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UKRAINE'S PLACE IN THE WORLD

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Kyiv Post Doing Business

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For this year's 5th annual Doing Business guide, the Kyiv Post compares Ukraine with the economies of other countries. It's clear that Ukraine – with 42 million people – should do much better than a 2018 gross domestic product of $125 billion, accounting for a mere 0.0015 percent of $87 trillion in global economic output.

Thankfully, the country is moving in the right direction: The National Bank of Ukraine has done an admirable job in cleaning up a bank sector that cost taxpayers $20 billion in fraud and bad loans. It has adopted sound macroeconomic policies and liberalized the currency market. Dozens of new laws will hopefully improve the business climate. New agricultural records are continually being set. And the redirection of Ukraine's economy, from imperialistic Russia to the democratic West, is accelerating.

But Ukraine deserves better.

Ukrainians should: sell off more than 3,000 state-owned enterprises; put an end to massive corruption in the tax and customs services, spurring more people to pay taxes voluntarily; demonopolize sectors, create an agricultural land market; quickly sell off foreclosed assets from banks; stem offshore tax evasion; modernize the public sector, open markets and attract human capital; and take other steps to create welcoming conditions for foreign direct investment.

The obvious challenge is to create a trusted judicial system and rule of law.

Ukraine must break the inequality and poverty suffocating its population and triggering an exodus of millions of people to find work abroad. With more economic growth, Ukraine's bright and talented youth will have better chances to achieve their ambitions at home.

Perhaps the underlying answer is to create a stronger moral code in Ukraine. As the famous political scientist Francis Fukuyama tells the Kyiv Post: A healthy economy is one whose population has strong ethical habits, ultimately comprised of honesty, reliability, cooperativeness and a sense of duty to others. This is where everyone can become more involved – religious organizations, investors, schools, philanthropies, lawmakers, journalists and activists.

We especially liked what Fukuyama said about the role of independent journalism in a democracy. "The media is actually part of the ecosystem that reduces corruption. Independent media is usually the source of information about corruption," he said.

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Find Ukraine's economic place in the world with this 92-page Kyiv Post Doing Business guide.

Contents

People walk past the headquarters of the National Bank of Ukraine in central Kyiv on June 20, 2019. (Oleg Petrasiuk)

Ukraine's workforce is reason for optimism

MATTEO PATRONE

Since I moved to Kyiv in November 2018, my friends have been asking me what impresses me the most about Ukraine.

With reflection, it is not the striking beauty of this country and its nature, or its vast cultural heritage. Not even today's incredibly vibrant cultural life. It is its people.

Why am I mentioning this?

Because investors base their decisions on a number of factors, including fiscal environment, investment climate, rule of law, political and economic stability, legislative and regulatory predictability, quality of infrastructure. But ultimately the human factor is what determines the success of a venture and Ukraine's human capital is impressive.

Having established this, it is also clear that the potential of this country is substantial and the argument for optimism strong.

Many achievements

Since the 2014 EuroMaidan Revolution that ended the presidency of Viktor Yanukovych, the country has undergone a difficult journey and implemented wide-ranging reforms, despite extraordinary security, political and economic circumstances. This has been achieved largely thanks to decisive policy actions by the country's leadership and a sizable assistance package provided by the European Union and the international financial institutions.

The pace of recovery is not strong enough but it is happening: 13 quarters of economic growth after the 2014–2015 meltdown should not be dismissed.

The public debt/gross domestic product ratio has been reduced from about 80 percent in 2015 to less than 60 percent in the first quarter of 2019. Real sector indicators such as growth of capital investment, industrial production, turnover of retail trade, and real wages have all turned positive.

