

LAD CASE STUDY

Small Battle in a Big War: The Post-Maidan Transformation of the National Bank of Ukraine

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LAD

ABOUT LAD

The Leadership Academy for Development (LAD) trains government officials and business leaders from developing countries to help the private sector be a constructive force for economic growth and development. It teaches carefully selected participants how to be effective reform leaders, promoting sound public policies in complex and contentious settings. LAD is a project of the Center on Democracy, Development and the Rule of Law, part of Stanford University's Freeman Spogli Institute for International Studies, and is conducted in partnership with the Johns Hopkins School of Advanced International Studies.

Small Battle in a Big War: The Post-Maidan Transformation of the National Bank of Ukraine (NBU)

Executive Summary:

At the end of 2014, Ukraine faces a series of challenges: constant friction between supporters of Russia and supporters of the West brought about by Russia's annexation of Crimea, negative growth of GDP at -6.6%, an oligarchy that dominates power, devaluation, political uncertainty and alarming levels of corruption. Amidst this "perfect storm," the newly appointed board members of the National Bank of Ukraine (NBU) have undertaken the daunting task of stabilizing the country's macro-economy through a comprehensive and lasting internal transformation. However, oligarchs and lawmakers seem determined to make this already strenuous endeavor still more difficult by enacting a law that drastically reduces the salary of all public sector employees, thereby severely damaging daily operations at NBU. This case analyzes the NBU board members' decision-making process as they navigate opposing forces both inside and outside the National Bank.

Introduction

October 2014: Deputy Governor of the National Bank of Ukraine (NBU) Vladyslav Rashkovan faces a major frustration. After giving up a promising private sector career to accept his country's call of duty, the 36-year-old former investment banker must tell his wife and two children that he is subject to a 15-fold pay cut.

Indeed, a law was passed and implemented by the Parliament slashing salaries of all public sector employees. Aware that NBU employee salaries do not derive from the budget supervised and allocated by the parliament, the legislators managed to append a note to the regulation ensuring that the central bank staff would also be subject to the new law. This was only one of numerous actions undertaken by the major opponents of the NBU reform – oligarchs and legislators. Clear losers in a restructuring of the National Bank, these stakeholders' protest and show of discontent with the revolutionary central bank transformation began a few months earlier.

The oligarchs struck at the right moment. The reform was about to take off: a pro-reform governor had been appointed, the newly elected president seemed supportive towards changes within the central bank, the reform plan had received final approval from the NBU board and interviewing/hiring of competent candidates had proceeded smoothly. Most importantly, the reformers were gaining confidence. It seemed that building an institution capable of carrying out the core functions of a central bank while promoting meritocracy and transparency was no longer a mission impossible. With the slashed wage rate, however, inflow of new blood to the NBU has halted. At this stage of reform, the NBU is seeking candidates with international macro-

Hanzhuo Zhang conducted interviews and prepared this case under the supervision of Francis Fukuyama of Stanford University. This case was developed solely as a basis for class discussion. It is not intended to serve as a historical record, a source of primary data, or an illustration of effective or ineffective management.

economic expertise and experience to kick-start the long process. But many qualified supporters of reform have become hesitant to give up the reliable income offered at their respective posts in the private sector. In fact, more than 50% of the potential recruits have declined the offer, despite reformers' promise to promptly deliver a monthly income of \$8000.

To make matters worse, at the end of 2014, Ukraine suffers from constant friction between pro-Russia and pro-Western interest groups within the country, warfare that resulted from Russia's annexation of Crimea, negative GDP growth of -6.6%ⁱ, domination of power by oligarchs, devaluation and political uncertainty. These external factors have led to rising frustration and distrust among the people, pressuring bank reformers to provide stability.

The situation might still be under control if these shocks had come one by one. But the harsh reality is that the challenges, striking simultaneously, have shattered an already fragile system. West European experts estimate that a typical central bank transformation takes approximately 5-6 years. Yet reform proponents at the NBU do not have this luxury. Considering the country's extreme state of vulnerability and instability, all actions need to take effect within 1 year. Stabilization of the crashing economy and morale requires rapid changes at the central bank.

In this perfect storm, how can Vlad Rashkovan implement a successful and lasting transformation within the broken NBU? What are his top priorities at this crucial moment? Should he continue to push for HR restructuring or focus on lesser changes? What are the underlying challenges that he faces from inside and outside the central bank? Who are the stakeholders?

Internal Stumbling Blocks

Problems of Status Quo

To answer these questions and provide a solution to the dilemmas faced by the NBU's decision-making committee, we must examine current conditions at NBU and identify internal stumbling blocks to restoration of order.

Compared to other ministries and organizations, the NBU appears relatively efficient. The hard-working staff skillfully dealt with a massive devaluation and liquidity shortage. Timely actions undertaken in February 2014 included floating the exchange rate, introducing new facilities that impose high penalty rates against nonstandard collateral, and limiting daily deposit withdrawals to UAH 15,000. However, NBU still lags behind fellow Western central bank standards and is hindered by major internal problems. The internal challenges become particularly problematic when combined with external opposition at this pivotal moment, hampering the reform process. The most significant problems include: **1) lack of focus on core-functions, 2) massive, bureaucratic structuring of staff, 3) decentralization of bank branches, 4) unclear central bank mandate, 5) lack of proactive culture among workers, 6) absence of structured hiring process and compensation.**

Preceding 2014, various reforms were implemented. In 2006, a first wave of reform came in response to the Cabinet of Ministries' directive to improve systems of forecasting and to require strategic plans from all governmental agenciesⁱⁱ. To meet this objective, the Department of Economic Analysis and Forecasting (DEAF) established a project team, which later drafted an

NBU action plan for 2006. However, due to lack of resources and limited support at the managerial level, the plan was not implemented. Not only was there a lack of follow-up, but because of ongoing crises and intense political focus on short-term performance of the central bank, NBU was forced to focus primarily on crisis-management rather than on developing medium to long term sustainable solutions and plans.

