

***Financial and Banking Service Market***

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**POST-SOVIET ROOTS OF UKRAINE'S
INTERNATIONAL FINANCIAL PROBLEMS****Abstract**

Ukraine has inherited a whole array of international financial problems from the USSR. The USSR problems with public finances were transmitted to all states-successors, Ukraine included. Joint and several liabilities for the successors failed under the «0 option» solution which had deprived successor's states of all liquid assets conquered by Russia. Ukraine had nothing to do with the collapse of the Ruble zone because Ukraine had been made by Russia to leave that zone. The Paris and London clubs of creditors have nudged Ukraine into the Breton Woods institutions. 25 years of 6 various programs with the IMF and the World Bank Group have not yet produced an anticipated effect. The committed billions in fact were disbursed up to 30–40%. The author put some efforts to investigate the core reasons.

Key words:

USSR sovereign debt crisis, London and Paris clubs of creditors, joint and several liabilities for the debt, external pressure for a reform process.

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Main Material

Any sovereign state shall lay down a solid economic foundation capable to generate enough cash for personal development of every citizen. In case of its failure the authorities induce internal borrowing from the generations to come and from overseas where loans come easy but tough to repay. The largest savings come from the future retirees; their savings are carefully handled and lent to other countries. But foreign loans come to refill the gap arising from domestic disorder and shall be born with a political paternalism from the lenders.

This year the world pays tribute to the Marshall plan which had successfully revived the post war Europe and laid foundation for a European Union. Since 26 years of our political independence Ukraine has succeeded to get an association and a free trade agreement with the European Union. But at the same time our 25 years' membership in the Bretton Woods financial institutions targeted to set us free economically has not been successful and our «country of operations» status has remained. The current 6th loan programme with the IMF proves the idea of a country political dependence.

I have no point to enter a discussion over neither economic independence nor economic sovereignty patterns. I define them as a capacity of the ruling elite in a politically independent state to establish a rule of law which can provide for the best use of individual talents and other productive resources which lead ultimately to a balanced public finance, stable national currency (Hryvnia) and positive investment account. Once we use a terminology of the IMF/World Bank Group membership a country shall step up from a borrower to a lender/donor, like, for instance, the Czech Republic has made.

The 26th anniversary of our political independence has not unfortunately coincided with an economic sovereignty. Our public finance is in a permanent turmoil, an overall debt service is about 20% of the state budget allocations¹, an oligarch system has monopolized the basic production means and steals permanently capital mainly into off-shore jurisdiction, and the citizens keep cash home. A negative macroeconomic dynamics prevails; depopulation and the largest in Europe income split are the «social» gains.

¹ Draft Law on the State Budget of Ukraine in 2018.

The governing elites instead of building the real economic independence have so far being involved in the assets grabbing and keeping a balance between two power centres – East, namely from Russia and from the West, namely from the EU and the USA. Provided for the political preeminence by either of the strategic centre of power entailed the domination of either pro-Moscow or pro-West elite in Kyiv. Indeed it did. The economic dependence has permanently involved a political subordination. The power dependence upon our own citizens has not unfortunately yet invoked.

But in order to prove this finding I need to go into the events' analysis unfolding on the eve between 80s and 90s of the past century where I have partaken personally.

It is exactly the inception of the oligarch and by virtue comprador elite who has grabbed the means of production and natural resources trying to save some status quo. But the Russian economic and military aggression has unexpectedly depleted that elite's capacity to save the status quo, primarily in ownership of the production and financial assets. The nationalization of the nation's largest «Privatbank»² and other industrial assets earmarks another era of the Ukraine's development, which precedes the initial from independence.

The macroeconomic reforms' process, the changes in the ownership of basic production means, who and what was purchased and who ruled that process all these developments and their initiators shall be traced back to the 80s-90s of the last century. Ukraine has not yet coped with the inherited from that time a colonial dependence. I reiterate that the political independence does not exist without an economic one.

Ukraine has resurrected in a politically independent institutional and legal form but has saved all the rudiments of the command and planning, paternalistic and populist management and governance system. The central committee of the communist party has transformed into the President's administration, the Ukraine's Soviet Socialist Council of Ministers – into the Cabinet of ministers and the Verkhovna Rada (the parliament) has been manned by the list from oligarchs who came to replace the party bosses. The newly oligarch elite has stolen the national property and accroached the power. The governing vertical's quality has tumbled, the decision taken by the authorities have been vaguely implemented as well as the numerous legislative acts became alternative. At the same time the external pressure upon Ukraine hasn't disappeared but reappeared at the new basis.

