Unfortunately neither the European public nor the leadership seems to be moved by these considerations. Europe seems to be dangerously unaware of being indirectly under military attack from Russia and carries on business as usual. It treats Ukraine as just another country in need of financial assistance, and not even as one that is important to the stability of the euro, like Greece or Ireland.

According to prevailing perceptions, Ukraine is suffering from a more or less classical balance of payments crisis that morphed into a public debt and banking crisis. There are international financial institutions devoted to handling such crises but they are not well suited to deal with the political aspects of the Ukrainian situation. In order to help the Ukrainian economy, the European Union started preparing an Association Agreement with Ukraine in 2007 and completed it in 2012, when it had to deal with the Viktor Yanukovych government. The EU developed a detailed roadmap showing what steps the Ukrainian government had to take before it would extend assistance. Ukraine has undergone a revolutionary transformation since then. The roadmap ought to be adjusted accordingly, but the cumbersome bureaucratic processes of the European Commission do not allow for that.

Accordingly, Ukraine's problems have been cast in conventional terms:

• Ukraine needs international assistance because it has experienced shocks that have produced a financial crisis. The shocks are transitory; once Ukraine recovers from the shocks it should be able to repay its creditors. This explains why the IMF was put in charge of providing financial assistance to Ukraine.

• Since Ukraine is not yet a member of the EU, European institutions (like the European Commission and the European Central Bank) played only a secondary part in providing assistance to it. The IMF welcomed the opportunity to avoid the complications associated with the supervision by a troika consisting of the EU, the European Central Bank, and the IMF that was used to deal with Greece and others. This new arrangement also explains why the IMF-led package was based on overly optimistic forecasts and why the IMF's contribution of approximately $17 billion in cash to Ukraine is so much larger than the approximately $10 billion of various commitments associated with the EU, and even smaller amounts from the US.

• Since Ukraine has had a poor track record with previous IMF programs, the official lenders insisted that Ukraine should receive assistance only as a reward for clear evidence of deep structural reform, not as an inducement to undertake these reforms.

• From this conventional perspective, the successful resistance to the previous Yanokovych government on the Maidan and, later, the Russian annexation of Crimea and the establishment of separatist enclaves in eastern Ukraine are incidental. These events are seen as simply temporary external shocks.

This perspective needs to be altered. The birth of a new Ukraine and the Russian aggression are not merely temporary shocks but historic events. Instead of facing the remnants of a moribund Soviet Union, the European Union is confronted by a resurgent Russia that has turned from strategic partner into strategic rival. To replace communism, President Putin has developed a nationalist ideology based on ethnic grounds, social conservatism, and religious faith—the brotherhood of the Slavic race, homophobia, and holy Russia. He has cast what he calls Anglo-Saxon world domination as the enemy of Russia—and of the rest of the world. Putin has learned a lot from his war with President Mikheil Saakashvili's Georgia in 2008. Russia won that war militarily but was less successful in its propaganda efforts. Putin has developed an entirely new strategy that relies heavily on using both special forces and propaganda.

Putin's ambition to recreate a Russian empire has unintentionally helped bring into being a new Ukraine that is opposed to Russia and seeks to become the opposite of the old Ukraine with its endemic corruption and ineffective government. The new Ukraine is led by the cream of civil society: young people, many of whom studied abroad and refused to join either government or business on their return because they found both of them repugnant. Many of them found their place in academic institutions, think tanks, and nongovernmental organizations. A widespread volunteer movement, of unprecedented scope and power unseen in other countries, has helped Ukraine to stand strong against Russian aggression. Its members were willing to risk their lives on the Maidan for the sake of a better future and they are determined not to repeat the mistakes of the past, including the political infighting that undermined the Orange Revolution. A politically engaged civil society is the best assurance against a return of the old Ukraine: activists would return to the Maidan if the politicians engaged in the kind of petty squabbling and corruption that ruined the old Ukraine.

The reformists in the new Ukrainian government are advocating a radical "big bang" reform program that is intended to have a dramatic impact. This program aims to break the stranglehold of corruption by shrinking the bureaucracy while paying the remaining civil servants better and by breaking up Naftogaz, the gas monopoly that is the main source of corruption and budget deficits in Ukraine.

