensed banks in Russia (which, again, may be furthering the political influence of various political groups) and Russia’s liberal democracy levels. If this relationship is a result of causal mechanisms similar to those in Ukraine’s case, it would have profound implications for how we understand Russia’s current bout of authoritarianism.

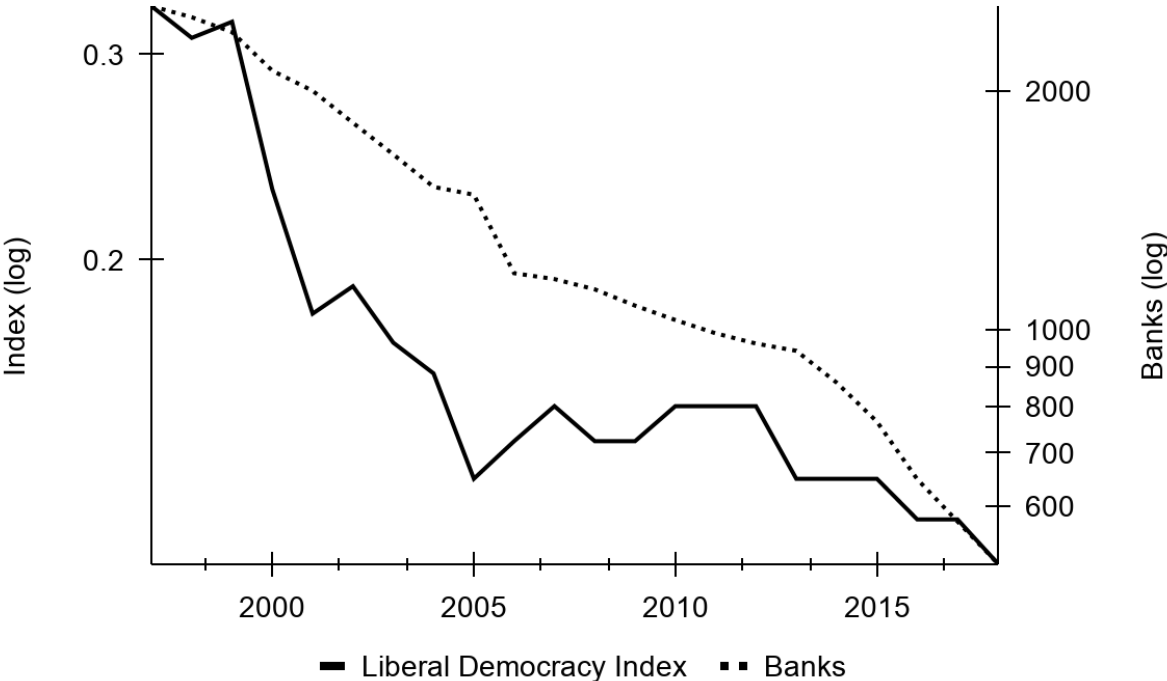


Figure 7 Liberal democracy index vs. banks for Russia for the period between 1992 and 2017 using data from Coppedge et al. (2019), Bank of Russia (2020), and Klär (2005)

BIBLIOGRAPHY

- Ademmer, Esther, Laure Delcour, and Kataryna Wolczuk, "Beyond geopolitics: exploring the impact of the EU and Russia in the "contested neighborhood," *Eurasian Geography and Economics* 57, no. 1 (2016): 1.
- Almond, Gabriel A., and Sidney Verba, *The Civic Culture: Political Attitudes and Democracy in Five Nations* (Princeton: Princeton University Press, 1963).
- Allen, Franklin, and Anthony M. Santomero. "The Theory of Financial Intermediation," *Center for Financial Institutions Working Papers* (1996): 96-132.
- Allina-Pisano, Jessica. "Social contract and authoritarian projects in post-Soviet space: The use of administrative resource," *Communist and Post-Communist studies* (2010): 373-382.
- Aslund, Anders. *How Russia became a market economy*, (Washington, D.C.: Brookings Institute, 1995)
- Bank of Russia, "Accessibility of payment service institutions" cbr.ru/eng/ (2020).
- Baum, Christopher F., Mustafa Caglayan, Dorothea Schafer, and Oleksandr Talavera. "Political Patronage in Ukrainian Banking," *Economics of Transition* 16, no. 3 (2008): 537-557.
- Barisitz, Stephan, and Zuzana Fungacova. "Ukraine: Struggling Banking Sector and Substantial Political and Economic Uncertainty," *Bank of Finland and Institute for Economies in Transition* (2015).
- Bennett, Andrew, and Jeffrey T. Checkel. *Process Tracing: From Metaphor to Analytical Tool*, (Cambridge: Cambridge University Press, 2015).
- Birch, Sarah. *Elections and Democratization in Ukraine* (New York: St. Martin's Press, 2000).
- Bondarenko, Kosta. *Leonid Kuchma: Portret na Foni Epokhi*, (Folio: 2007)
- Bonner, Brian. "Governor Gontareva says that corrupt legal system is biggest obstacle to fighting bank fraud," *Kyiv Post Legal Quarterly* no. 2 (2016).
- Borio, Claudio, and Piti Disyatat. "Unconventional Monetary Policies: An Appraisal," *Bank for International Settlements Working Papers* no. 292 (2009).
- Brunner, Karl, and Allan Metzger. "Money Supply" in *Friedman and Hahn's Handbook of Monetary Economics* (1990).

Brunnermeier, Markus K., Harold James, Jean-Pierre Landau, *The Euro and the Battle of Ideas*, (Princeton University Press, 2016).

Brzezinski, Zbigniew. "Ten Years After the Soviet Breakup: The Primacy of History and Culture," *Journal of Democracy* 12, no. 4 (2001).

Campos, Julia, Niel R. Ericsson, and David F. Hendry, "General-to-specific modeling: An Overview and Selection Bibliography." *Board of Governors of the Federal Reserve System International Discussion Papers* No.838 (2005): 1-91.

Carnaghan, Ellen C. "Thinking about Democracy: Interviews with Russian Citizens," *Slavic Review* 60, no.2 (2001): 336-366.

Carothers, Thomas. *Aiding Democracy Abroad: The Learning Curve*. (Washington: Carnegie Endowment for International Peace).

Chernenko, Demid. "Capital Structure and Oligarch Ownership," *Munich Personal RePEc Archive* (2018): 1-23.

Choudry, Sujit, Thomas Sedelius and Julia Kyrychenko. "Semi-presidentialism and Inclusive Governance in Ukraine," *International Institute for Democracy and Electoral Assistance* (2018).

Coppedge, Michael, John Gerring, Carl Henrik Knutsen, Staffan I. Lindberg, Jan Teorell, David Altman, Michael Bernhard, M. Steven Fish, Adam Glynn, Allen Hicken, Anna Lührmann, Kyle L. Marquardt, Kelly McMann, Pamela Paxton, Daniel Pemstein, Brigitte Seim, Rachel Sigman, Svend-Erik Skaaning, Jeffrey Staton, Agnes Cornell, Lisa Gastaldi, Haakon Gjerløw, Valeriya Mechkov, Johannes von Romer, Aksel Sundström, Eitan Tzelgov, Luca Uberti, Yiting Wang, Tore Wig, and Daniel Ziblatt. "V-Dem Codebook v9" *Varieties of Democracy (V-Dem) Project* (2019)

Coppedge, Michael, John Gerring, Carl Henrik Knutsen, Staffan I. Lindberg, Jan Teorell, David Altman, Michael Bernhard, M. Steven Fish, Adam Glynn, Allen Hicken, Anna Lührmann, Kyle L. Marquardt, Kelly McMann, Pamela Paxton, Daniel Pemstein, Brigitte Seim, Rachel Sigman, Svend-Erik Skaaning, Jeffrey Staton, Steven Wilson, Agnes Cornell, Lisa Gastaldi, Haakon Gjerløw, Nina Ilchenko, Joshua Krusell, Laura Maxwell, Valeriya Mechkova, Juraj Medzihorsky, Josefina Pernes, Johannes von Romer, Natalia Stepanova, Aksel Sundström, Eitan Tzelgov, Yiting Wang, Tore Wig, and Daniel Ziblatt. "V-Dem Ukraine Dataset v9" *Varieties of Democracy (V-Dem) Project* (2019).