There are hardly a few at the 80/90ss who believed in a forthcoming dissolution of the USSR at least its insolvency and bankruptcy. But that exactly what

² PrivatBank nationalized by the government//Ukraine Weekly, 22 December 2016 – URL: [https://webapp.sebgroup.com/mbs/research.nsf/alldocsbyunid/1FD21253BAF0B9A3C12580910046E597/\\$FILE/Ukraine_Weekly_161222.pdf](https://webapp.sebgroup.com/mbs/research.nsf/alldocsbyunid/1FD21253BAF0B9A3C12580910046E597/$FILE/Ukraine_Weekly_161222.pdf).

had happened in May 1991 when the cable was drafted from the USSR Vnesheconombank to the creditors on the failure to pay the scheduled due debt and a request to defer it at least by 90 days at the interrepublican conference of the chairpersons of the foreign economic ministries. A so called technical default had sounded as a sentence to the overall authority.

Than numerous lenders kept lending new funds during the visits of the USSR first and last President M. Gorbachev and they had no idea that the Union had empty treasury. The governments of the Saudi Arabia, Southern Korea had extended financial (without any commercial commitments) loans for several billions US dollars. The Federal Republic of Germany's chancellor Helmut Kohl government was the biggest lender as well as the Deutsche Bank AG followed among the banks.

At the same time we have been informed by the chairmen of the Union's ministries about the deficit of the Union budget above 15% GDP, anticipated crash of the Pension Fund, hyperinflation to come at the conference in Smolensko-Sennaya square in Moscow. The political leaders tried to delay the insolvency of the Union Government headed by Valentine Pavlov by the confiscated deposits of the retired and employed clients in the Saving Bank, VEB, insured by the Gosstrakh and Ingosstrakh, bondholders of the MinFin liabilities of 1982–1990. Moscow had stolen almost Ruble 92 billion (in 1981-1986 Purchasing Power Parity) owned by 15 million clients in the Republican affiliates of the USSR Sberbank in Ukraine. Those funds have never been returned to the owners, they were spent to finance the budget deficit of the Russian Federation in 1992–1994.

The deposits in hard currencies of the Ukrainian clients in the Vnesheconombank affiliates have been spent the same way. In 1993 those funds of the Ukrainian clients were recorded in the books as USD 620 million equivalent, including USD 150 million owned by the Republican currency fund. Various Ukraine's governments has not dared even to raise these issues to Russia. But one case has occurred and USD 20 millions were returned to the persons – citizens of Ukraine. Over USD 80 million of the world largest commercial trade fleet and second after Baltic – Black Sea Fleet have disappeared. This confiscation and more dozen million of outstanding freight bills due by the Soviet Union's ministries for accomplished contracts in 1990-1992 have made the Black Sea fleet insolvent and actually deprived Ukraine of its trade fleet.

A question arises why the Union centre asked the republics about the non-payments? Because the major «components» of the Union due to the «Souvereignty parade» have halted to transfer funds to Moscow, into the Union Treasury. The republics – Russia, Uzbekistan and Armenia – that used to export for fress currency. The rest used to export their goods and services for the COMECON transferrable rubles embraced 10 countries of the so called «Socialist Commonwealth». The said Coomonwealth were served in those filon rubles minted by the International Bank for Economic Cooperation of the COMECON. The purchasing capacity of the transferrable ruble was extremely low because any goods export-

able for hard currencies – USD, SF, Deutsche Mark etc. – were exported for them. Ukraine within that Commonwealth had to procure raw materials and coal to the industries of the Czechoslovakia, Hungary, Romania, Poland and Eastern Germany. They paid for our export of ferrous, manganese ores, coal in transferable rubles. We couldn't buy with the currency that we needed. That is why Ukraine had submitted a pattern of legal succession of the Union's republic towards the whole legacy – assets and liabilities. In this meaning we used the Vienna Convention on Succession of States in respect of State Property, Archives and Debts 1983³. Although the USSR had not been a party to this agreement we had drafted in the Preamble of the Treaty on Succession in respect of the external debt and assets of the USSR of December, 4 1991 we included

That basic international law principles and provisions of the Vienna Convention of 1983 were taken into account.