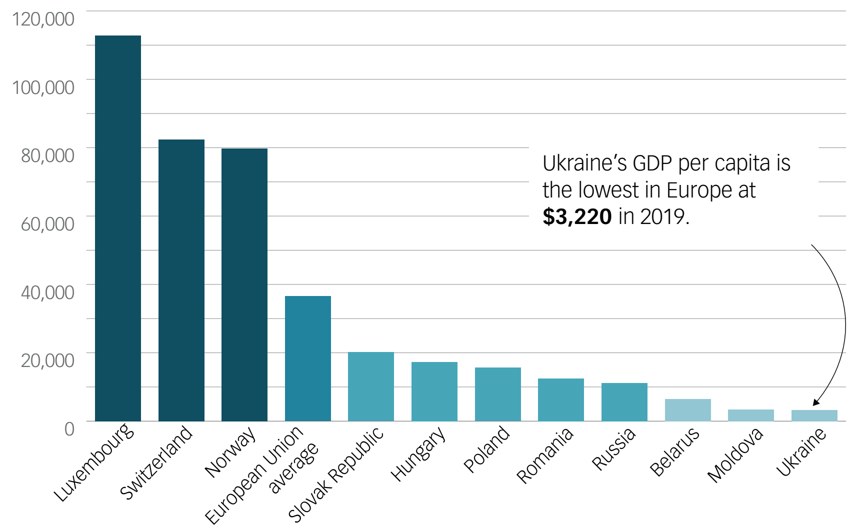
Inflation has been dramatically reduced (even if not yet at the target level). This has been achieved during a conflict, with budget expenses directed to defense and security at 6 percent of GDP.

The banking sector has been stabilized and is being reformed thanks to the relentless, effective and synergetic action of the National Bank of Ukraine and the Ministry of Finance. As a result, capital and liquidity buffers are adequate, non-performing loans — whilst still at unacceptable levels — have been almost fully provisioned, and return on equity in 2018 was at a healthy 14 percent.

The fight against corruption is far from won, but the space for corruption has been dramatically reduced. Sweeping reforms in the public procurement sector (ProZorro), the introduction of value-added tax automatic refunds, fiscal decentralization, the floating of the hryvnia, which reduced the opportunity for exchange rate manipulation, and the energy sector reforms have all contributed to this and have saved the Ukrainian taxpayers 6 percent of GDP.

GDP per capita in Ukraine vs neighboring countries and top world leaders

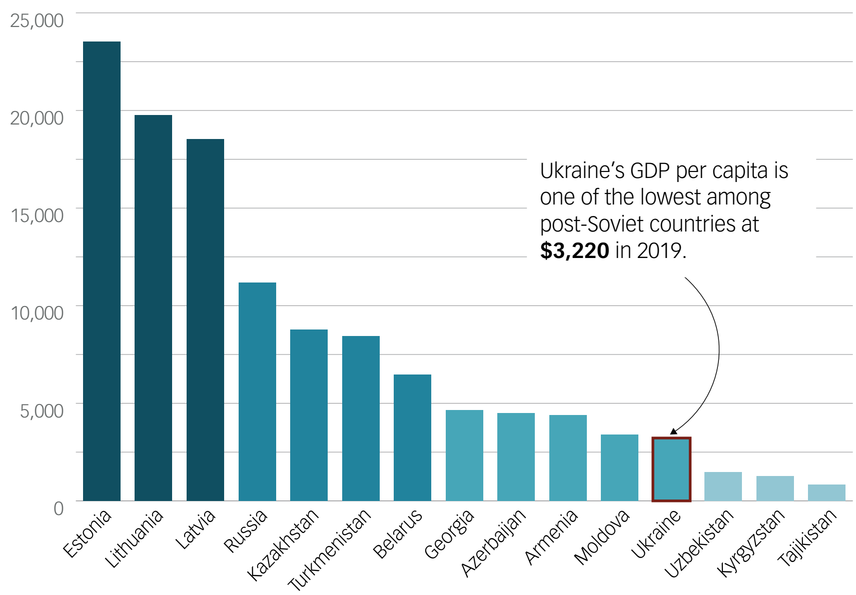
in dollars in 2019



Source: International Monetary Fund as of April 2019

GDP per capita in Ukraine vs post-Soviet countries

in dollars in 2019



Source: International Monetary Fund as of April 2019

Ukraine's per capita gross domestic product in 2019 was $3,220, the lowest in Europe, according to the International Monetary Fund. Ukraine's economy is still heavily controlled by oligarchs, a system which enhances inequality and poverty within the country.