A central factor leading to inefficiency of the central bank is massive overstaffing. Despite efforts carried out in 2010 reducing staff positions at the head office by nearly 1,800, the bank's total staff numbers have changed little in recent years. In the three years prior to 2010, that total ranged narrowly between 11,266 and 11,322 while by 2014, the headcount had increased to 11,944ⁱⁱⁱ. However, even adjusting for the regional network and the size of the country, the NBU maintains its status as a relatively large central bank primarily because of several large establishments only marginally related to its core business and support areas^{iv}. Among the 11,944 employees in 2014, only 21.1% (2,525 out of 11,944) undertake core functions that ensure monetary and financial stability. More precisely, the total number of employees in merely four of the non-core departments such as HR, logistics, IT and banking safety/security amounts to 2,928 (24.5%), a larger total than in all other core departments combined. Even within the smaller, core-related group, staffing in the support areas is disproportionately large in relation to that of the core business areas^v.

NBU decision makers' lack of focus on core-function responsibilities and a multi-layered hierarchy have also led to inefficiency in bank operations. In addition to the governor, there are five deputy governors: one First Deputy Governor and four other deputy governors. Each is supposedly in charge of one operational group.^{vi} However, only two of these groups manage core functions dealing with financial and monetary stability. Activities of the other three departmental groups and the executive group include a mixture of currency and banking services, core-related support activities, and other non-essential activities. Furthermore, hierarchy within each head office department complicates the reporting process. General departments are subdivided into departments; departments are subdivided into divisions; divisions contain sections; and sections have sectors, the smallest of the organizational units.

Decentralization of regional branches also contributes to NBU's inefficiency. Consuming a disproportionate share of management resources, they add to NBU's cumbersome size in comparison to West European peers and complicate the transformation process. More specifically, only 1,604 out of 11,944, i.e., 13.4% of employees, are attached to the headquarters of NBU in Kyiv while 4,924 employees are dispersed in 25 regional offices^{vii}. Furthermore, each of the regional divisions has its own structure with sizable organizational units, many of which are engaged in currency handling and banking supervision specific to the region. Although regional heads must report to headquarters, they have discretion over functional and administrative responsibilities. Given such a high degree of discretion within each region, the decentralized local branches grew into powerful small "kingdoms" under the larger NBU realm. The massive body of operations underway in the regions obstructs reform. To achieve an optimal head count, approximately 50% of the regional staff must be laid off, while competent employees must be hired to ensure daily bank operations. During the restructuring, obstacles often arise: local authorities may reject the headquarters' lay-off orders; quality replacements may be unavailable on short notice; legal procedures and other difficulties may slow the endeavors.

A lack of clear mandates and explicit performance indicators may further complicate the situation, leading to overlaps in function and a lack of coordination and communication across departments. With reform in process, the NBU is in a transitional phase with ongoing changes to its core functions. The mandate for banking regulation/supervision has had to constantly adapt to a crisis environment, while the monetary policy departments are adapting gradually to a more flexible exchange rate regime. As the NBU segues into an institution meeting international standards, there will be inevitable overlap as departments seek out new products and procedures. However, a lack of communication and coordination across departments has led to duplication – the same operations may be assigned to two units. To make matters worse, as noted by most board members and department directors, there has been little horizontal communication. The extent of cross-department communication is dependent on the relationship between the heads of department. In fact, the only way to contact a fellow department colleague within the NBU is through the department director, and communication only takes place if the two department heads have close ties – which is rarely the case. This is particularly problematic when the NBU executes its core functions. A failure to communicate between divisions leads to failures in targeting inflation and maintaining financial stability.

The bureaucratic and corrupt culture prevalent among the bank staff also contributes to low-productivity and lack of communication. A severe lack in proactive culture is visible among staff; policy discussions tend to be limited to senior managers, and department heads are generally not included in policy discussions. Staff may brief senior managers but are seldom invited to present to policy committees. All NBU staff are cautious and silent facing their supervisors, withholding opinions and ideas (or conforming to their bosses' opinions) in fear of job loss. However, frank manager-staff communications and a culture that promotes equality are essential to increasing long-term productivity within the central bank.

Absence of a clear-cut, consistent communication strategy has created further misunderstanding between the National Bank and the public, escalating conflicts within the country and slowing potential reform efforts. At the end of 2014, the NBU governor and its first deputy governor, along with many key members, suffered from serious harassment, protest, and attack. (Refer to links and photos in Annex 7 for more details regarding personal attacks) One cause of such behavior was a weak communication strategy within the NBU. While the oligarchs exhausted all media and financial resources to demonize the reform-leaders, the National Bank's action was exclusively reactive. The central bank lacked experience in shaping public opinion and, still worse, many of its leaders and staff failed to see the need or importance of communication. Believing in the righteousness of their actions and not troubling to provide explanations to a larger audience, they were reluctant to use new strategies. As a result, all websites and other public channels lacked user friendliness, and the NBU had no unified strategy for facing the media.

Other challenges to the NBU, hindering the transformation process, included the unstructured compensation system, the complexity of the job application process, and a lack of worker incentives for responsibility and better performance. Many interviewees were discouraged from joining the new Central Bank by the obscure wage scale at the NBU: they were told that salary would constitute 20% of their annual income while the other 80% would be come from “other unknown sources.” A complex application process added to the opaque remuneration package. In

order to be considered for an NBU position, applicants were required to prepare 10-15 documents. This combination of factors led to distrust and confusion among potential candidates and slowed recruiting processes essential to NBU reform. In addition to the issues of a “mysterious wage” and the lengthy application, NBU workers lack incentives to higher performance. Given the generous benefits available to the majority of existing NBU employees regardless of rank (complimentary housing, below market interest rates, full healthcare coverage, plentiful paid holidays, and the absence of a penalty/performance-based evaluation system), most had only one goal: to remain in the system rather than to strive for career advancement, since hard work produced no benefits and lack of effort brought no consequences. Consequently, in order to boost NBU’s productivity and efficiency, which have stagnated over the years, a performance-based wage system is needed.