The first version of this Treaty which was in working slang nicknamed «Ukraine's option on the Union division» had appeared before the reactionary forces under the GKTchP in Moscow on August 18–20 1991 coup d'Etat. I reiterate that our option was invoked by the reality. We needed a consensus on the legal reasons for the division of debt and assets among all republics – successors of the USSR otherwise the international lenders menaced to decline on the deferral of the scheduled payments, on the new loans in bilateral format as well as multilateral financial institutions and commercial banks. But our approach toward the material and financial legacy of the USSR as a whole has facilitated the republics without a substantial currency export revenues to balance their liabilities by the shares in liquid assets. The authors of the Vienna Convention of 1983 had the similar approach.

The [Soviet authorities and their international lenders had quite negatively addressed the draft of the Succession Treaty. The Moscow centre couldn't admit it's own death. The lenders could not admit twelve debtors instead of one sole. That is why, in my view, at least the tactical interests of the Soviet authorities and lenders united by two informal clubs at that time have coincided.

The sovereign creditors from 18 nations of the world over had hosted by the Secretariat of the Paris club which by tradition used to be a part of the French Treasury headed by the Treasurer Jean-Claude Trichet. And about 600 commercial banks –creditors of the USSR were arranged by the Deutsche bank GmbH into London club in Frankfurt-am-Mein. About USD 6 billion of debt had not been qualified for either of these clubs and later in 1993-1998 were arranged into a separate group of a «Moscow club».

Our initial contacts with the Breton-Woods institutions began at the informal meetings in 1991. The members of the Paris club – top managers of the na-

³ Vienna Convention on Succession of States in respect of State Property, Archives and Debts 1983//– URL: http://legal.un.org/ilc/texts/instruments/english/conventions/3_3_1983.pdf.

tional ministries of finance and central banks' governors, as a rule were rated second persons in the national governments and represented their countries within the International monetary fund and the World Bank group. Same persons used to chair the supervisory boards of the national Export Credit Agencies (ECA), who financed the subsidized exports to the USSR. The leaders of the IMF and the WBG are usually chosen among them.

The IMF staff was employed to analyse and monitor the decisions taken at the Paris club of lenders on the sovereign debtors. That is why the decision to enter IMF and the WBG in 1992–1993 by the reborn or newly born republics of the former USSR seemed logical. Let me reiterate that our membership to the Bretton Woods institutions was prescribed by the lenders who de facto assumed the leadership in the later socio-economic overhaul in the republics of the USSR. One should bear in mind two aspects of the IMF-WBG factor: first, the leadership of these financial institutions used to be scapegoats for the unpopular decisions; second, most of those decisions are initiated, monitored and financed from Washington, D. C.

Well before the Bielovezhsky treaties the meeting of the future USSR successors and 7 countries-creditors of the USSR had taken place in Moscow «President-hotel», where the debt and its settlement was discussed⁴. The representatives of soviet republics had various moods – from the «revolutionary writing-off' to saving in some virtue of the Union to service that debt. The leaders of the Paris and London clubs J.-C. Trichet and Ch. Vontz brought their home work which was called a memorandum of understanding on the debt of the USSR and its successors to the international creditors (MoU). This document at least for the historians can be casted as sensation. Because 40 days prior the Bielovezhsky treaties on the cessation of 1922 USSR creation agreement a document had been drafted where by the USSR its successors appeared. That draft by the lenders had nothing on a possible division of the debt among the successors, instead «joint and several' liability was invoked, which was translated by the soviet lawyers like solidar. This liability was earmarked for all Union successors through the expiration of all loan agreements contained debt to foreign lenders – both sovereign and commercial. The Union was hense in either form at least in papers scheduled to survive at least through 2016-2025 when the major rescheduled debt deals expired.