But the old Ukraine is far from dead. It dominates the civil service and the judiciary, and remains very present in the private (oligarchic and kleptocratic) sectors of the economy. Why should state employees work for practically no salary unless they can use their position as a license to extort bribes? And how can a business sector that was nurtured on corruption and kickbacks function without its sweeteners? These retrograde elements are locked in battle with the reformists.

The new government faces the difficult task of radically reducing the number of civil servants and increasing their pay. Advocates of radical reform claim that it would be both possible and desirable to shrink the ministries to a fraction of their current size, provided that the general population would not be subjected to severe cuts to their living standards. That would allow the discharged civil servants to find jobs in the private sector and the employees retained on the payroll to be paid higher salaries. Many obstacles to doing business would be removed, but that would require substantial financial and technical support from the EU. Without it, the "big bang" kind of radical reforms that Ukraine needs cannot succeed. Indeed, the prospect of failure may even prevent the government from proposing them.

The magnitude of European support and the reforming zeal of the new Ukraine are mutually self-reinforcing. Until now, the Europeans kept Ukraine on a short leash and the Arseniy Yatsenyuk government did not dare to embark on radical structural reforms. The former minister of the economy, Pavlo Sheremeta, a radical reformer, proposed reducing the size of his ministry from 1,200 to 300 but met such resistance from the bureaucracy that he resigned. No further attempts at administrative reform were made but the public is clamoring for it.

That is where the European authorities could play a decisive role. By offering financial and technical assistance commensurate with the magnitude of the reforms, they could exert influence on the Ukrainian government to embark on radical reforms and give them a chance to succeed. Unfortunately the European authorities are hampered by the budgetary rules that constrain the EU and its member states. That is why the bulk of international efforts have gone into sanctions against Russia, and financial assistance to Ukraine has been kept to a minimum.
Petro Poroshenko and Vladimir Putin; drawing by James Ferguson

In order to shift the emphasis to assisting Ukraine, the negotiations have to be moved from the bureaucratic to the political level. The European financial bureaucracies find it difficult to put together even the $15 billion that the IMF considers the absolute minimum. As it stands, the European Union could find only €2 billion in its Macro-Financial Assistance program, and individual member states are reluctant to contribute directly. This is what led Ukraine to pass on December 30 a stopgap budget for 2015 with unrealistic revenue projections and only modest reforms. This is an opening bid in the negotiations. The law allows for modifications until February 15, subject to their outcome.

European political leaders must tap into the large unused borrowing capacity of the EU itself and find other unorthodox sources to be able to offer Ukraine a larger financial package than the one currently contemplated. That would enable the Ukrainian government to embark on radical reform. I have identified several such sources, notably:

1. The Balance of Payments Assistance facility (used for Hungary and Romania) has unused funds of $47.5 billion and the European Financial Stability Mechanism (used for Portugal and Ireland) has about $15.8 billion of unused funds. Both mechanisms are currently limited to EU member states but could be used to support Ukraine by modifying their respective regulations by a qualified majority upon a proposal by the European Commission. Alternatively, the Commission could use and expand the Macro-Financial Assistance Facility, which has already been used in Ukraine. There is indeed a range of technical options and the European Commission President Jean-Claude Juncker should propose a way forward as soon as the Ukrainian government has presented a convincing set of priorities.

2. Larger matching funds from the European Union would enable the IMF to increase its lending to Ukraine by $13 billion and to convert the existing Stand-By Agreement into a longer-term Extended Fund Facility program. This would bring the total size of the IMF program to fifteen times Ukraine's current IMF quota, an unusually large multiple but one that already has a precedent in the case of Ireland, for example.

3. European Investment Bank project bonds could yield €10 billion or more. These funds would be used to connect Ukraine to a unified European gas market and to break up Naftogaz, the Ukrainian gas monopoly. These changes would greatly improve Ukraine's energy efficiency and produce very high returns on investment. It would help create a unified European gas market and reduce not only Ukraine's but also Europe's dependence on Russian gas. The breakup of Naftogaz is the centerpiece of Ukraine's reform plans.

4. Long-term financing from the World Bank and the European Bank for Reconstruction and Development for restructuring the banking sector. This should yield about $5 billion. The 2009 Vienna Initiative for Eastern Europe, which proved to be highly successful in limiting capital flight and stabilizing the banking system, should be extended to Ukraine. The foundations for such an extension were already laid at the inaugural meeting of the Ukrainian Financial Forum in June 2014.