The convergence path towards the European Union is set, with the signing of an association agreement and the Deep and Comprehensive Free Trade Agreement. This has allowed the country to shift its trade flows and now Ukraine trades more with Poland than with Russia. Ukrainian companies are improving their quality standards and are becoming competitive in the EU markets.

The country has a thriving information-technology sector, whose value increases at

Danish-style company management in a Ukrainian reality,

A story told by Thomas Sillesen, Chairman of the Board and Executive Director of BIIR

Danish Engineering company BIIR is perhaps best known in Ukraine for being the victim of a raider attack in Odesa and actually winning the case. But BIIR is also a leading Danish wind energy engineering and consulting company, which opened its office in Ukraine in 2013. We interviewed Thomas Sillesen, BIIR Group's Chairman.

Thomas Sillesen: I have always had a strong belief in the future of Ukraine, since visiting Luhansk in early spring 2013. Now, naturally we have had our troubles, not only the raiders attack, but we also won four court cases against different state bodies, which had not complied with the law. We won all cases so far. All this trouble has not taken away my vision for Ukraine, so when our Ukraine director left, I decided to move to Odesa, to take over the CEO role of BIIR Ukraine. It was a huge difference suddenly to be CEO for 165 people, instead of leading 14 directors in our group, but I have not regretted the decision.

I officially started on March 1 and have since worked on changing the culture of the company. I wanted it to be a reflection of the Danish office, and was afraid it would be difficult. But already after the first two days at work, where I naturally meet people in the morning 20-30 minutes before we officially open, I began to get the first positive comments from staff. They were not used to simple visual leadership, where I show the way. However, not going first, would be against my personal and Danish business culture.

The next surprise for the staff was that they would always get a precise answer when they asked a question with no delay. They were clearly not used to this, but rather to a culture where it was not wise to disturb management. But at a meeting with the staff, I draw an organization pyramid with myself on the top, resembling a normal company. Then I turned the drawing upside down, so I was alone at the bottom of the pyramid. I said this clearly shows my role in the company is to help everyone with no delays. I have tried to live up to this, ever since.

Since then our strategy has changed slightly to allow for the growth I wanted. As such, we bought offices in Lviv, Kyiv, Odesa and Kharkiv over the last three and a half months. It gives us a foundation to grow more rapidly and consolidate several technology centers, instead of only having one in Odesa. Besides classic engineering disciplines like CAD, we have a strong Electrical and Finite Elemente Analysis departments, and recently also started Embedded Software, as we want to be able to support our customers in any field of engineering they want support in.

We changed the strategy to grow faster. It was simply not possible to find enough engineers in the Odesa area. By having offices also in Lviv, Kyiv and Kharkiv, we get access to a larger pool of qualified engineers, which will allow us to grow faster, without compromising on quality. In principle we see a snowball effect, where it just goes faster and faster, and we expect to hit 200 employees in autumn. If we succeed in hiring all the employees we seek, we will even reach 250, as we currently have 80 vacant job positions in our organization.

Naturally this has strengthened our organization, and as a consequence we can move more and more tasks to Ukraine. Projects for customers used to be executed in Denmark, but within a few months, we expect most projects to be executed in Ukraine. This will be a huge step forward, and allow us to take even larger projects. We have a wide variety of projects, from tools to transport WindTurbine blades, test equipment for pipes, machines for the food industry and even audio equipment, which includes visual design, mechanical design, electrical design and software.