The joint and several liabilities to my best knowledge were offered for the first time to debtors who represented the newly born states. If the Baltic republics were quoted as stating that since they were conquered they do not assume neither debt not assets claims as for the Union legacy the rest 12 republics had to be accountable for the Union debt until the last penny regardless amount and

⁴ See.: Jean-Claude Trichet (12): The Paris Club, meeting a 'living pharaoh'//Nikkei Asian Review, September 12, 2014 – URL: <https://asia.nikkei.com/Features-archive/Jean-Claude-Trichet/Jean-Claude-Trichet-12-The-Paris-Club-meeting-a-living-pharaoh?page=2>.

time they actually paid. Ukraine didn't ink the Memorandum of October, 28 1991 (on joint and several liabilities). The chief of our delegation the Prime Minister Vitold P. Fokin was a template for the succeeding generations of diplomats. He said that Ukraine should not sign a promissory note missing even an amount due.

It was about the situation we had in October 1991, when neither Union authority and Vnesheconombank, nor the world lenders, could not indicate an amount due to be signed for the joint and several liabilities. Our Prime minister had walked away from the conference room, and the chair Jean-Claude Trichet was following him by saying that the empty chair policy is always no-win. But that demarche of the Ukrainian delegation had influenced other Republics who took a time-out to examine a situation that had completely destroyed the plan initiated to save the Union financially. On November 24 1991 the initiators succeeded to make some republics to join the MOU in the Communiqué but not Ukraine. The Communiqué defined a Union institution which had to settle the debt technically – Vnesheconombank (missing in the title in a month lapse its second part – of the USSR).

In about two weeks time after the Communiqué on December 4 1991 we had a chance to ink our Treaty on legal succession on the external state debt and assets of the Union SSR (Treaty) which had de-jure sliced the just deceased USSR's financial legacy among 12 republics-successors. The lenders were apparently shocked by the news from the Bieloviezzja about the death of the USSR and they were not able to impede. An Agreement on the mechanism of the USSR's debt settlement in hard currency and the timely refillment of the insurance fund and the Protocol on the definition of the sovereign states' shares in the USSR's debt and assets of December 4 1991 have become an integral part of the Treaty. The Treaty and Amendments were signed by the Armenia, Bielorussia, Georgia, Kazakhstan, Kyrgyzia, Russia, USSR, Ukraine and Tadzhikistan. Baltic republics and Uzbekistan declined to sign it.

The former Union republics were named its legal successors by this first international treaty (Article 2), the USSR was named the predecessor state for the legal succession (Article 1). Apart from the act of succession appeared firstly in the history the empire and its composition had peacefully resolved the issues of the common assets and liabilities for the creditors. The state assets of the USSR were also defined for being shared among heirs by the Treaty. The Treaty has also established the date of succession – December 1 1991.

The Treaty's Article 1 reads the assets as the Union's state movable property and real estates beyond its territory, gold and currency funds and reserves of the USSR, foreign investments, any other foreign states, international organizations or other foreign debtors' financial liabilities to the USSR. The «Diamond Fund» was separated for an audit and evaluation, the raw diamonds as the Fund's director asserted for the republics' representatives were incoming at

USD 1 billion worth annually, then they were sent for cutting, including to 5 plants in Ukraine, after they were distributed through the Union monopoly «Almazynvelirtorg» within the Ministry of foreign economic relations. But the value of the diamonds kept in the Fund on the succession date was unknown, thus today this information is still unknown to the parties of the Treaty.

Besides, we got to know that the various art and historic artifacts and national relics were kept in that or other funds of the Ministry of Finance of the USSR; they were stolen after particular part of the empire had been occupied by the Russians. There were inter alia the Ukraine Hetman's Kleinods, The Kyivan Rus period documents and artifacts, treasures of the religious churches and institutions of Ukraine, including those pertaining to the Crimean Tartars. The Russian party has obviously declined of implement the joint actions from the geopolitical point and thus depreciated the Treaty on succession's value.

The assets's issue has therefore become a cornerstone to the complex structure and mechanics of the Treaty. An inventory taking, audit and assessment were necessary to set the current market value and composition. By the preliminary analysis we got to state that the value of the assests were times higher than the approximate assessment of the debt.

So by the USSR Ministry of Foreign Affairs data, the Soviet Embassy in Washington D.C. possessed the offices and dwellings totaled 48640 square meters of space, as well as the land plots totaled 230733,0 sq.meters. The balance book keeping value of the Ministry these real estates valued 64.140 million of In-valut Roubles. By the official rate USD 1=Rouble 0, 60. By that rate the Washington real estate of that single ministry valued USD 103 million. One should bear in mind those virtual Soviet prices. We needed to hire the real estates' specialists to establish the real market prices and by analogy to establish the real value. By the non-records data we got the real estates of the USSR Embassy and service offices with the land plots were valued USD 400 million at the early 90s. Thus we could establish the real market cost of the assets in real estate.