The External “Enemy Coalition”

Not only do the reformers face resistance from within the bank, but external stakeholders and environmental factors such as armed conflict and exorbitant political instability further complicate the transformation. Four major external forces create huge obstacles to the reform process: the Russian-Ukrainian war, oligarchs’ leverage, politicians’ interests and the weak banking sector.^{viii}

Russian invasion of Ukraine: armed conflict escalated to full-scale war at the end of 2013 and beginning of 2014. Ferocious battles and bloodshed took place in Donetsk, Luhansk and Crimea between the pro-Russian group and the national troops of Ukraine. The extended warfare, continuing into 2015, created anxiety among the populace and triggered a continuing financial crisis and economic downturn. In fact, the economy of Ukraine suffered recession between 2013-2014, aggravated by the armed conflicts that broke out in the eastern region of the country. The NBU faced severe challenge by the end of 2014, as two regional representatives from the NBU, along with massive assets of the central bank, were seized by Russian troops. Finding a way to transfer the assets safely, preventing misuse of the funds to the detriment of the nation, and negotiating with the Russian forces became absolute priorities. If no action had been taken, heavy indebtedness, devaluation and capital flight would have placed the nation further at the mercy of Russia. Russian interest was to see Ukraine make concessions due to financial distress, thereby giving Russia a stronger hold. Importantly, however, a lasting capital flight is not in Russia’s interest either, in that major banks in Ukraine have traditionally been heavily backed by Russians. By the end of 2014, Russians still own about 12% of all banking assets in Ukraine^{ix}; instability and crisis harmed their own profits.

Ukrainian oligarchs oppose all reform attempts in Ukraine. They accumulated wealth primarily by illegal seizure of state assets following the collapse of the Soviet Union in the 1990s. Ukrainian oligarchs, including President Poroshenko, have full control over the major media and largest banks, and are close cronies (Annex 5).^x Because reform would dispossess these stakeholders of their assets and leverage, their private incentives are misaligned with those of average Ukrainian citizens and of the NBU reform proponents. It is in their interest to maintain the status quo at the central bank: weak regulation allows them to continue using their private banks as money launderers or to continue receiving refinancing funds from NBU to use as quasi-equity^{xi} in funding personal projects. A reformed NBU would mean an end to insider lending and result in massive income loss. Thus, battle rages on between the reform proponents and the

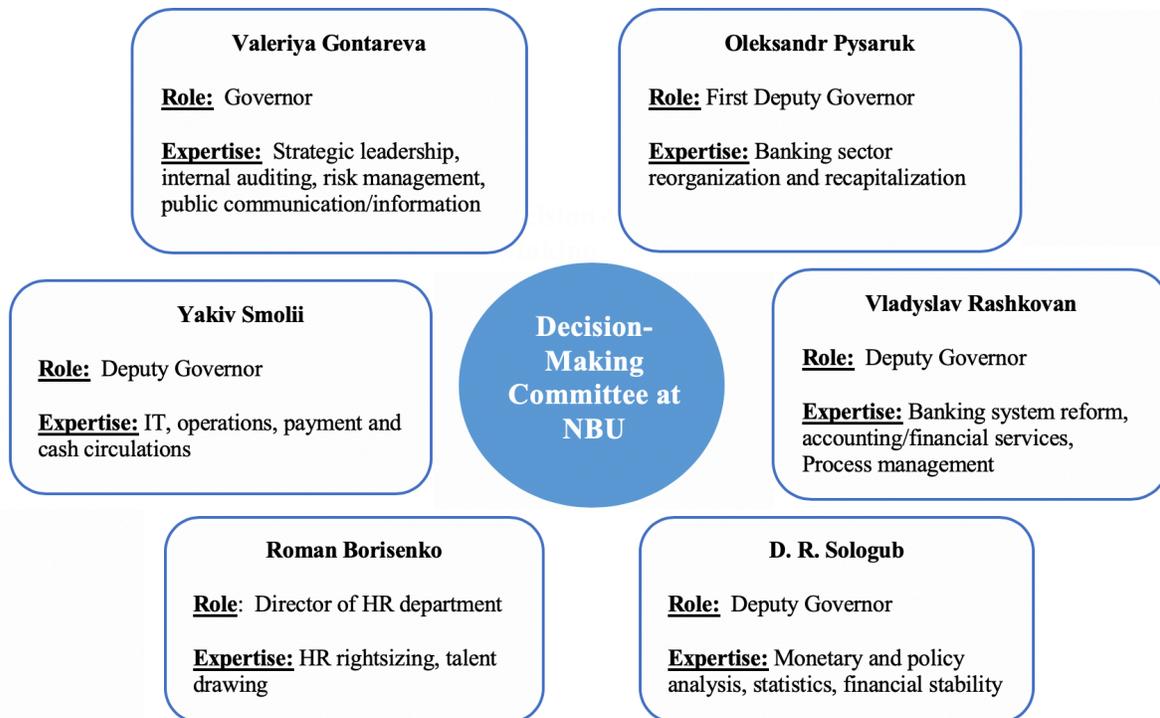
powerful oligarchs. Indeed, protesters have never stopped showing discontent. During the reforms of recent months, one daily rally gathered at the National Bank's gates displaying a symbolic coffin that contained the "head" of the bank. Other examples of reform opposed by the oligarchs include improvement of NBU's communication with the people and full transparency of its processes.

Politicians' misaligned incentives with the central bank may be another major deterrent to restructuring of the NBU. Due to constant warfare and accompanying unrest, policy makers tend to focus on short-term crisis-management in order to win popular support quickly rather than to design a sustainable plan for the economy. A more serious issue is politicians' collusion with the oligarchs. In fact, the only items on the politicians' agenda are reelection, reputation and rent-seeking. They are therefore reluctant to offend campaign funders (i.e. oligarchs who are also major stakeholders in politics) and lose access to rent. Furthermore, a weaker NBU makes politicians' lives easier. Through oligarchy-supported media, the government has frequently blamed market vulnerabilities on the central bank's tightening of monetary policy, thereby demonizing reformers and relieving pressure on themselves. Thus, in addition to wars and poor economic performance, a lack of support from the central government creates a third major stumbling block impeding NBU transformation.