As a result, we are growing fast in Ukraine - just over the last 2 weeks we hired 19 more employees, and will soon hit 200. In principle, this has allowed us to improve our supply line, so we can now push our sales organization in Denmark for more sales. On top of that, we now have a Ukrainian sales team, which is targeting customers all over the EU. They have participated in several fairs in the EU so far and we have a strong interest in our services. Targeting the whole of the EU, instead of only Denmark, will over time result in even more business.

Also in other areas we have strengthened our organization and we now bid on various projects in Ukraine as well. We have not yet won any tenders, but it is a matter of time. Also, one of our specialists from Denmark was in Ukraine for 4 months, seeking out suppliers, so many of the tools we design for customers can be supplied from Ukraine. Currently, for tools, we often arrange production on behalf of our customers and it would be nice to have a wider number of suppliers, which could benefit Ukrainian suppliers.

The purchase of offices has been a challenge as real estate deals in Ukraine are far trickier than in Denmark, where there are never problems. But despite this, BIIR has invested in centers to grow the business in the future.

For instance, in one of the cases, we previously agreed on all terms and were only discussing price. When we finally agreed on price, and made the handshake, the seller in side remarks mentioned, that then naturally the conditions for the deal had to be changed. So then it was back to negotiation for yet another month.

In another case, we agreed to pay the price advertised, but when the seller found out it would be a total transparent deal, he suddenly wanted to raise the selling price by 200.000 USD to cover taxes. Naturally, we refused and in the end he agreed to the original price. But it was strange that after two years of failing to sale, the seller did not understand the importance of finally closing a deal. Instead, he thought we were stupid enough to accept an increase in the price to cover his taxes.

The raiders attack in Odesa, which we successfully fought off, naturally delayed the building of our new office. However it seems to be on track now, with excellent relations with officials, and with a project, which due to the negotiations with officials is even better than the initial plans we had. Naturally it takes a long time, as we follow the rules and procedures 100%. But it does not worry me at all as it is outside our core business and we aim for perfection, not for speed, also on this project.

The potential of the Ukrainian economy has always been enormous, but also always limited by corruption and downright criminality. Raider attacks, like the one we experienced, will naturally prevent a lot of western companies from investing in Ukraine, but even the Ukrainians themselves suffer from this business culture. Where we in BIIR focus 100% on business, and think about it 24-7 – focusing on how to score the next goal, on the constant development of the company and on having a strong long term vision – most Ukrainian companies can only do this part of the time.

The rest of the time the CEO and owners will focus on minimizing taxes, hiding things from auditors, and on shadow accounting, to be able to have a significant amount of black money. But all this takes focus away from the clear business goals, and as such, Ukraine businesses ends up in a situation, where a lot of sidetracking, ends in results, that could be much better if the focus was 100% on core business, and taxes was then something that would be paid, as a result of the much better financial results.

When all is said and done, on a personal level, moving to Odesa and taking over leadership, has been a fantastic journey so far. And we are just at the beginning!

rates above 15 percent per year and employs over 100,000 professionals, whose remuneration is 5 to 10 times higher than the average wage.

The way forward

However, this is not enough. A GDP growth rate at 3 percent or below will not allow Ukrainian citizens' living standards to converge towards the EU. Growth rates of 5 percent or higher will be needed for that.

Neither monetary nor fiscal policies can achieve that. Ukraine cannot afford either.

Relentless improvement of the investment climate is where the action of the authorities needs to focus. The basic preconditions for this to happen are a stable macroeconomic environment, sound institutions that guarantee property rights and provide rule of law and an open competitive economy.

Protecting the legacy of the past achievements and preserving macroeconomic stability remains crucial in the foreseeable future. With about $18 billion of foreign currency debt liabilities becoming due in 2019 and 2020 and limited access to foreign markets, the environment remains fragile, notwithstanding the recent successful Eurobond benchmark issuance. For this reason, the engagement with the International Monetary Fund and other international partners remains the main anchor for macroeconomic stability. The new leadership has acted appropriately in reassuring the markets about the strategic directions. Now deeds must follow words and a new arrangement with the IMF will have to be negotiated and finalized as soon as a new government is in place.