Clavero, Borja. "A contribution to the Quantity Theory of Disaggregated Theory," *Munich Personal RePEc Archive*, (2017).

Cleary, Laura. "Half measures and incomplete reforms: the breeding ground for a hybrid civil

- society in Ukraine” *Southeastern European and Black Sea Studies* 16, no. 1 (2016): 7-23.
- Cohen, Stephen . *Failed Crusade: America and the Tragedy of Post-Communist Russia* (New York: W. W. Norton, 2000): 48.
- Colton, Timothy J., and Michael McFaul. “Are Russians Undemocratic?,” *Post-Soviet Affairs* 18, no. 2 (2002): 91-121.
- Collier, David, and Steven Levitsky. “Democracy with Adjectives: Conceptual Innovation in Comparative Research,” *World Politics* 49, no. 3 (1997).
- Dahl, Robert. *Polyarchy: Participation and Opposition*, (Yale University Press, 1971).
- D’Anieri, Paul. “Democracy Unfulfilled: The Establishment of Electoral Authoritarianism in Ukraine,” *Journal of Ukrainian Studies* 26, no. 1 (2001): 13-35.
- DiPalma, Guiseppi. *To Craft Democracies* (Berkeley: University of California Press, 1990).
- Dunning, Thad. *Crude Democracy: Natural Resource Wealth and Political Regimes*, (Cambridge: Cambridge University Press, 2008).
- Easter, Gerald. “Preference for Presidentialism: Post Communist Regime Change in Russia and the NIS,” *World Politics* 49. No.2 (1997):
- Eppinger, Monica. “Property and Political Community: Democracy, Oligarchy, and the Case of Ukraine,” *The George Washington International Law Review* 47 (2015), 825-891.
- Evans, Peter. “The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change,” in Stephan Haggard and Robert R. Kaufman, eds., *The Politics of Economic Adjustment* (Princeton: Princeton University Press, 1992).
- European Bank for Reconstruction and Development, “Transition indicators methodology 1989-2014.” *ebrd.com* <https://www.ebrd.com/transition-indicators-history>
- European Central Bank, “Monthly Bulletin, May 2012,” (2012).
- Fish, Steven. M. *Democracy Derailed in Russia: The Failure of Open Politics*, (Cambridge: Cambridge University Press, 2005).
- Fish, Steven M. “Conclusion: Democracy and Russian Politics,” in Zoltan Barany and Robert Moser (eds.), *Russian Politics: Challenges of Democratization* (Cambridge, Cambridge University Press, 2001).
- Gati, Charles. “Mirage of Democracy,” *Transition* 2. No.6 (1996): 6-12.

- Gehlbach, Scott, Konstantin Sonin, and Ekaterina Zhuravskaya. "Businessman Candidates," *American Journal of Political Science* 54, no. 3 (2010): 718-736.
- Gervasoni, Carlos. "A Rentier Theory of Subnational Regime: Fiscal Federalism, Democracy, and Authoritarianism in the Argentine Provinces," *World Politics* 62, no.2 (2010).
- Gibson, Edward L. *Boundary Control: Subnational Authoritarianism in Federal Democracies*, (New York: Cambridge University Press, 2012).
- Goldberg, Ellis, Erik Wibbels, and Eric Mvukiyehe. "Lessons from Strange Cases: Democracy, Development, and the Resource Curse in the U.S. States," *Comparative Political Studies* 41, no.4 (2008).
- Gould, John A., and Yaroslav Hetman. "Market Democracy Unleashed? Business Elites and the Crisis of Competitive Authoritarianism in Ukraine," *Business and Politics* 10, no. 2 (2008): 1-35
- Greene, Kenneth. *Why Dominant Parties Lose: Mexico's Democratization in Comparative Perspective*, (New York: Cambridge University Press, 2007).
- Haggard, Stepan, and Robert Kaufman, *The Political Economy of Democratic Transitions* (Princeton: Princeton University Press, 1995).
- Hale, Henry. *Patronal Politics. Eurasian Regime Dynamics in Comparative Perspective*, (Cambridge: Cambridge University Press, 2014).
- Haran, Olexiy. "From Viktor to Viktor: Democracy and Authoritarianism in Ukraine," *Demokratizatsiya* (2011): 92-110.
- Hellman, Joel S., Geraint Jones, and Daniel Kaufmann. "Seize the state, seize the day: state capture and influence in transition economies," *Journal of Comparative Economics* 31 (2003): 751-773.
- Hellman, Joel S. "Winners Take All: The Politics of Partial Reform in Postcommunist Transitions" *World Politics* 50, no. 2 (1998): 229.
- Herron, Erik S. "Measuring Electoral Influence on Legislative Behavior in Mixed Systems: Evidence from Ukraine's Verkhovna Rada," *Legislative Studies Quarterly* 27 (2002): 361-381.
- Hockenos, Paul. "You Only Wish You Had Ukraine's Democracy," *Foreign Policy* (2019) <https://foreignpolicy.com/2019/02/10/you-only-wish-you-had-ukraines-democracy/>
- Hinich, Melvin J., Valeri Khmelko, and Peter C. Ordeshook. "Ukraine's 1998 Parliamentary Elections: A Spatial Analysis," *Post-Soviet Affairs* (1999): 183.

- Huber, Evelyne, Dietrich Rueschemeyer, and John D. Stephens, "The Impact of Economic Development on Democracy," *The Journal of Economic Perspectives* 7, no.3 (1993): 71-86.
- Huntington, Samuel P. "Will more countries become democratic?" *Political Science Quarterly* 99, no. 2 (1984): 193-218.
- Interfax-Ukraine, "Kolomoisky to head supervisory board of 1+1 TV channel," *Interfax.com.ua* (2019) <https://en.interfax.com.ua/news/economic/631571.html>
- International Monetary Fund, "IMF Staff Concludes Mission to Ukraine," imf.org (2019) <https://www.imf.org/en/News/Articles/2019/09/26/pr19356-ukraine-imf-staff-concludes-mission>
- International Monetary Fund, The World Bank, Organization for Economic Co-operation and Development, and European Bank for Reconstruction and Development. *A Study of the Soviet Economy*, (Washington D.C: 1991).
- Johnson, Juliet. "Russia's emerging financial-industrial groups," *Post-Soviet Affairs* 13 (1997): 333-365
- Johnson, Simon, Heidi Kroll, and Mark Horton. "New Banks in the Former Soviet Union: How Do They Operate?" *The National Council for Soviet and Eastern European Research* (1992).
- Jowitt, Ken. "After Leninism. The New World Disorder," *Journal of Democracy* 2, no. 1 (1991): 11-20.
- Kent, Elina. "Head of major bank arrested on suspicion of embezzling \$49 million," *kyivpost.com* (2019) <https://www.kyivpost.com/ukraine-politics/head-of-major-bank-among-7-arrested-on-suspicion-of-embezzling-49-million-through-bakhmatyuks-bank.html>
- Klär, Erik. "The Russian Banking Sector: Unsolved Problems Seven Years after the Crisis," *Researchgate.net* (2005).
- Kloc, Kazimierz. "Banking Systems and Banking Crises in Ukraine, Georgia and Kyrgyzstan," *Problems of Economic Transition* 45, no. 8 (2001): 6-71.
- Kopstein, Jeffrey S. and David A. Reilly. "Geographic Diffusion and the Transformation of the Postcommunist World," *World Politics* 53, no.1 (2000).
- Kovensky, Josh. "State buys PrivatBank; taxpayer losses will be at least \$5.6 billion," *Kyiv Post*