The banking sector faces a triple crisis in 2014: a banking crisis, macro-crisis, and balance of payment crisis aggravated the financial sector's vulnerability. In addition, local banks are heavily undercapitalized. This lack of capital is caused primarily by 1) the oligarchs' use of financial institutions to launder illegal income through local banks, and 2) the high proportion (95%) of insider-lending to the staff or board members of banks that are usually non-performing^{xiii}. Most importantly, faced with these illegal and criminal endeavors and alarming signs, the National Bank of Ukraine has chosen to look aside rather than to attempt correcting these wrongs. To make matters worse, seeing the war and devaluation pressures, foreign banking groups continue pulling out of the market. Non-performing loans (NPL) at the state-owned banks spiked from 12% in 2013 to 19%^{xiii} in 2014, and 60% of these NPL may be insider lending. Massive liquidity shortages were present: bankers viewed their loans to the NBU as safe due to the lack of asset disclosure, but many are backed by poor collateral or consist of partial lending in reality^{xiv}. Indeed, less than 40% of national banking sector assets are fully disclosed: the legislation states that there will be no shareholder disclosure if the average individual share-holding exposed is less than 10%. A loophole is thus created, with all banks gathering a total of 11 shareholders in order to meet the "criterion"^{xv}^{xvi}. Most importantly, the corrupt and rent-seeking culture further erodes the country's banking sector from within. All these factors make Ukraine extremely vulnerable to full-scale bankruptcy.

The Plan for Change

The Reformers' Squad



The IMF

Facing all the opponents of reform, the NBU decision-making committee has one ally: the IMF. Indeed, the international institution has been a major supporter of the transformation, providing technical assistance and professional advice. Multiple missions to Kyiv were made by IMF teams of experts. Although the opponents of reform seem to outnumber proponents, IMF's leverage over the government and the lawmakers is sufficiently great that the reform squad maintains its optimistic view of NBU transformation. Indeed, the IMF conditioned the entirety of its loan, crucial to the country's recovery, on a law-abiding and functioning central bank.

More specifically, as of the end of 2014, the IMF had sent three missions to the NBU. A first technical assistance mission led by Thorvald Moe (Norges Bank) visited Kyiv on May 18–26, 2009, as part of ongoing assistance to strengthen the central bank and enhance its capacity for medium term planning. The team's mission was to provide assessment of the status quo and offer constructive advice for improvement of the central bank's performance from diverse perspectives. The first mission suggested that the NBU rearrange management responsibilities (with heavier focus on core functions e.g. monetary policy or financial stability); segue out of short-term crisis management by drafting strategy plans for the upcoming three years; initiate annual performance review meetings with senior management; encourage horizontal/vertical inter-staff communication; and avoid micromanagement by executive directors through division of responsibilities between the latter and the department directors.

On April 30, 2014, following the government's request, the IMF approved a Stand-By Arrangement with exceptional access, consisting of a 24-month-long, \$17.1 billion loan to Ukraine. The IMF set conditions and performance criteria to be met by fixed dates as a condition

for continued funding. The key conditions include: the NBU's instructing the largest 35 banks to launch diagnostic studies based on development of terms of reference, passage of a new public procurement law to strengthen governance and checks/balances, and adoption by NBU of a regulation specifying calculation of the official ER as a weighted average of rates on the same day's interbank transactions.^{xvii} Key performance criteria (PCs) consist of: 1) quantitative PCs, i.e., a ceiling on cash deficit of general government, and a floor on cumulative change in net international reserves, 2) indicative targets such as a ceiling on cumulative change in base money, and 3) continuous PC, specifically, non-accumulation of new external debt payments arrears by the government.

A second and third mission followed the Stand-By Arrangement stipulations. In May and July 2014, missions led by Donald Stephenson (Bank of Canada) and Pawel Senator were sent to undertake first review of the SBA, checking whether the quantitative performance criteria and structural benchmarks had been fulfilled. The missions verified that all but one PC had been met by end-May and, despite slight delays, all structural benchmarks were in place. However, the deterioration in economic outlook, fiscal pressures, intensification of conflict in the eastern region and an escalated gas dispute with Gazprom put the program targets at risk. In their reports, the follow-up mission leaders stressed enhancing the independence and accountability of a smaller executive board to ensure its strong decision-making capacity, pushing for more strategic planning efforts (and disclosure of all strategy documents to the public) and finally winning support from the First Deputy Governor level.

As indicated earlier, the IMF, providing loans to alleviate the market crash, has a high degree of leverage over both politicians and lawmakers, despite their reluctance to see structural changes within the central bank. IMF has the power to halt disbursement of loan tranches if criteria for performance or implementation of structural benchmarks fail to be met, or if the use of funds deviates from the intended destination, or if any violation of contract rules are observed by IMF (to be updated with more detailed figures of disbursements). As of today, at the end of 2014, three loan packages to help Ukraine through the crisis have been approved by the IMF executive: \$16.5 billion was disbursed in two installments by May 2009, an additional \$15.1 loan was approved in August 2010, and a comprehensive reform of technical assistance backed by \$17.01 billion was most recently approved in April 2014^{xviii}.

Problems and challenges persist with IMF technical assistance, despite its good intentions. The advice obtained from experts with experience at Bank of Canada or Norges bank is not always applicable to the NBU. The Canadian and Norwegian banks differ drastically from the NBU in terms of structure and size of staff as well as in legacy, history, and culture. Blind copy-pasting could trigger unintended consequences. In addition, the IMF relies heavily on internal research and may tend to adopt traditional methods, which could hamper attainment of desired results. Furthermore, some goals set by the IMF, such as 100% disclosure of banking ownership, were nearly impossible due to heavy resistance from the oligarchs. Thus, in order to design a reform that best suits the NBU at this challenging moment, adjustments are still needed.

Other Reform-Supporters

It is important to note that in addition to the IMF and the decision-making body within the NBU outlined in 4.1., President Petro Poroshenko also wishes to see the central bank perform its core functions. With NBU supervising the private banks' operations and promptly enacting monetary policies in response to crisis and warfare, the country's macroeconomy could be stabilized. With less catastrophic macroeconomic indicators, the president could gain popular support and a higher chance of reelection. Thus, when appointing the new NBU governor Valeriya Gontareva, Poroshenko gave her discretion to make changes within the poorly structured and corrupt NBU (even though Poroshenko did not fully support drastic transformation).