What needs to be done

Among Ukrainian institutions, a reformed NBU has shown what results can be achieved by a credible, independent and professional institution ready to cope with the challenging international and domestic environment. The preservation of its independence is an absolute priority.

The Business Ombudsman Council, created by the European Bank for Reconstruction and Development with donor support, is providing a substantial contribution to resolving issues between businesses and the public administration. It is now important to approve the law that will regulate its operations in the future. The cases of the NBU and the ombudsman show the way for reform in the public administration.

Only sound public institutions and professional public administration with high integrity, providing high quality public services can guarantee private property rights and rule of law. That is why the EU and the EBRD have created the Ukrainian Reform Architecture, a holistic approach to public administration reform and deployed teams of young Ukrainian professionals to rebuild public administration from within key ministries.

When it comes to rule of law, I mentioned that space for corruption has been significantly reduced. I believe this was the right priority, as other experiences where focus has been put on reactive sanctioning rather than pre-emptive removal of corruption opportunities have not proven sustainable in the long term. However, successful anti-corruption efforts entail a holistic approach, where administrative reforms are accompanied by law enforcement and recovery of proceeds of corrupt activities. There is significant room for improvement in these areas. Little success has been achieved in enforcement and recovery despite a large number of new institutions and laws. The anticorruption legislation is not enforced, anticorruption institutions are still weak, lack capacity and there are significant efforts to undermine their independence and efficiency. Little success has also been achieved in confiscating assets, including those of the former regime.

Providing a level playing field for investors and entrepreneurs is crucial for unleashing the growth potential of the Ukrainian economy. Vested interests in the oligarchic structure of the economy have hardened the resistance to reforms and more needs to be done to curb their power and avoid state capture.

The productivity gap needs to be tackled. Labor productivity has stagnated over the past 25 years, whilst most peers have improved substantially. Emigration and brain drain, in particular of young skilled workers has to be reversed. It is not tenable that four million Ukrainians, or 10 percent of the population, do not contribute to the Ukrainian economy, if not through remittances. President Volodymyr Zelenskiy, with his passionate reference to the Ukrainian diaspora, struck the right cord in his inauguration speech.

Capital investment in Ukraine lags behind peers at 17 percent of GDP, compared to 25 percent of its peers. The country needs to attract more foreign direct

Several oligarchs have had a grip on Ukraine's economy and political life for many years: Rinat Akhmetov, Victor Pinchuk, Petro Poroshenko, Dmytro Firtash, Ihor Kolomoisky, Viktor Medvedchuk.

investment. With $1,200 of FDI stock per capita, Ukraine only fares better than Moldova among the six Eastern European Partnership countries. This is a lost opportunity.

The same success Ukraine enjoyed in the IT sector ought to be replicated in other industries. The agribusiness value chain is very much focused on farming and related logistics. There is no reason why vertical integration in more value-added segments should not be pursued. Where this has happened, very successful groups have emerged in both domestic and international markets.

Progress needs to be achieved in the commercialization and privatization of state-owned enterprises and state-owned banks.

Significant progress has been achieved in terms of corporate governance. In the banking system, the ongoing appointment of independent supervisory boards in three major state-owned banks under the leadership of the Ministry of Finance in partnership with the IFIs, is a positive example. It is essential that we keep the momentum and pre-privatization efforts continue in order to eventually reduce the presence of the state in the banking system.

In the corporate sector, while small privatizations are happening, more progress has to be achieved in the large ones and where processes have stalled (e.g. Centrenergo and OPZ), serious and decisive efforts should be made to unblock them.