- Legal Quarterly* 3. no. 4 (2016).
- Koziuk, Viktor. "Transformation of Bank Capital Regulations in Ukraine: the Role of Institutional Distortions," *Financial Markets, Institutions, and Risks* 1, no. 4 (2017): 16-23.
- Kudelia, Serhiy. "The Source of Continuity and Change of Ukraine's Incomplete State," *Communist and Post-Communist Studies* 45 (2012): 417-429.
- Kumhof, Michael, and Zoltan Jakab. "The Truth about Banks," *Finance & Development* 53, no. 1 (2016)
- Kuzio, Taras. "The 2002 Parliamentary Elections in Ukraine: Democratization or Authoritarianism?" *Journal of Communist Studies and Transition Politics* 19, no. 2 (2003): 24-54.
- Kuzio, Taras. "National Identity and Civil Society," in *Ukraine: State and Nation Building* (London: Routledge, 1998).
- Kuznetsova, Anzhela. "Implementation of the "bail-in" mechanism in the banking system of Ukraine," *Banks and Bank Systems* 12, no. 3 (2017): 269-282.
- Kyiv Post. "Banking," *Kyiv Post Legal Quarterly* 5, no. 3 (2018).
- Kyiv Post. "Banking: Part 2, Banking Crisis: What Rock-Bottom Will Feel Like," *Kyiv Post Legal Quarterly* 3. no. 4 (2016).
- Kyiv Post. "Ukraine's \$11.4 billion bank robbery" *Kyiv Post Legal Quarterly* 3. no. 2 (2016).
- Levitsky, Steven, and Lucan A. Way. "Ties that Bind? International Linkage and Competitive Authoritarian Regime Change in Africa, Latin America, and Postcommunist Eurasia," (Paper prepared for the Annual Meeting for the American Political Science Association, 2003).
- Lyall, Jason. "Process tracing, causal inference, and civil war," in Andrew Bennett and Jeffrey T. Checkel (eds.), *Process Tracing: From Metaphor to Analytical Tool*, (Cambridge: Cambridge University Press, 2015): 186-210.
- Linz, Juan. "The Perils of Presidentialism," *Journal of Democracy* 1 (1990): 51-69
- Lipset, Seymour Martin. "Some Social Requisites of Democracy: Economic Development and Political Legitimacy," *The American Political Science Review* 53, no. 1 (1959): 69-105;
- Lovewell, Mark. *Understanding Economics: A Contemporary Perspective*, (McGraw-Hill Ryerson: Toronto, 2009)

- Markiewics, Małgorzata, Marta Dekhtiarchuk, and Urban Gorski “Monetary Policy in Ukraine in 1996-1999,” *Centre for Social and Economic Research* (1999): 6-48.
- Markus, Stanislav, and Volha Charnysh. “The Flexible Few: Oligarchs and Wealth Defense in Developing Democracies,” *Comparative Political Studies* 50, no. 12 (2017): 1632-1665.
- Marin, Dalia, and Monika Schnitzer. “Disorganization and financial collapse,” *European Economic Review* 49, no. 2 (2005): 387-408.
- McLeay, Michael, Amar Radia, and Ryland Thomas. “Money creation in the modern economy,” *Bank of England Quarterly Bulletin* (2014).
- McAllister, Ian, and Stephen White, “Electoral Integrity and Support for Democracy in Belarus, Russia, and Ukraine,” *Journal of Elections, Public Opinion and Parties* 25, no.1 (2015).
- McMann, Kelly M. “Measuring subnational democracy: toward improved regime typologies and theories of regime change,” *Democratization* (2017): 1-20.
- McMann, Kelly M. *Economic Autonomy and Democracy: Hybrid Regimes in Russia and Kyrgyzstan*, (Cambridge, UK: Cambridge University Press, 2006)
- McMann, Kelly M., and Nikolai V. Petrov. “A Survey of Democracy in Russia’s Regions,” *Post-Soviet Geography and Economics* 41, no.3 (2000).
- Mierzejewski, Melanie G. “When the Colors Fade: Party Politics, Institutionalization, and Democratization in Ukraine and Georgia,” *Indigo University Library* (2014).
- Moore, Philip. “Banking in Ukraine: Ukraine’s high transfer cost,” *Central European* 24 (1993):
- Morrison, Kevin. “Oil, Nontax Revenue, and the Redistributive Foundations of Regime Stability,” *International Organization* 63, no.1 (2009): 107-138.
- Motyl, Alexander J. “How Poroshenko Could Win and Zelensky Could Lose,” *Atlantic Council* (2019).
<https://www.atlanticcouncil.org/blogs/ukrainealert/how-poroshenko-could-win-and-zelenskiy-could-lose>
- Myroniuk, Anna. “What is happening with PrivatBank court cases and why is this such a big deal,” *kyivpost.com* (2020)
<https://www.kyivpost.com/business/what-is-happening-with-privatbank-court-cases-and-why-is-this-such-a-big-deal.html>

- National Bank of Ukraine, “Loans granted by deposit-taking corporations (excluding National bank of Ukraine),” *bank.gov.ua* (2019).
- National Bank of Ukraine. “Financial Stability Report,” *bank.gov.ua* (2018).
- National Bank of Ukraine, “The Banking System’s Capital Adequacy Continues to Increase for the Fourth Month in a Row,” *bank.gov.ua* (2016)
https://old.bank.gov.ua/control/en/publish/article?art_id=38321907&cat_id=92536
- National Bank of Ukraine. “CB NADRA PJSC declared insolvent,” *bank.gov.ua* (2015)
https://old.bank.gov.ua/control/en/publish/printable_article?art_id=14369248&showTitle=true
- O’Donnell, Guillermo. “Delegative Democracy,” *Journal of Democracy* 5, no.1 (1994): 55-69.
- On Banks and Banking*, Law of Ukraine No. 2621-VIII (2018).
- Ottaway, Mariana. *Democracy Challenged: The Rise of Semi-Authoritarianism* (Washington DC: Carnegie, 2003)
- Pemstein, Daniel, Kyle L. Marquardt, Eitan Tzelgov, Yiting Wang, Juraj Medzihorsky, Joshua Krusell, Farhad Miri, and Johannes von Romer. “The V-Dem Measurement Model: Latent Variable Analysis for Cross-National and Cross-Temporal Expert-Coded Data,” *V-Dem Working Paper* No. 21. 4. (University of Gothenburg: Varieties of Democracy Institute, 2019).
- Public Joint Stock Company “Citibank”. “Annual financial statements in accordance with IFRS,” *citigroup.com* (2015), 52
- Puglisi, Rosaria. “The Rise of the Ukrainian Oligarch,” *Democratization* 10, no. 3 (2003): 99-123.
- Putnam, Robert D., with Robert Leonardi and Raffaella Y. Nanetti. *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton: Princeton University Press, 1993)
- PrivatBank v. Kolomoisky, 377 Del Chanc 1 (2019)
- Privatbank v. Kolomoisky, EWHC 3308 (2018)
- Protsky, Oleh, and Andrew Wilson. “Centre politics in Russia and Ukraine,” *Party Politics* 9, no. 6 (2003): 703-727.
- Przeworski, Adam, and Fernando Limongi. “Theories and Facts,” *World Politics* 49, no. 2 (1997): 155-183.