Our opponents had argued that approach was compared to «breaking embassies into 12 shares». Quoting the value of some out of numerous USSR ministries (Foreign Affairs, Foreign Economic Relations, Transports, State Foreign Economic Relations, State Bank, Vnesheconombank, APN, TASS, Friendship Societies etc.) the central authorities argued that those assests were no recognized as a ledacy for division (contrary to the hard currency funds, gold and diamonds). We had rebuffed those claims stating that all those assets were purchased with the budget allocations. Ukraine for instance, had to pay USD 7 million for the Embassy building at Avenue Sachs in Paris; the Ukrainian local community had purchased our Embassy house in Washington D.C.

When we deal with an asset called «sovzagranbank», i. e. daughter foreign banks situated in Paris, London, Zurich, Frankfurt-am-Mein, Vienna, Beirut and Teheran, it is really hard to calculate their real value – in any case they rep-

resented a tangible complex since many decades⁵. The «Eurobank» in Paris has been operative since 1909; it had the highest rating of the corporate debt, allowing it to raise money at the best conditions in the Western Europe. These loans went to finance all foreign trade operations necessary for the state at much more favourable conditions than domestic. These banks were often used to overcome the credit blockade, to arrange syndicated and bond loans for large infrastructure projects. Russia after seizure of all assets used them for its own benefit and later allowed to privatise them by the contemporary Moscow oligarchs.

The Moscow representatives in fact knew from the beginning that none was going to disclose data on the Union's assets to republics. «Rule of the gun» was enacted by that time and Russian Moscow became a single Union successor. The working papers of 1991 contained provisions of the Union's ministries assets transfer to the Russian Federation. The corresponding activities began ir-respective arrangements over the Union heritage.

The USSR external debt was defined by the Treaty as a set of any and all financial commitments assumed by the USSR or any other legally authorized body by the USSR owing to other foreign states, international organizations or any other foreign lender. The debt was assessed by the former leaders of the «Vnesheconombank» in USD 81 billion, including USD 10 billion of the clients' deposits and current account funds. Nobody knew by then that these money were spent by the former leadership of the last USSR government headed by Valentin Pavlov to settle the accounts due to the lenders food suppliers to Moscow and Leningrad, depleting reserves for keeping solvency.

The debt of USD 25, 3 billion had arisen through the last year of the Soviet Union, including the liabilities for the republic currency funds, soviet organisations' finds, personal accounts, and debt to the transport companies for freight operations for 1991 export-import deals. The draft Treaty on succession initialed by the republics on November 26 1991 parties agreed to share the debt arisen through 1991 mainly for food and consumers goods import should be broken into actual consumptions by the consumers in each republics. That draft was our victory because in fact all import of food and consumers' goods were supplied for Moscow and Leningrad. Other republics had no such imports and didn't wish to pay for it.

Once these goods excluded (the amount payable was USD 8,8 bln.) the rest USD 16,5 bln were paid for another goods and services and the republics were unable to detect their ultimate destination because the frontiers and custom posts in a modern meaning would appear only in 1993–1995.

⁵ See.: Gekker P. The Soviet Bank for Foreign Trade and Soviet Banks Abroad: A Note// Board of the Governors of the Federal Reserve System, Division of International Finance, May 31, 1967 – URL: <https://www.federalreserve.gov/pubs/rfd/1967/617/rfd617.pdf>.

The Treaty in Article 3 has established a basic principle for the legal successors to settle the debt and utilize assets, in which, inter alia, the Parties hereto have undertaken to partake and allocate funds to service the USSR external debt in shares agreed herewith by the Parties and under this provision undertook to guarantee the property right to each Parties to its share in the USSR assets. This is the Article to define the core of succession but it is read by the Parties to the Treaty differently and there is no a single judge to resolve that misreading.