After the Maidan Revolution of February 2014, many talented Ukrainians residing in other parts of the world were drawn back to their home country. Thousands of patriots with expertise in banking, trade or human resources, like Vlad Rashkovan, gave up generous paychecks and comfortable lives in Western Europe to serve in the commerce departments or banks of their homeland now suffering foreign invasion and severe economic downturn. This influx of talent provided the NBU decision-making committee with the human capital necessary for attainment of its reform goals.

Gathering Options and Conclusion^{xix}:

Facing this perfect storm of multiple opposing forces with only one ally, Rashkovan, known for his problem-solving ability, found the situation particularly arduous. On one hand, the warfare, social unrest and hostility of the oligarchs and politicians discourages the NBU leadership from implementing a full-scale reform that puts their lives and reputation at risk; on the other hand, the collapsing markets cry for a central authority in charge of damage control and recovery. Would it be possible to push the reform ahead before the enemy-coalition retaliates? If Rashkovan decides to stay and fight, how can he motivate teammates to stand with him in this battle? Three major plans of actions seem available:

- i) Halt the transformation and stop all current efforts. Instead, like his predecessors, focus on solving short-term issues. Since this would mean maintenance of the status quo, it would negate all previous efforts.
- ii) Partially move the transformation forward by attempting to solve only the internal problems without considering the external factors. Most importantly, desist from closing non-performing banks so the oligarchs stop inciting strikes.
- iii) Push for full-scale transformation at the NBU in disregard of all setbacks. This option entails continued restriction of salaries, and constant pressure from lawmakers and oligarchs, as well as popular discontent.

Appendices

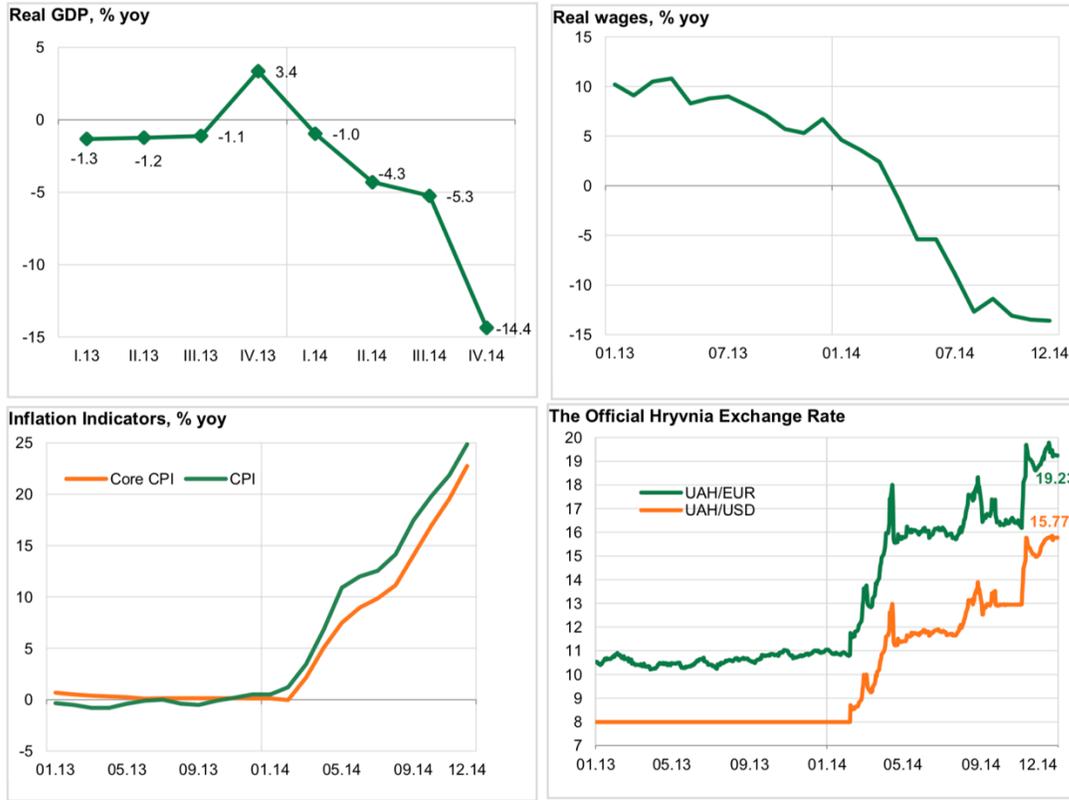
Annex 1: Timeline for the NBU Transformation^{xx}