- Przeworski, Adam. *Democracy and the Market* (New York: Cambridge University Press, 1991).
- Roeder, Philip. "Varieties of Post-Soviet Authoritarian Regimes," *Post-Soviet Affairs* 10, no. 1 (1994): 61-101.
- Rumer, Boris. "New Capitalists in the USSR," *Challenge* 34, no. 3 (1991): 19- 22.
- Ryabinska, Natalya. "The media market and media ownership in post-communist Ukraine: Impact on media independence and pluralism," *Problems of Post-Communism* 58, no. 6 (2011).
- Savchuk, Olena, "Vorushylyn, Poroshenko's business partner, heads up fast-growing Deposit Guarantee Fund," *Kyiv Post Legal Quarterly* no. 2 (2016).
- Sartori, Giovanni. *Comparative Constitutional Engineering: An Inquiry into Structures, Incentives, and Outcomes* (New York: New York University Press, 1997).
- Sheard, Paul. "Repeat After Me: Banks Cannot and Do Not Lend "Lend Out" Reserves," *Standard and Poor's Rating Services* (2013): 1-15.
- Schedler, Andreas. "The Menu of Manipulation," *Journal of Democracy* 13, no.2 (2002): 36-50.
- Schmitter, Philippe, Claudius. Wagemann, and Anastasia. Obydenkova. "Democratization and State Capacity," Paper for X Congreso Internacional del CLAD sobre la Reforma del Estado y de la Administracion Publica, Santiago, Chile (2005).
- Schoenman, Roger. *Networks and institutions in Europe's emerging markets*. (New York: Cambridge University Press, 2014).
- Schumpeter, Joseph. *History of Economic Analysis*, (Oxford University Press, 1954).
- Shleifer, Andrei, and Robert W. Vishny. "Politicians and firms." *Quarterly Journal of Economics* 109, no 4 (1994): 995-1025.
- Smith, Jennifer. "Explaining the New Influence of Ukrainian Civil Society" (MA diss., *Dalhousie University*, 2016)
- Smith, Alastair. "The Perils of Unearned Income," *Journal of Politics* 70, no.3 (2008): 780-793.
- Snyder, Richard. "Scaling Down: The Subnational Comparative Method," *Studies in Comparative International Development* 36 (2001): 93-110.
- Sochan, Peter. "The Banking System in Ukraine," *Russian and East European Finance and Trade* 34, no. 3 (1998): 70-93.

- Stack, Graham. "Ukraine's Top Bank Lend Owner's Lieutenants \$1 Billion Before Nationalization," *Organized Crime and Corruption Reporting Project*, 2017. <https://www.occrp.org/en/investigations/6533-ukraine-s-top-bank-lent-owner-s-lieutenants-1-billion-before-nationalization>
- Stark, David, and Balasz Vedres, "Political holes in the economy: The business network of partisan firms in Hungary," *American Sociological Review* 108 (2012): 235-251.
- Taagepera, Rein, and Mathew Soberg Shugart. *Seats and Votes: The Effects and Determinants of Electoral Systems* (New Haven: Yale University Press, 1999).
- Tarrow, Sidney G. *Power in Movement: Social Movements and Contentious Politics* (New York: Cambridge University Press, 1998).
- Taub, Amanda. "We just got a glimpse of how oligarch-funded militias could bring chaos to Ukraine," vox.com (2015) <https://www.vox.com/2015/3/23/8279397/kolomoisky-oligarch-ukraine-militia>
- Timtchenko, Ilya, and Brian Bonner, "Vorushylyn: Deadbeats should be exposed publicly; nation should hire asset-recovery prosecutors," *Kyiv Post Legal Quarterly* no. 2 (2016), 15.
- Ulfelder, Jay. "Natural-Resource Wealth and the Survival of Autocracy," *Comparative Political Studies* 40, no.8 (2007)
- Waldner, David. "Causal mechanisms, causal inference, and the completeness standard in comparative politics," in Andrew Bennett and Jeffrey T. Checkel (eds.), *Process Tracing: From Metaphor to Analytical Tool*, (Cambridge: Cambridge University Press, 2015): 126-152.
- Way, Lucan A. "The Maidan and Beyond: Civil Society and Democratization," *Journal of Democracy* 25, no. 3 (2014).
- Way, Lucan A. "Authoritarian State Building and the Source of Regime Competitiveness in the Fourth Wave: The Cases of Belarus, Moldova, Russia, and Ukraine," *World Politics* 57, no. 2 (2005).
- Way, Lucan A. "Kuchma's Failed Authoritarianism," *Journal of Democracy* 16, no. 2 (2005): 131-145.
- Way, Lucan A. "The sources and dynamics of competitive authoritarianism in Ukraine," *Journal of Communist Studies and Transition Politics* 20, no. 1 (2004): 143-161.
- Way, Lucan A. "Rapacious individualism and political competition in Ukraine, 1992-2004,"

- Communist and Post-Communist Studies* 38 (2005): 191-205.
- Werner, Richard A. "A lost century in economics: Three theories of banking and the conclusive evidence," *International Review of Financial Analysis* (2015): 361-379.
- Werner, Richard A. "Can banks individually create money out of nothing? - The theories and the empirical evidence," *International Review of Financial Analysis* (2014): 1-19
- Werner, Richard A. "Towards a new research programme on 'banking and the economy' - Implications of the Quantity Theory of Credit for the prevention and resolution of banking and debt crises," *International Review of Financial Analysis* 25 (2012): 1-17.
- Whitehead, Laurence. "Geography and Democratic Destiny: Eastern Europe a Decade Later," *Journal of Democracy* 10, no. 1 (1999).
- Williamson, John. "The Search of a Manual for Technopols," in Williamson, ed., *The Political Economy of Policy Reform* (Washington, D.C.: Institute for International Studies, 1994).
- Winters, Jeffrey A. *Oligarchy*. (Cambridge: Cambridge University Press, 2011).
- Wolczuk, Kataryna. "Managing the Flows of Gas and Rules: Ukraine between the EU and Russia," *Eurasian Geography and Economics* 56, no. 1 (2016): 113-137.
- Wolczuk, Kataryna. *The Moulding of Ukraine: The Constitutional Politics of State Formation* (Budapest: Central European University Press, 2001).
- Yadav, Vineeta. *Political parties, business groups, and corruption in developing countries*. (New York: Oxford University Press, 2011).
- Yurchenko, Yuliya. "'Black Holes' in the Political Economy of Ukraine: The Neoliberalization of Europe's 'Wild East'," *Debatte: Journal of Contemporary Central and Eastern Europe* 20, no. 2-3 (2012):125-149.

APPENDIX

Appendix A
Summary of Top Ukrainian Elites

a) Name	b) Banker? (1=yes, 0=no)	c) Estimated Wealth					d) Media Viewership Share (% of total)				
		2006	2009	2012	2015	2016	2004	2006	2009	2011	2015
Akhmetov, Rinat	1	11.8	3.7	15.4	6.9	2.3		5	8	11	9
Boguslaev, Vyacheslav	0	-	0.1	0.3	0.1	0.1					
Boiko, Volodymyr	0	1.6	0.7	0.5	0.2	-					
Buriak (brother) Serhii & Oleksandr	1	0.4	0.2	0.3	0.1	0.1					
Feldman, Oleksandr	0	-	0.1	0.3	0.2	0.1					
Firtash, Dmitro	1	1.4	0.6	0.7	0.3	0.3				19	15
Gerega, Alexander + Galina	0	-	-	0.2	0.1	0.2					
Haiduk, Vitalii	0	1.7	0.7	0.5	0.3	0.3					
Khmelnitskyi, Vasil	0	0.7	0.2	0.3	0.1	0.1					
Khoroshkovskiy, Valerii	1	0.9	0.4	0.5	0.1	0.1			20		
Kolomoiskyi, Ihor	1	2.8	2.3	2.4	1.4	1.3				16	11
Kosyuk, Yuri	0	-	-	1.3	1.1	1					
Kurchenko, Serhiy	0	-	-	-	-	-					
Landik, Valentin	0	0.2	0.2	-	-	-					
Novinskii, Vadim	1	-	0.7	1.9	0.8	0.4					
Pinchuk, Viktor	1	3.7	3.5	3.8	1.5	1.2	22	21	24	19	19
Poroshenko, Petro	1	0.5	0.6	1.6	0.8	0.9	1	2	-	1	1
Prigodskii, Anton	0	-	0.1	0.3	0.2	0.1					
Rodnianskyi, Oleksandr	0	0.2	0.1	0.2	0.1	-	21	19	9		
Shpig, Fedir	1	0.3	0.3	0.3	0.2	0.2					
Sigal, Yevgenii	0	-	0.2	0.3	0.1	0.1					
Slobodian, Oleksandr	0	0.3	0.3	-	-	0.1					
Surkis, Grihorii	1	-	0.3	0.1	0.1	0.1	23	23			
Tihipko, Serhii	1	0.5	0.6	1.2	0.7	0.5					
Vasadze, Tariel	0	0.4	0.3	0.2	0.1	-					
Verevskii, Andrei	0	-	0.2	1	0.7	0.7					
Yankovskiy, Mikola	0	0.4	0.1	0.3	0.2	0.1					
Yaroslavskiy, Olexandr	1	0.7	1	1	0.8	0.7					
Zhevago, Konstantin	1	1.9	1	1.5	0.7	0.4					
Estimated wealth of elites with ties to banks		24.90	15.20	30.70	14.40	8.50					
Estimated wealth of elites with no ties to banks		5.50	3.30	5.70	3.50	2.90					
Estimated media market share of elites with ties to banks							46	51	52	66	55
Estimated media market share of elites with no ties to banks							21	19	9	0	0