The Russian Federation party has assumed to replace the Union's functions on a larger scale since the Independence Act in June and Bieloveizhsky Treaty on December 1991. Before we had found ourself equal in front of a single enemy – the Union, but in 1991 that was the Russian Federation's authority by «destroying» an empire has decided to renew it on a completely new basics. The events in 2007–2017 are the evidence. That is why for Russians the Article 3 meant that the state-successor would get its share in the USSR's assets provided they paid their amount due in the USSR debt. The Russians had information on the real economic situation in every Soviet republic, whereas the Ruble funds were centrally collected through the Union-republic ministries.

Ukraine and our allies have interpreted differently those rights and commitments. We understood that each state-successor had assumed an unconditional property right in the USSR assets and commitment to service the USSR debt since the date of succession – December 2 1991. In such interpretation the Treaty's provisions were effective. We understood that most of the parties would not be physically able to settle their portions of the external payments, thus to collateralise their shares in assets and than to decide either redeem it buy paying the next tranche or leave it with the party-creditor.

The Russian Federation's approach and interpretation meant that only Russia was ex ante a single successor and it would further establish the Treatys' framework. The sens of the Treaty was thus flawed away. A tangible and united position of all other republics was necessary to combat the neo-empire ambitions of Moscow. One should mention that the Ukrainian party has forged that position due to the leaders of the delegations from Georgia, Azerbaijan, Uzbekistan, partially Armenia and Moldova. The leadership of Kazakhstan kept an uneven attitude without a stable national ground. The leadership of Bialarus has taken a pro-Moscow and pro-Soviet attitude blaming us in ruining the Union. The Turkmenistan representative although took part formally but the Turkmenbashi's position was «an equal distance» to all centres of power.

We must specially underline the composition of the than leadership of the Russian Federation who drafted and implemented action plan of The Russia's separation and the Union authorities' inheretence. The ideology of the new Russia has arisen spontaneously, the Boris Yeltzin team targeted to implement revolutionary changes drafted by G. Yawlinsky in his «500 days», various programmes by Y. Gaidar etc. But the real overhaul has been implemented under

the nudge from external lenders. We must admit that the reformers were unlikely to get started without the Paris and London clubs of creditors. Those who were chairing the Russian economic ministries and took part in the legal succession to the Union financial heritage have had a tailwind from the creditors.

These were Russian chairs – the current Putins' henchman – Sergey Glaziyev, who represented the Russian ministry of foreign economic affairs (born in Ukrainian Zaporizzhia), later Piotr Aven, the contemporary Putin's oligarch and co-owner of the «Alfa-group», owning the daughter structure in Ukraine – «Alfa-bank». Mister Aven has «earned» his capital on his own interpretation and repartition of the USSR assets within a Joint Council established by the Treaty on succession. We should also recall Andrey Kazmin, the then deputy minister of finance who overwatched the succession and Alexander Shokhin, the deputy chair of the Russian government. The Russian leadership had been profoundly educated and absorbed the basics of a market economy; they were caretaken by the political leadership headed by the president B. Yeltsin.

The top management from the various republics was in unequal position. The Russian party after the collapse of the Union was powerfully serviced all Union bodies as well as the Western financial and legal advisers hired as if to underpin all successors. One should mention the law firm «White and Casey» who used to draft both deals and speeches for the Russian delegation to the foreign creditors. The French-American private bank «Lazards Freres» used to be and actually is the best go-between in dealing with the Paris club of creditors and the IMF chaired traditionally by the representative of France.

The hardest assignment for the negotiation on the Treaty became to establish the single indicators for the repartition both the USSR debt and assets. There has never been a case before. The Austro-Hungarian Empire after its real collapse in 1918 has had 60 years of court and diplomatic talks. The Socialist Federal Republic of Yugoslavia after an actual crash has entered a period of military conflicts which didn't permit to start the repartition of the federal legacy.

The Czechoslovakia's dissolution was an exception on this background. They decided that the more industrialized and populated Czechia inherit 2/3 and more agrarian Slovakia – 1/3. There were no quarrels and the federation was ceased to exist peacefully.