5. Restructuring Ukraine's sovereign debt should free in excess of $4 billion scarce foreign exchange reserves. Ukraine has almost $8 billion in sovereign debt coming due in the private bond markets in the next three years. Instead of a default that would have disastrous consequences, Ukraine should negotiate with its bondholders (who happen to be relatively few) a voluntary, market-based exchange for new long-term debt instruments. In order to make the exchange successful, part of the new financial assistance should be used for credit enhancements for the new debt instruments. The foreign assistance needed for this purpose would depend on what bondholders require to participate in the exchange, but it could free at least twice as much foreign exchange over the next three years.

6. Ukraine must also deal with a $3 billion bond issued by the Russian government to Ukraine coming due in 2015. Russia may be willing to reschedule the payments by Ukraine on the bond voluntarily in order to earn favorable points for an eventual relaxation of the sanctions against it. Alternatively, the bond may be classified as government-to-government debt, restructured by the group of nations officially called the Paris Club, in order to insulate the rest of Ukrainian bonds from their cross-default provisions (which put the borrower in default if he fails to meet another obligation). The legal and technical details need to be elaborated.

Perhaps not all these sources could be mobilized in full but where there is a political will, there is a way. German Chancellor Angela Merkel, who has proved to be a true European leader with regard to Russia and Ukraine, holds the key. The additional sources of financing I have cited should be sufficient to produce a new financial package of $50 billion or more. Needless to say, the IMF would remain in charge of actual disbursements, so there would be no loss of control. But instead of scraping together the minimum, the official lenders would hold out the promise of the maximum. That would be a game-changer. Ukraine would embark on radical reforms and, instead of hovering on the edge of bankruptcy, it would turn into a land of promise that would attract private investment.

Europe needs to wake up and recognize that it is under attack from Russia. Assisting Ukraine should also be considered as a defense expenditure by the EU countries. Framed this way, the amounts currently contemplated shrink into insignificance. If the international authorities fail to come up with an impressive assistance program in response to an aggressive Ukrainian reform program, the new Ukraine will probably fail, Europe will be left on its own to defend itself against Russian aggression, and Europe will have abandoned the values and principles on which the European Union was founded. That would be an irreparable loss.

The sanctions on Russia ought to be maintained after they start expiring in April 2015 until President Putin stops destabilizing Ukraine and provides convincing evidence of his willingness to abide by the generally accepted rules of conduct. The financial crisis in Russia and the body bags from Ukraine have made President Putin politically vulnerable. The Ukrainian government has recently challenged him by renouncing its own obligations toward the separatist enclaves in eastern Ukraine, under the Minsk cease-fire agreement, on the grounds that Russia failed to abide by the agreement from its inception. After Ukraine's challenge, Putin immediately caved in and imposed the cease-fire on the troops under his direct command. It can be expected that the troops will be withdrawn from Ukrainian territory and the cease-fire will be fully implemented in the near future. It would be a pity to allow the sanctions to expire prematurely when they are so close to success.

But it is essential that by April 2015 Ukraine should be engaged in a radical reform program that has a realistic chance of succeeding. Otherwise, President Putin could convincingly argue that Russia's problems are due to the hostility of the Western powers. Even if he fell from power, an even more hardline leader like Igor Sechin or a nationalist demagogue would succeed him.

By contrast, if Europe rose to the challenge and helped Ukraine not only to defend itself but to become a land of promise, Putin could not blame Russia's troubles on the Western powers. He would be clearly responsible and he would either have to change course or try to stay in power by brutal repression, cowing people into submission. If he fell from power, an economic and political reformer would be likely to succeed him. Either way, Putin's Russia would cease to be a potent threat to Europe. Which alternative prevails will make all the difference not only to the future of Russia and its relationship with the European Union but also to the future of the European Union itself. By helping Ukraine, Europe may be able to recapture the values and principles on which the European Union was originally founded. That is why I am arguing so passionately that Europe needs to undergo a change of heart. The time to do it is right now. The Board of the IMF is scheduled to make its fateful decision on Ukraine on January 18.