*Data in column a), c), and d) compiled from Pleines (2016) available online at <http://www.forschungsstelle.uni-bremen.de/UserFiles/file/table-oligarchs-overview.xls>. Column b) was compiled from peer-reviewed literature and reputable news agencies found through Google. The table only includes individuals who were involved in politics at some point between 2004 and 2016 who held a combination of assets worth at least USD \$200 million in any given year.

Appendix B
Survey of top 26 banks in 2016

<i>Bank</i>	<i>Total Assets (2016 USD value)</i>	<i>Hryvnia</i>	<i>% of total assets</i>	<i>Owner</i>
Privatbank (1991)	11,100,000,000	277,500,000,000	21.02	Ihor Komoisky and Gennadiy Bogolyubov (until 2017); Ministry of Finance (since 2017)
NBU's claimed corporate NPL	6,200,000,000	155,000,000,000	11.74	
Oshadbank (1991)	7,200,000,000	180,000,000,000	13.64	State (Cabinet of Ministers)
Ukreximbank (1992)	6,300,000,000	157,500,000,000	11.93	State (Cabinet of Ministers)
Sberbank	2,300,000,000	57,500,000,000	4.36	Sberbank Russia (Central Bank of Russia)
Raiffeisen Bank Aval (1992)	2,100,000,000	52,500,000,000	3.98	Fedir Shpig and Oleksander Derkach (until 2006); Raiffeisen Bank International AG, Austria (since 2006), co-owned with EBRD (since 2015)
Ukrsotsbank (1990)	2,100,000,000	52,500,000,000	3.98	Valery Khoroshkovsky (until 2011); Unicredit Bank Austria AG (Austria and Alfa Group, since 2016)
Ukrgazbank (1993) - Khadzhybeybank ('93-95) and Intergazbank ('95-96)	2,000,000,000	50,000,000,000	3.79	State (Ministry of Finance)
UkrSibbank (1990)	1,600,000,000	40,000,000,000	3.03	Oleksander Yaroslavsky (until 2010); BNP Paribas S.A France (since 2006); (Since 2011) co-owned with EBRD
First Ukrainian International Bank (PUMB) (1991)	1,600,000,000	40,000,000,000	3.03	Rinat Akhmetov
Alfa Bank (1993) - Bank Vito ('93-97) and Kyivinvestbank ('97-01)	1,600,000,000	40,000,000,000	3.03	Alfa Group consortium, Mikhail Fridman
Prominvestbank (1992)	1,600,000,000	40,000,000,000	3.03	Vnshkombank Russia (Russian Government)
Credit Agricole (1993) - Index Bank ('93-11)	1,100,000,000	27,500,000,000	2.08	(Since 2006) Credit Agricole S.A. France
VTB Bank (1992) - Bank Mriya ('92-07)	900,000,000	22,500,000,000	1.70	Bank VTB Russia (Russian Federal Property Agency)
OTP Bank (1998) - Raiffeisen Bank ('98-06)	900,000,000	22,500,000,000	1.70	OTP Bank Plc. Hungary
Bank Pivedennyi (1993, Odessa)	800,000,000	20,000,000,000	1.52	Yuriy Rodin and Mark Bekker
Citibank (1998)	700,000,000	17,500,000,000	1.33	Citigroup Inc. USA
ING Bank (1997)	700,000,000	17,500,000,000	1.33	ING Bank N.V., Netherlands
Megabank (1991, Kharkiv)	400,000,000	10,000,000,000	0.76	Viktor Subotin
Kredobank (1992, Lviv) - Zakhidno-Ukrainsky Komertsyinyi Bank ('92-01) - Credit Bank ('01-06)	400,000,000	10,000,000,000	0.76	PKO Bank Polski SA, Poland
ProCredit Bank (2000) - Microfinansoviy Bank ('00-03)	400,000,000	10,000,000,000	0.76	ProCredit Holding Germany
Diamantbank (1993)	300,000,000	7,500,000,000	0.57	Igor Kerez, David Zhvaniya
Bank Credit Dnipro (1993)	300,000,000	7,500,000,000	0.57	Viktor Pinchuk
Platinum Bank (2005) - International Commercial Bank ('05-09)	300,000,000	7,500,000,000	0.57	Grygoriy Gurtoviy, Boris Kaufman
Bank Vostok (2002, Dnipro) - Agrobank ('02-07) - Khoun Credit Bank ('07-11)	300,000,000	7,500,000,000	0.57	Volodymyr Kostelman, Volodymyr Morokhovskiy
International Investment Bank (2008)	200,000,000	5,000,000,000	0.38	Petro Poroshenko, Igor Kononenko
Tascombank (2008)	200,000,000	5,000,000,000	0.38	Serhiy Tihipko
Top 26 banks	\$53,600,000,000	1,290,350,000,000	97.75	
Total banking sector assets	\$52,800,000,000	1,320,000,000,000		
Ukrainian companies/individuals			43.37	
Ukrainian government			29.36	
Foreign companies/individuals			7.95	
Russian government			9.09	

*Data compiled from the Kyiv Post.

Appendix C - Model 1

RESIDUAL OUTPUT

Observation	Residuals	Predicted Liberal democracy index	Predicted Liberal democracy index^2	Residuals^2
1	0.010	0.315	0.099	0.000
2	-0.002	0.392	0.154	0.000
3	-0.009	0.395	0.156	0.000
4	0.022	0.333	0.111	0.001
5	0.009	0.339	0.115	0.000
6	-0.031	0.322	0.104	0.001
7	0.036	0.263	0.069	0.001
8	0.015	0.269	0.073	0.000
9	0.005	0.244	0.059	0.000
10	-0.022	0.255	0.065	0.001
11	-0.022	0.268	0.072	0.000
12	-0.027	0.273	0.074	0.001
13	0.018	0.259	0.067	0.000
14	0.004	0.295	0.087	0.000
15	0.003	0.417	0.174	0.000
16	0.027	0.427	0.183	0.001
17	0.019	0.409	0.167	0.000
18	-0.001	0.399	0.160	0.000
19	-0.060	0.377	0.142	0.004
20	0.012	0.292	0.085	0.000
21	0.012	0.288	0.083	0.000
22	-0.016	0.279	0.078	0.000
23	-0.011	0.263	0.069	0.000
24	-0.011	0.231	0.054	0.000
25	0.011	0.224	0.050	0.000
26	0.010	0.222	0.049	0.000