Key events in Ukraine in 2014	
20 Feb	Violent attack on Euromaidan
21 Feb	S&P downgraded Ukraine's credit rating to CCC, with a negative outlook
22 Feb	President Yanukovich escapes from the country
22 Feb	Parliament elects Oleksandr Turchinov as a speaker, who also serves as an Acting President
24 Feb	Parliament approves Stepan Kubiv as NBU Governor
27 Feb	Creation of the new Coalition in the Parliament
27 Feb	Parliament elects Arseny Yatsenyuk Prime Minister and approves the new Government (including Oleksandr Shlapak as a Minister of Finance)
27 Feb	Russian military attack on Crimea
28 Feb	Bankruptcy of Real Bank and Brockbusinessbank
28 Feb	Local currency devaluated to the level 10 UAH/USD
28 Feb	NBU limits withdrawals from the retail Fx deposits accounts in the banks (15 ths uah per day)
04 Mar	IMF mission arrived to Kyiv
13 Mar	Bankruptcy of Bank Forum
16 Mar	Referendum in Crimea
20 Mar	Parliament of Russia approves annexation of Crimea
06 Apr	Violence on the East of Ukraine – taking over of the several regional administration by separatists
07 Apr	Separatists took over NBU office in Lugansk
16 Apr	Start of the Antiterrorist operation (ATO) on the East
30 Apr	IMF approves 17.1 bin usd Standby program for Ukraine
01 May	First increase of HH gas prices by 50%
02 May	Violence in Odesa trade union house
12 May	Separatists declare creation of illegal DNR and LNR republics
15 May	NBU meets with banks re financial sector strategy 2020
25 May	Petro Poroshenko elected as a President of Ukraine
16 June	Separatists took over NBU office in Donetsk
19 June	Parliament approves Valeria Gontareva as NBU Governor
27 June	Signing of the EU accession agreement
05 July	Ukrainian military forces took over back Slavyansk
17 July	Malaysia Airlines flight MH17 was brought down over eastern Ukraine by Russian military forces
24 July	Arseny Yatsenyuk resigned
26 Aug	Illovaik fights
27 Aug	Russian troops entered Donbass
27 Aug	Local currency devaluated to the level 14 UAH/USD
02 Sep	IMF Board approves First review of SBA
13 Aug	Launch of the National Reform Council
05 Sep	First Minsk agreements
22 Sep	NBU introduced new currency controls limiting buy of USD equivalent 3000 uah
23 Sep	President meets with owners of the largest banks; exchange rate fixed on the level of 12.95 UAH/USD
26 Oct	New elections to the Parliament
20 Nov	Bankruptcy of VABank
21 Nov	Signing of the Coalition agreement in Parliament
27 Nov	Parliament elects Arseny Yatsenyuk Prime Minister and Volodymyr Hroysman as Speaker
02 Dec	Parliament approves the new Government (incl. Natalie Yaresko as a Minister of Finance)
29 Dec	Monetary policy Committee of NBU starts working
29 Dec	Parliament approves the 2015 budget , also limiting the salaries of the public servants, incl NBU.

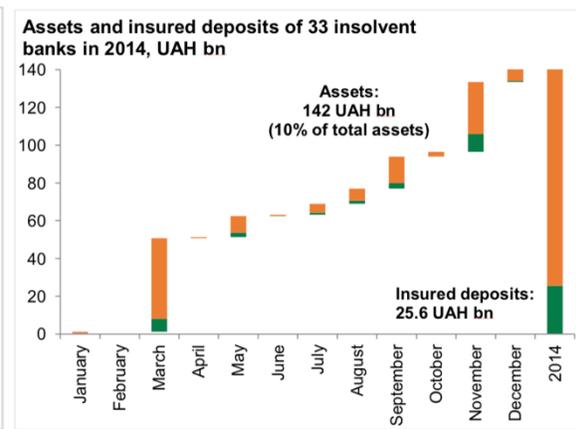
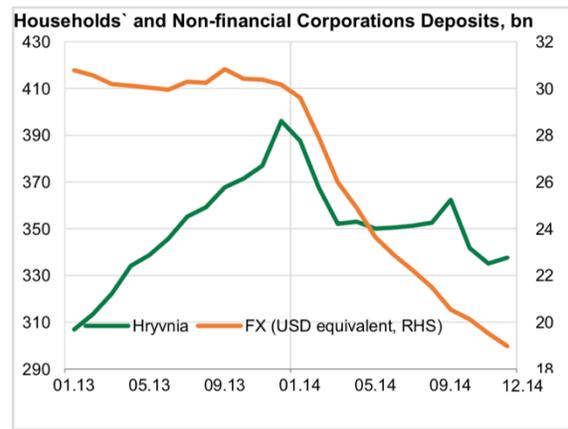
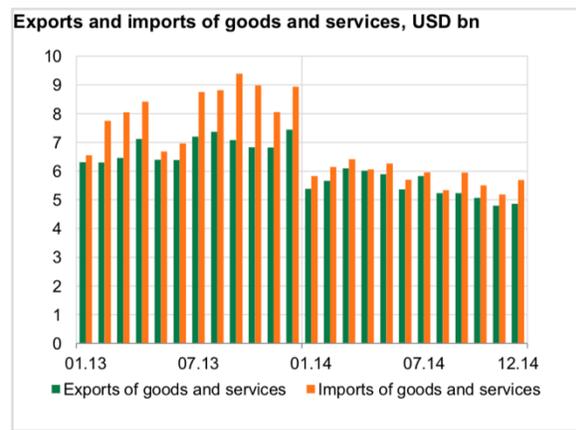
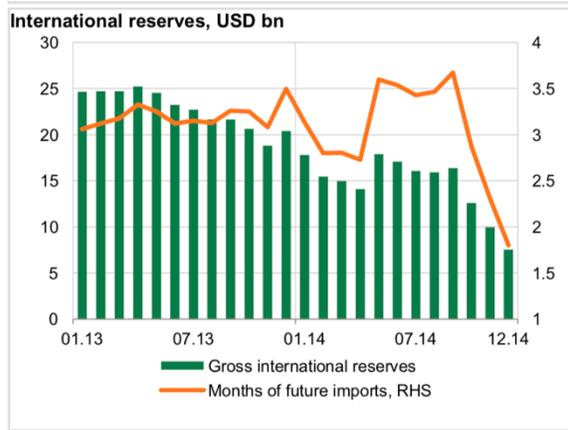
Source: Reuters (2015) and NBU.

Annex 2:

Key macroeconomic indicators in 2013-2014

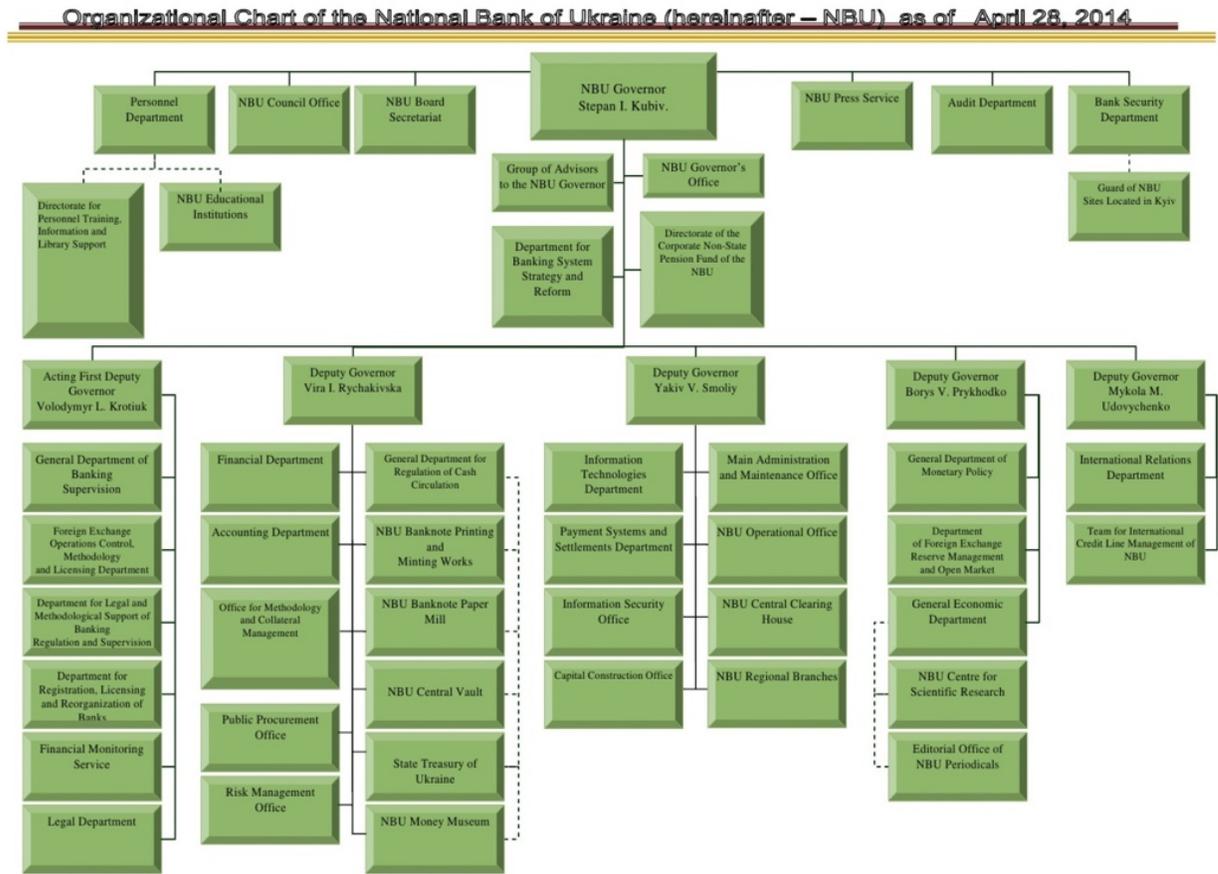


Source: National Bank of Ukraine (Credit to NBU macroeconomics lead: Mr. Sergiy Nikolaychuk).



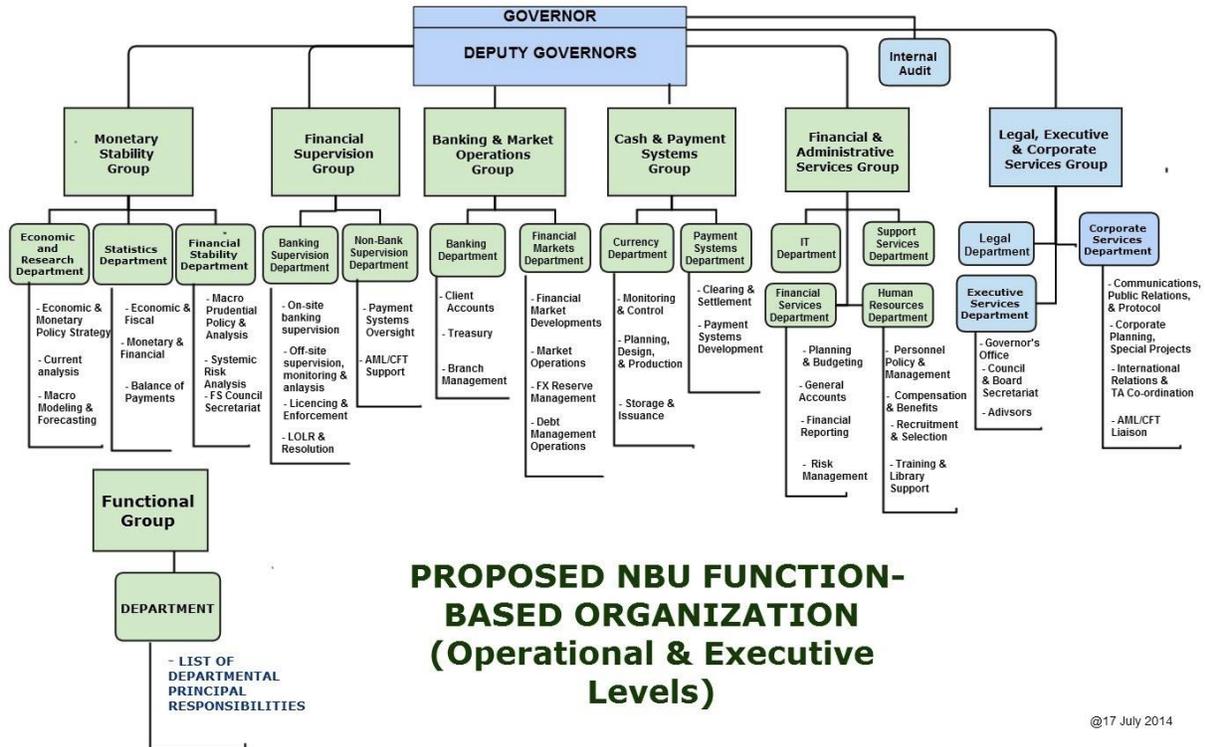
Source: National Bank of Ukraine (Credit to NBU macroeconomics lead: Mr. Sergiy Nikolaychuk).

Annex 3



Source: National Bank of Ukraine.

Annex 4. Proposed Post-Reform HR Structure



Source: IMF internal assessment report (2014).