We had no idea how the debt and jointly inherited assets be apportioned fairly and correctly. But our discussions and evening parties in the Permanent Representation of the Ukrainian SSR Council of Ministers in Moscow (later become our Embassy in Russia) brought us a certain algorithm. The share of each member-state to the Treaty had to be defined on the basis of unified aggregated indicator calculated by the factors analysis during certain period of time, for instance 5years. There were each republic share in the Union's export, import, GDP and population within 1986–1990 taken a set of factors. This set has been chosen to represent the per capita GDP and the trade balance between export

and import showed who consumed more he should pay more. The negative current account in trade was financed in the USSR by loans, including the loans in goods. Thus provided for many conditionalities we had a chance to arrive at more or less objective indicator, which could serve to apportion joint legacy of debt and assets. Russia has 61,34%, Ukraine – 16,37%, Bielorus – 4,13%, Uzbekistan – 3,27%, Kazakhstan – 3,86%, Georgia – 1,62%, Azerbaijan – 1,64%, Lithuania – 1,41%, Moldova – 1,29%, Latvia – 1,14%, Kyrgyzstan – 0,95%, Tajikistan – 0,82%, Armenia – 0,86%, Turkmenistan – 0,70% and Estonia – 0,62%.

The Interstate council on supervision for debt settlement and utilization of assets composed of the authorized representatives of the parties was incepted to implement the Treaty. The representatives had decisive votes; the decisions were taken by the majority which avoids Russian monopoly. Each time they had either to recruit Ukraine or the rest of countries. The authority and competence of the Interstate council has de facto put it ahead of other interstate or interrumpublican bodies in charge of the Union divorce.

Vnesheconombank of the USSR (VEB) was authorized to service the debt, making books and records, reserve fund management. The Bank itself was earmarked to be reshaped by the Interstate council according to the Article 7 «without damaging the loan agreements». But the discrepancy in reading and interpreting the Treaty put several hurdles in its implementation.

On December 8 1991 Bielorus, Russia and Ukraine have inked the Bilovezhsky Treaty⁶, which has declared that the Union of the SSR, as a subject of international law and geopolitical reality, ceased to exist. But the Article 12 provided that the High Parties to the Treaty guarantee observance of international commitments, entailed from the USSR treaties and agreements.

Nobody has yet analyzed the correlation of various legal acts signed during 1991–1993 years. But the principles of legal succession provided by the Treaty on succession of December 4 1991 were used in a set of international agreements.

The further history of the already independent states-successors of the Union provides evidence to the greatest unaccomplished possibilities opened by the succession process for all republics and their citizens. The comprador and communist elite who saved unfortunately power everywhere but Baltic countries were unable not only use them but even familiarize with them. That is why the political and populist attempts to retrieve the funds confiscated by the Soviet authorities, a chase for an international loans with various sham financiers, attempts to survive at the neighbor cost were unfolded. So it is completely real to come back to the legal succession of the republics in the USSR membership to

⁶ Соглашение о создании Содружества Независимых Государств, 8 декабря 1991 года. Treaty on the Establishment of the Independent – URL: <http://rusarchives.ru/projects/statehood/10-12-soglashenie-sng.shtml>.

international agreements where the rights and commitments contain tangible material and political components.

These are the treaties on the USSR participation in the international organizations and bodies, for instance in the UNO. An agreement on the legal succession of the Russian Federation, as a continuing USSR state in the UNO, including the permanent seat in the UN Security Council, has never been signed. We must also recall the international treaties on the precious fish and seafood fishing quotas in the Northern Atlantic, on the mineral resources extraction in the World Ocean etc. But I reiterate that none of our government composition has not yet considered this information.

The real factor which has been nudging the ruling elite so far is a pressure from international lenders and international financial institutions. Until December 9 1994 when the Prime – minister of Ukraine V.Masol had signed with the chief of the Russian government V. Tchernomyrdin an Agreement on the final arrangement of the succession issues on the external foreign debt and assets of the USSR, the London and Paris clubs of the USSR creditors exerted pressure, since 1995 such a pressure has been passed to the IMF and the World bank Group.

The eternal summit in 1994 in Winnipeg, Canada where the leaders of Ukraine met all creditors and donors has brought an order to our external finances; it also mitigated the Russian political and revenge pressure. The golden time of renaissance both political and economic seemed to arrive. Hryvnia was introduced due to that event; the privatization and demonopolisation have brought Ukraine to the market economy status renowned in the world.

Why the external pressures from creditors bring no results? Why our corrupt pseudoelite feels comfortable with the population in need and deceasing and the creditors had used since 25 years to it? Without reviewing the domestic reasons let me try to analyse the failures of the numerous international programmes most linked to the IMF.