Durbin-Watson S

1.991

SUMMARY OUTPUT FOR BRUSCH-PAGAN TEST (MODEL 1)

Regression Statistics	
Multiple R	0.450343082
R Square	0.202808892
Adjusted R Square	-0.107209872
Standard Error	0.000755784
Observations	26

ANOVA					
	df	SS	MS	F	Significance F
Regression	7	2.61573E-06	3.7368E-07	0.65418	0.706825714
Residual	18	1.02818E-05	5.7121E-07		
Total	25	1.28975E-05			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	0.00126298	0.01161654	0.10872256	0.91463	-0.023142465	0.0256684
SMD	-0.000344167	0.000494049	-0.696625	0.49494	-0.001382125	0.0006938
PR	0.000633887	0.000552262	1.1478009	0.26608	-0.000526373	0.0017941
Presidentialism index	0.000593655	0.003191165	0.18603067	0.8545	-0.006110734	0.007298
Civil society participation index	-0.00395611	0.002707255	-1.2481819	0.21975	-0.009053343	0.0023221
Banks	-2.3576E-06	7.53899E-06	-0.312721	0.75809	-1.81964E-05	1.348E-05
ODA (logged)	8.77611E-05	0.001507229	0.0582268	0.95421	-0.00078809	0.0032543
GDP (logged)	5.00918E-05	0.001002062	0.0498871	0.96068	-0.002055162	0.0021553

SUMMARY OUTPUT FOR ABRIDGED WHITE'S TEST (MODEL 1)

Regression Statistics	
Multiple R	0.218616956
R Square	0.047793374
Adjusted R Square	-0.035007203
Standard Error	0.000730726
Observations	26

ANOVA					
	df	SS	MS	F	Significance F
Regression	2	6.16415E-07	3.1E-07	0.57721	0.569388634
Residual	23	1.22811E-05	5.3E-07		
Total	25	1.28975E-05			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	-0.003453265	0.004513467	-0.7651	0.45199	-0.012790082	0.00588
Predicted Liberal democracy index	0.023118662	0.028645396	0.80706	0.4279	-0.036138854	0.08238
Predicted Liberal democracy index^2	-0.032862173	0.043888718	-0.74878	0.46158	-0.123651042	0.05793

Appendix C - Model 2

RESIDUAL OUTPUT

Observation	Residuals	Predicted Liberal democracy index	Predicted Liberal democracy index^2	Residuals^2
1	0.01009841	0.314990159	0.099	0.000
2	-0.002367966	0.392367966	0.154	0.000
3	-0.008879329	0.394879329	0.156	0.000
4	0.022587651	0.332412349	0.110	0.001
5	0.008870091	0.339129909	0.115	0.000
6	-0.030220289	0.321220289	0.103	0.001
7	0.036086772	0.262913228	0.069	0.001
8	0.013861482	0.270138518	0.073	0.000
9	0.004857942	0.244142058	0.060	0.000
10	-0.022469405	0.255469405	0.065	0.001
11	-0.021721668	0.267721668	0.072	0.000
12	-0.026002495	0.272002495	0.074	0.001
13	0.018856265	0.258143735	0.067	0.000
14	0.004898537	0.294101463	0.086	0.000
15	0.003471539	0.416528461	0.173	0.000
16	0.026944568	0.427055432	0.182	0.001
17	0.019024699	0.408975301	0.167	0.000
18	-0.001813391	0.399813391	0.160	0.000
19	-0.060043068	0.377043068	0.142	0.004
20	0.012415654	0.291584346	0.085	0.000
21	0.011269843	0.288730157	0.083	0.000
22	-0.016388637	0.279388637	0.078	0.000
23	-0.011739762	0.263739762	0.070	0.000
24	-0.01150095	0.23150095	0.054	0.000
25	0.010181183	0.224818817	0.051	0.000
26	0.009810893	0.222189107	0.049	0.000

Durbin-Watson S

1.988

SUMMARY OUTPUT FOR BRUSCH-PAGAN TEST (MODEL 2)

Regression Statistics					
Multiple R	0.449824828				
R Square	0.202342376				
Adjusted R Square	-0.049549505				
Standard Error	0.000741915				
Observations	26				

ANOVA					
	df	SS	MS	F	Significance F
Regression	6	2.65297E-06	4.4216E-07	0.80329	0.579577034
Residual	19	1.04583E-05	5.5044E-07		
Total	25	1.31113E-05			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	0.001478758	0.008779526	0.1684325	0.86802	-0.016897002	0.0198545
SMD	-0.000343561	0.00048491	-0.7085052	0.48723	-0.001358488	0.0006714
PR	0.000642911	0.00054211	1.18594165	0.25027	-0.000491739	0.0017776
Presidentialism index	0.000688007	0.002760447	0.2492374	0.80585	-0.005089675	0.0064657
Civil society participation index	-0.003287569	0.002454704	-1.3392934	0.19628	-0.008425324	0.0018502
Banks	-2.49183E-06	6.76627E-06	-0.366273	0.71674	-1.66538E-05	1.167E-05
GDP (logged)	9.29411E-05	0.000886471	0.10484383	0.9176	-0.001762465	0.0019483

SUMMARY OUTPUT FOR ADBRIDGED WHITE'S TEST (MODEL 2)

Regression Statistics					
Multiple R	0.217133275				
R Square	0.047146859				
Adjusted R Square	-0.035709936				
Standard Error	0.000737007				
Observations	26				

ANOVA					
	df	SS	MS	F	Significance F
Regression	2	6.18156E-07	3.1E-07	0.56902	0.573850353
Residual	23	1.24981E-05	5.4E-07		
Total	25	1.31113E-05			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	-0.003365705	0.004573394	-0.73593	0.46921	-0.012826491	0.0061
Predicted Liberal democracy index	0.022492994	0.02902232	0.77502	0.44622	-0.03754425	0.08253
Predicted Liberal democracy index^2	-0.031797862	0.044457275	-0.71525	0.48166	-0.123764742	0.06017

Appendix C - Model 3

RESIDUAL OUTPUT

Observation	Residuals	Predicted Liberal democracy index	Predicted Liberal democracy index^2	Residuals^2
1	0.007759125	0.317240875	0.101	0.000
2	-0.00018987	0.39018987	0.152	0.000
3	-0.005885679	0.391885679	0.154	0.000
4	0.023722873	0.331277127	0.110	0.001
5	0.008169796	0.339830204	0.115	0.000
6	-0.033576244	0.324576244	0.105	0.001
7	0.029463957	0.269536043	0.073	0.001
8	0.001916179	0.282083821	0.080	0.000
9	-0.006276755	0.255276755	0.065	0.000
10	-0.030841686	0.263841686	0.070	0.001
11	-0.0270959	0.2730959	0.075	0.001
12	-0.029997876	0.275997876	0.076	0.001
13	0.015743047	0.261256953	0.068	0.000
14	0.010810685	0.288189315	0.083	0.000
15	0.00300013	0.41699987	0.174	0.000
16	0.028223703	0.425776297	0.181	0.001
17	0.022929123	0.405070877	0.164	0.001
18	-0.001266925	0.399266925	0.159	0.000
19	-0.063421705	0.380421705	0.145	0.004
20	0.010535673	0.293464327	0.086	0.000
21	0.01858976	0.28141024	0.079	0.000
22	-0.00469539	0.26769539	0.072	0.000
23	-0.00076252	0.25276252	0.064	0.000
24	-0.003057324	0.223057324	0.050	0.000
25	0.014558811	0.220441189	0.049	0.000
26	0.011645011	0.220354989	0.049	0.000

Durbin-Watson S

1.856

SUMMARY OUTPUT FOR BRUSCH-PAGAN TEST (MODEL 3)