Annex 5: Oligarchs' Control/Power in Ukraine

Oligarch Wealth Rank	Owned bank rank	Ranking of own TV channel	Party in parliament
1	9	4	Own party
2	24, 83		Own party, Member of Parliament (MP)
3	1	3	Individual loyal MPs
4	1	3	Individual loyal MPs
5	10	2	Own party
6	17, 20		Individual loyal MPs
7	35	1	Individual loyal MPs
8	12		Member of Parliament
9	Bankruptcy in 2009		Individual loyal MPs
10	24 (sold shares in 2010)		Individual loyal MPs

Source: Racurs.ua. (2018) ^{XXI XXII}

Annex 6

Table 1: Development of NBU Staff, 1995 – 2008

	1995	2000	2005	2007	2008
Kyiv Central Office	756	1151	1,207	1,219	1,232
Education Institutions	363	934	1,198	1,285	1,367
Others	11,321	9,554	8,776	8,762	8,715
Total	12,440	11,639	11,181	11,266	11,314

Source: National Bank of Ukraine.

Annex 7: Opposition Force's Attacks on the Reformer Squad

- Video showing parliament member throwing fake money at Governor Gontareva:
https://www.youtube.com/watch?v=IpGqPAhY5I&fbclid=IwAR1kANpkfCMky0YJjs663OrjObEVuJtC36MIBnYwW4A_3Cz2WPKK4xtuCfg
- Protestors with signs attacking governor Gontareva and deputy governor Pysaruk



Source: Bigmernet (2015)^{xxiii}

Annex 8: Interviews with the board members at the NBU in Kiev



Meeting with incumbent governor Yakiv Smolii and the NBU chief of staff Arsen Makarchuk



Meeting with incumbent deputy governor (former head of HR) Roman Borisenko



Selfie with former NBU deputy governor and case study protagonist Vladyslav Rashkovan

Photo Credit to Vladyslav Rashkovan and to the NBU Communications Department.

Endnotes

- ⁱ World Bank. (2017). GDP growth (annual %). Retrieved from <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>
- ⁱⁱ Moe, T. G. (2009). NBU Organizational Study - Strengthening the sNational Bank of Ukraine. *IMF*.
- ⁱⁱⁱ All numbers, except the most recent, are from the NBU's published annual reports. The progression of HR changes from 1995 to 2008 is in Annex 6.
- ^{iv} The four largest are the Banknote Printing and Minting Works, the Banknote Paper Mill, the NBU Educational Institutions and the newly acquired "Ukraine" Printing & Publishing for Securities Production. Others, less sizeable but still significant, include the Central Vault and the State Treasury of Ukraine.
- ^v A conclusion of the Moe, 2009 Report, which remains valid
- ^{vi} Please see Annex 2 for a detailed HR structure diagram pre-reform for more details.
- ^{vii} Stephenson, D., & Moe, T. G. (2015). National Bank of Ukraine Reforms and Strategy Planning. *IMF*.
- ^{viii} A timeline is provided in the Annex 1.
- ^{ix} Barisitz, S., & Lahnsteiner, M. (2017). Financial Stability Report 33. *Oesterreichische Nationalbank*, 69-78.
- ^x See table for details in Annex
- ^{xi} Quasi-equity or quasi capital is a business/investment term that designates the category of debt taken on by a company that has some traits of equity, such as having flexible repayment options or being unsecured. Examples of quasi-equity include mezzanine debt and subordinated debt.
- ^{xii} According to internal reports/analyses provided by the NBU financial stability department
- ^{xiii} World Bank. (2018). Non-performing bank loans in Ukraine 2008-2017 | Statistic. Retrieved from <https://www.statista.com/statistics/460922/non-performing-bank-loans-in-ukraine/>
- ^{xiv} Please refer to annex 2 for detailed macroeconomic figures from 2014 and 2015
- ^{xv} OECD. (2016). Corporate Governance in Ukraine. Retrieved from <http://www.oecd.org/daf/ca/corporategovernanceprinciples/1930958.pdf>
- ^{xvi} The legislation later was amended 3 times, decreasing the average shareholding to 2%.
- ^{xvii} IMF. (2014). Ukraine - Request for Stand-By Agreement. *IMF Country Report*, 14(106), 31.
- ^{xviii} IMF. (2017, April). Ukraine Country Profile. Retrieved from <https://www.imf.org/external/country/ukr/index.htm?type=55>
- ^{xix} I would like to give special thanks to Mr. Yakiv Smolii, Mr. Oleksandr Pysaruk, Mrs. Valeriya Gontareva, Mr. Dmytro Sologub, Mr. Roman Borysenko, Mr. Arsen Makarchuk, Mr. Oleksandr Bevz, Mr. Sergiy Nikolaychuk, Mr. Vitalii Vavryshchuk, Mr. Igor Budnik, Mrs. Nataliia Bondarenko, Mr. Oleg Bilousov, Ms. Lilia Sribna, Mr. Nazarii Peshko and most importantly Mr. Vladyslav Rashkovan for kindly sharing their thoughts during their interviews with the case writer at the NBU in Kiev.
- ^{xx} Reuters. (2015, March 05). Ukraine crisis: Timeline of major events. Retrieved from <https://www.telegraph.co.uk/news/worldnews/europe/ukraine/11449122/Ukraine-crisis-timeline-of-major-events.html>
- ^{xxi} Racurs.ua. (2018, October 26). The rating of Ukrainian thickets: known impressive wealth of Akhmetov and other oligarchs (INFOGRAPHY). Retrieved from <https://racurs.ua/ua/nl13166-reytyng-ukrayinskyh-tovstosumiv-staly-vidomi-vrajauchi-statky-ahmetova-ta-inshyh-oligarhiv.html>
- ^{xxii} Salem, H. (2014, October 13). Ukraine's Oligarchs: A Who's Who Guide. Retrieved from https://news.vice.com/en_us/article/kz59ne/ukraines-oligarchs-a-whos-who-guide
- ^{xxiii} Bigmir.net. (2015, February 24). Протестуючі привезли под здание НБУ шини (The protesters brought the tire to the NBU building). Retrieved from http://finance.bigmir.net/news/economics/53605-Protestujucshie-privezli-pod-zdanie-NBU-shiny?fbclid=IwAR0Akqanciwl_MC3qK2uXvwKDEa17Q0nP0E0j3zTyI63mJRHR7cm8qKAILU