The IMF was created to keep liquidity in the international commerce and finance. IMF lends short term funds from own capital to cover a current account deficit of the balance of payments in the member country. Mention should be made on the Funds' capital which is raised in a corporate way, thus the OECD countries and China are the major shareholders and having most votes. The members' contributions were made in irrevocable bills of exchange issued by the ministries of finance opened at the IMF accounts in the central banks. The Fund's Treasury calls on these accounts by assignning the countries-lenders, that is why those operations are called assignment. Records and settlement are made in the Special Drawing Rights (SDR), artificial virtual currency of the IMF.

The key feature of the fund's loans is their short term, in extraordinary cases these are 36 months, usually – 12–15 months. The country-borrower within

this period shall refill the national currency reserve and make everything to balance the current account and further positive surplus. It serves for the central bank to purchase and reimburse the IMF loan.

Most of the IMF countries-members who are recipients of the international aid are not able to overcome the reasons of periodic socio-economic crisis. Drawing the IMF loans they undertake to bring order in their public finances, reach the positive balance in the current account of the balance of payments, purchase a hard currency and pay back the loan.

The major IMF prescriptions on the swift actions to deal with the crisis of international liquidity for the countries –members are named the «Washington Consensus», put in practice by the prominent economist J. Williamson⁷, which comprises the following:

- 1) privatisation;
- 2) financial discipline;
- 3) redirection of the public expenditures;
- 4) fiscal reform;
- 5) financial liberalisation;
- 6) trade liberalisation;
- 7) exchange rate competitiveness;
- 8) price liberalization;
- 9) borders opening for the foreign direct investments;
- 10) enhancing the property rights of the owners.

If those conditions were met by the borrowing countries the IMF would have the loans paid back and the reasons for periodic crisis would have been vanished. Each of the above mentioned elements is a portion of the comprehensive set for the profound economic reform. Speaking about Ukraine since the first programme of 1995 the whole history of the interaction with the IMF should be called a gambling.

Ukraine has started a cooperation with the international financial organizations in June 1992 when the Law of Ukraine № 2402-XII «On the Ukraine's membership to the International Financial Fund, International bank for Reconstruction and Development, International Financial Corporation, International Association of Development and Multilateral Investment Guarantee Agency» was

⁷ Williamson J. The Washington Consensus as Policy Prescription for Development// A lecture in the series «Practitioners of Development» delivered at the World Bank on January 13, 2004. Institute for International Economics – URL: <https://pie.com/publications/papers/williamson0204.pdf>.

voted. The real reforming and financial borrowing was started in 1995 when Ukraine was introducing Hryvnia.

Every new administration in Kyiv and the IMF team from Washington D.C. when inking the next agreement had their own interests which rarely coincided. The IMF team every time used to prescribe to Kyiv the similar recipes from the set of the above mentioned «Washington Consensus» was hardly to anticipate it's implementation. The Kyiv team represented more often by the Prime-minister, ministers of economy, finance, statistics, governor of the NBU, who used to take their chairs as longest for 24 months (seemingly during the tenure of V. Pustovoitenko cabinet) tried to do their best to persuade the IMF team that every requirement was met. The board of Directors' decision in Washington was often taken under conditions pushed by the major stakeholders.

I took two times part in those routine meetings in Washington in the IMF headquarters. Every time I was sure in the low interest of the major creditors in the real success of reforms in Ukraine. The directors from the USA and Germany used to manifestate more interest. The directors from France and Great Britain used to care more about their ex colonial possessions, the Russian director poised to fail any reform in Ukraine that could bring us back to the post-empirical unity EuroAsian Economic Union (in various options).

I should express my sincere gratitude to the small country – who chairs our constituency in the IMF-WB – to the Kingdom of the Netherlands. Their leaders used to express their sincere interest and made a practical contribution in the reform process in Ukraine sometime even greater than our government's members. The level of utilization of the international financial institutions's capacities for our development and reform goals leaves much to be desired.

By way of conclusion I would wish that the recent quotation of our minister of finance Mister O. Danylyuk's desire that all succeeding budgets be drafted and executed without IMF loans come true. But the political populism and it's funding at somebody else's account will be the major hurdle in this way.

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