Regression Statistics					
Multiple R	0.320360116				
R Square	0.102630604				
Adjusted R Square	-0.0682969				
Standard Error	0.00840096				
Observations	26				

ANOVA					
	df	SS	MS	F	Significance F
Regression	4	1.69505E-06	4.2376E-07	0.60043	0.666445388
Residual	21	1.4821E-05	7.0576E-07		
Total	25	1.6516E-05			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	-0.000352412	0.002254709	-0.1563003	0.87729	-0.005041335	0.0043365
SMD	-7.48282E-05	0.000517442	-0.1446119	0.8864	-0.001150907	0.0010013
PR	0.000589462	0.000528719	1.1148872	0.2775	-0.000510069	0.001689
Presidentialism index	0.000592205	0.003075747	0.19254023	0.84917	-0.005804161	0.0069886
Banks	2.05328E-06	6.31577E-06	0.32510383	0.74832	-1.10811E-05	1.519E-05

SUMMARY OUTPUT FOR ABBRIDGED WHITE'S TEST (MODEL 3)

Regression Statistics					
Multiple R	0.242787353				
R Square	0.058945699				
Adjusted R Square	-0.02288511				
Standard Error	0.000822046				
Observations	26				

ANOVA					
	df	SS	MS	F	Significance F
Regression	2	9.73548E-07	4.9E-07	0.72034	0.497243216
Residual	23	1.55425E-05	6.8E-07		
Total	25	1.6516E-05			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	-0.003502179	0.004870695	-0.71903	0.47936	-0.013577978	0.00657
Predicted Liberal democracy index	0.022946729	0.031013714	0.73989	0.46685	-0.041210027	0.0871
Predicted Liberal democracy index^2	-0.031488166	0.047723576	-0.6598	0.51593	-0.130211906	0.06724

Appendix C - Model 4

RESIDUAL OUTPUT

Observation	Residuals	Predicted Liberal democracy index	Predicted Liberal democracy index^2	Residuals^2
1	0.006	0.319	0.102	0.000
2	-0.004	0.394	0.155	0.000
3	-0.007	0.393	0.155	0.000
4	0.025	0.330	0.109	0.001
5	0.011	0.337	0.114	0.000
6	-0.031	0.322	0.104	0.001
7	0.035	0.264	0.070	0.001
8	0.010	0.274	0.075	0.000
9	0.003	0.246	0.060	0.000
10	-0.023	0.256	0.066	0.001
11	-0.021	0.267	0.071	0.000
12	-0.025	0.271	0.074	0.001
13	0.018	0.259	0.067	0.000
14	0.008	0.291	0.085	0.000
15	0.006	0.414	0.172	0.000
16	0.028	0.426	0.182	0.001
17	0.019	0.409	0.167	0.000
18	0.000	0.398	0.159	0.000
19	-0.063	0.380	0.145	0.004
20	0.011	0.293	0.086	0.000
21	0.007	0.293	0.086	0.000
22	-0.017	0.280	0.078	0.000
23	-0.010	0.262	0.069	0.000
24	-0.006	0.226	0.051	0.000
25	0.012	0.223	0.050	0.000
26	0.008	0.224	0.050	0.000

Durbin-Watson S

1.998

SUMMARY OUTPUT FOR BRUSCH-PAGAN TEST (MODEL 4)

Regression Statistics	
Multiple R	0.374660314
R Square	0.140370851
Adjusted R Square	-0.131091644
Standard Error	0.000847134
Observations	26

ANOVA					
	df	SS	MS	F	Significance F
Regression	6	2.2265E-06	3.7108E-07	0.51709	0.788143059
Residual	19	1.36351E-05	7.1764E-07		
Total	25	1.58616E-05			

	Coefficients	Standard Error	T Stat	P-value	Lower 95%	Upper 95%
Intercept	0.007576874	0.011651333	0.65030103	0.52328	-0.016809647	0.0319634
SMD	-0.000119881	0.000528801	-0.2267038	0.82308	-0.001226674	0.0009869
PR	0.000800655	0.000616921	1.29782454	0.20988	-0.000490575	0.0020919
Presidentialism index	0.001879782	0.003412156	0.55090745	0.58812	-0.005261942	0.0090215
Banks	7.38217E-07	8.02821E-06	0.09195294	0.91777	-1.6065E-05	1.754E-05
ODA (logged)	-0.000697416	0.001560441	-0.4084846	0.68748	-0.003903457	0.0026286
GDP (logged)	-0.000271459	0.001083301	-0.2505848	0.80482	-0.002538834	0.0019959

SUMMARY OUTPUT FOR ADBRIDGED WHITE'S TEST (MODEL 4)

Regression Statistics	
Multiple R	0.230628494
R Square	0.053189502
Adjusted R Square	-0.029141846
Standard Error	0.000808055
Observations	26

ANOVA					
	df	SS	MS	F	Significance F
Regression	2	8.4367E-07	4.2E-07	0.64604	0.533365896
Residual	23	1.50179E-05	6.5E-07		
Total	25	1.58616E-05			

	Coefficients	Standard Error	T Stat	P-value	Lower 95%	Upper 95%
Intercept	-0.003197908	0.004910932	-0.65118	0.52138	-0.013356945	0.00696
Predicted Liberal democracy index	0.020897726	0.03123414	0.66907	0.51011	-0.043715016	0.08551
Predicted Liberal democracy index^2	-0.02847513	0.04797236	-0.59357	0.55859	-0.127713518	0.07076

Appendix C - Model 5

RESIDUAL OUTPUT

Observation	Residuals	Predicted Liberal democracy index	Predicted Liberal democracy index^2	Residuals^2
1	0.027757914	0.297242086	0.088	0.001
2	-0.010445969	0.400445969	0.160	0.000
3	-0.012284688	0.398284688	0.159	0.000
4	0.040365019	0.314634981	0.099	0.002
5	0.028599105	0.319400895	0.102	0.001
6	-0.013093647	0.304093647	0.092	0.000
7	0.02537038	0.27362962	0.075	0.001
8	0.001475726	0.282524274	0.080	0.000
9	0.004470942	0.244529058	0.060	0.000
10	-0.027631364	0.260631364	0.068	0.001
11	-0.030211099	0.276211099	0.076	0.001
12	-0.039329228	0.285329228	0.081	0.002
13	0.004314415	0.272685585	0.074	0.000
14	-0.01619852	0.31519852	0.099	0.000
15	0.014323124	0.405676876	0.165	0.000
16	0.027958441	0.426041559	0.182	0.001
17	0.022946806	0.405053194	0.164	0.001
18	0.013030337	0.384969663	0.148	0.000
19	-0.047383038	0.364383038	0.133	0.002
20	0.052016818	0.251983182	0.063	0.003
21	-0.026132748	0.326132748	0.106	0.001
22	-0.044956105	0.307956105	0.095	0.002
23	-0.02402178	0.27602178	0.076	0.001
24	-0.000226985	0.220226985	0.048	0.000
25	0.018610004	0.216389996	0.047	0.000
26	0.01067614	0.22132386	0.049	0.000

Durbin-Watson S

1.884

SUMMARY OUTPUT FOR BRUSH-PAGAN TEST (MODEL 5)

Regression Statistics					
Multiple R	0.641918285				
R Square	0.412059084				
Adjusted R Square	0.265073855				
Standard Error	0.00638761				
Observations	26				

ANOVA					
	df	SS	MS	F	Significance F
Regression	5	5.71917E-06	1.1438E-06	2.8034	0.044647464
Residual	20	8.16032E-06	4.0802E-07		
Total	25	1.38795E-05			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	-0.016288299	0.009191542	-1.7720965	0.09161	-0.035461519	0.0028849
Presidentialism index	0.00577675	0.00237027	2.45716917	0.02427	0.000832453	0.010721
Civil society participation index	-0.001757149	0.002182652	-0.8050523	0.43026	-0.00631008	0.0027958
Banks	3.27524E-06	6.23398E-06	0.52538591	0.60509	-9.7286E-06	1.628E-05
ODA (logged)	-0.000969504	0.001273488	-0.7612982	0.45536	-0.003625954	0.0016869
GDP (logged)	0.002080995	0.000765383	2.7188931	0.01322	0.000484434	0.0036776

SUMMARY OUTPUT FOR ABRIDGED WHITE'S TEST (MODEL 5)

Regression Statistics					
Multiple R	0.327731867				
R Square	0.107408177				
Adjusted R Square	0.029791496				
Standard Error	0.000733921				
Observations	26				

ANOVA					
	df	SS	MS	F	Significance F
Regression	2	1.49077E-06	7.5E-07	1.38883	0.270712555
Residual	23	1.23887E-05	5.4E-07		
Total	25	1.38795E-05			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	-0.00585944	0.004040233	-1.45027	0.16048	-0.014217299	0.0025
Predicted Liberal democracy index	0.042522265	0.025769427	1.65011	0.11251	-0.010785857	0.09583
Predicted Liberal democracy index^2	-0.066309676	0.039884995	-1.66252	0.10998	-0.148818074	0.0162

Appendix C - Model 6

RESIDUAL OUTPUT

Observation	Residuals	Predicted Liberal democracy index	Predicted Liberal democracy index^2	Residuals^2
1	0.030410189	0.294589811	0.087	0.001
2	-0.0098153	0.3998153	0.160	0.000
3	-0.013054703	0.399054703	0.159	0.000
4	0.039790854	0.315209146	0.099	0.002
5	0.028156208	0.319843792	0.102	0.001
6	-0.011201895	0.302201895	0.091	0.000
7	0.025147081	0.273852919	0.075	0.001
8	0.001237309	0.282762691	0.080	0.000
9	0.004293698	0.244706302	0.060	0.000
10	-0.027672563	0.260672563	0.068	0.001
11	-0.030617145	0.276617145	0.077	0.001
12	-0.038620124	0.284620124	0.081	0.001
13	0.005810033	0.271189967	0.074	0.000
14	-0.016529214	0.315529214	0.100	0.000
15	0.013368287	0.406631713	0.165	0.000
16	0.028108103	0.425891897	0.181	0.001
17	0.02272192	0.40527808	0.164	0.001
18	0.011556941	0.386443059	0.149	0.000
19	-0.046648924	0.363648924	0.132	0.002
20	0.053230147	0.250769853	0.063	0.003
21	-0.024716872	0.324716872	0.105	0.001
22	-0.044828131	0.307828131	0.095	0.002
23	-0.026199762	0.278199762	0.077	0.001
24	-0.00313441	0.22313441	0.050	0.000
25	0.017315698	0.217684302	0.047	0.000
26	0.011892575	0.220107425	0.048	0.000

Durbin-Watson S

1.865

SUMMARY OUTPUT FOR BRUSCH-PAGAN TEST (MODEL 6)

Regression Statistics	
Multiple R	0.595028826
R Square	0.354059304
Adjusted R Square	0.265976482
Standard Error	0.000643898
Observations	26

ANOVA					
	df	SS	MS	F	Significance F
Regression	3	4.99966E-06	1.6666E-06	4.01962	0.020145132
Residual	22	9.1213E-06	4.146E-07		
Total	25	1.4121E-05			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	-0.018406943	0.006380206	-2.8850074	0.0086	-0.031638681	-0.0051752
Presidentialism index	0.005183015	0.00200997	2.57865253	0.01714	0.001014592	0.0093514
Banks	9.62486E-06	4.25743E-06	2.26060512	0.03402	7.94998E-07	1.845E-05
GDP (logged)	0.001326915	0.000534897	2.480692	0.02124	0.000217606	0.0024362

SUMMARY OUTPUT FOR ABBRIDGED WHITE'S TEST (MODEL 6)

Regression Statistics	
Multiple R	0.320515294
R Square	0.102730054
Adjusted R Square	0.02470658
Standard Error	0.000742215
Observations	26

ANOVA					
	df	SS	MS	F	Significance F
Regression	2	1.45065E-06	7.3E-07	1.31666	0.287485467
Residual	23	1.26703E-05	5.5E-07		
Total	25	1.4121E-05			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	-0.005742679	0.004143812	-1.38584	0.17909	-0.014314807	0.00283
Predicted Liberal democracy index	0.041980502	0.02639304	1.59059	0.12535	-0.012617661	0.09658
Predicted Liberal democracy index^2	-0.06578892	0.040782494	-1.61304	0.12037	-0.150148937	0.01858

Appendix C - Model 7

RESIDUAL OUTPUT

Observation	Residuals	Predicted Liberal democracy index	Predicted Liberal democracy index^2	Residuals^2
1	0.025179728	0.299820272	0.090	0.001
2	-0.014868829	0.404868829	0.164	0.000
3	-0.021312768	0.407312768	0.166	0.000
4	0.034958596	0.320041404	0.102	0.001
5	0.015647048	0.332352952	0.110	0.000
6	-0.019388546	0.310388546	0.096	0.000
7	0.012562092	0.286437908	0.082	0.000
8	-0.020504722	0.304504722	0.093	0.000
9	-0.016903143	0.265903143	0.071	0.000
10	-0.045235872	0.278235872	0.077	0.002
11	-0.045561717	0.291561717	0.085	0.002
12	-0.049740435	0.295740435	0.087	0.002
13	0.002485139	0.274514861	0.075	0.000
14	-0.014295854	0.313295854	0.098	0.000
15	0.015636903	0.404363097	0.164	0.000
16	0.036999036	0.417000964	0.174	0.001
17	0.040812315	0.387187685	0.150	0.002
18	0.019169752	0.378830248	0.144	0.000
19	-0.034694008	0.351694008	0.124	0.001
20	0.077517802	0.226482198	0.051	0.006
21	-0.00353562	0.30353562	0.092	0.000
22	-0.020787713	0.283787713	0.081	0.000
23	-0.010283845	0.262283845	0.069	0.000
24	0.000493622	0.219506378	0.048	0.000
25	0.019262657	0.215737343	0.047	0.000
26	0.016388383	0.215611617	0.046	0.000

Durbin-Watson S

1.624

SUMMARY OUTPUT FOR BRUSCH-PAGAN TEST (MODEL 7)

Regression Statistics	
Multiple R	0.287660692
R Square	0.082748674
Adjusted R Square	0.002987689
Standard Error	0.001262732
Observations	26

ANOVA

	df	SS	MS	F	Significance F
Regression	2	3.30844E-06	1.6542E-06	1.03746	0.370353119
Residual	23	3.66733E-05	1.5945E-06		
Total	25	3.99818E-05			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	-0.00346377	0.00305146	-1.1351189	0.26802	-0.009776197	0.0028487
Banks	7.33813E-06	8.22285E-06	0.89179907	0.38174	-9.67713E-06	2.434E-05
Presidentialism index	0.005303235	0.003860661	1.37365971	0.18279	-0.002683151	0.0132896

SUMMARY OUTPUT FOR ADBRIDGED WHITE'S TEST (MODEL 7)

Regression Statistics	
Multiple R	0.176297539
R Square	0.031080822
Adjusted R Square	-0.053173019
Standard Error	0.001297809
Observations	26

ANOVA

	df	SS	MS	F	Significance F
Regression	2	1.24267E-06	6.2E-07	0.3689	0.695515556
Residual	23	3.87391E-05	1.7E-06		
Total	25	3.99818E-05			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	0.005060869	0.006677363	0.75791	0.4562	-0.008752309	0.01887
Predicted Liberal democracy index	-0.024272987	0.04294278	-0.56524	0.57738	-0.113106895	0.06456
Predicted Liberal democracy index^2	0.033527331	0.067260974	0.49847	0.62289	-0.105612595	0.17267