Three steps for new leadership

I found the results of a recent survey conducted by the European Business Association, Dragon Capital and the Centre for Economic Strategy among foreign investors very interesting. According to the respondents the three steps by the new leadership that would have the biggest positive impact on investment climate are:

- Demonstrate effective anticorruption efforts;
- Appoint credible reformers to key positions; and
- Take visible steps to separate politics and business interests, reducing the influence of oligarchs.

By the same token, the three most detrimental actions would be:

- A shift in Ukraine's geopolitical direction away from the West;
- Steps to undermine the anticorruption efforts; and
- Attempts to undermine NBU independence.

In my opinion this very well summarizes the pillars of the economic agenda in the years to come.

A lot has to be done and the road ahead is a difficult one, but with the achievements of the past five years, the Ukrainian people have amply demonstrated that the country is up to the challenge and a strong social cohesion can go a long way. The international community is there to lend its continuous support.

Matteo Patrone is the managing director of Eastern Europe and the Caucasus at the European Bank for Reconstruction and Development. Based in Kyiv, he is responsible for the bank's operations and policy engagement initiatives in Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine with a staff of 180.

AGRICULTURE

SECTION PARTNER

Ukraine's Agriculture Minister Olga Trofimtseva poses for a photo for the Kyiv Post on June 18 at the ministry's building located on Kyiv's downtown Khreshchatyk Street. (Oleg Petrasiuk)

Olga Trofimtseva: 'Ukraine should be switching to value-added agriculture'

BY ILYA TIMTCHENKO
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Olga Trofimtseva has been Ukraine's acting agriculture minister only since February, but she's shown herself to be incredibly capable.

She calls herself a technocrat and absolutely "neutral" in terms of representing the interests of specific players in the agriculture sector. And she heads a ministry in a field in which she actually specializes.

"I am in office just for several months, so it's too early to judge," Trofimtseva said of her work during an interview with the Kyiv Post on June 18.

Trofimtseva graduated from the National Agrarian University of Ukraine, specializing in foreign economic activity management. Two decades later, she got her Ph.D. in agrarian policy from Humboldt University


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in Berlin. In between, she worked in various academic and research positions.

The most recent position she held before joining the ministry was working as the manager of a project funded by the German agriculture ministry that advises Ukraine on agrarian trade issues. That project came about as part of the Deep and Comprehensive Free Trade Agreement between Ukraine and the European Union, which came into force in Septemeber 2017.

"My absence here in Ukraine for a long time and absence of any kind of affiliation with business or political groups… (makes me) absolutely neutral to everybody, from the smallest farmer to every association and the largest agroholding," Trofimtseva said. "I am defending the interests of the whole agricultural sector both here in Ukraine at the governmental level, state level and also outside (of Ukraine)."

And Trofimtseva has a lot to represent. Her ministry consists of 300 people, with nine departments with even more subdivisions. She oversees about 500 state-owned enterprises, of which only 180 are economically active.

"The majority of these enterprises should be privatized or liquidated," she says, echoing the words of many other reform-minded ministers who joined Ukraine's government after the 2014 EuroMaidan Revolution, which ousted former President Viktor Yanukovych.

Top goals

Trofimtseva's top priority is to follow the ministry's reform strategy, developed in 2015 with Ukraine's EU partners. It consists of creating a land market; increasing governmental support for small farmers, rural development, and niche produce; creating new markets and managing the ministry's state enterprises, the irrigation system, and food quality.

Land market

The multibillion-dollar issue in Ukraine is creating a land market, something which the country doesn't have due to an almost two-decade-long agricultural land sale moratorium. The World Bank estimates that, with a land market, Ukraine's annual gross domestic product will increase by up to 1.7 percent annually.

Trofimtseva doesn't see the moratorium being lifted this year, but says it is possible for parliament to vote for its removal in 2020. Once the process is initiated, she says that it will take about five years to implement the major steps of creating a land market.

"We should still continue our work at the technical level for the preparation of the moratorium lifting," Trofimtseva said. "… We should be very well prepared for how exactly we will start from scratch for the whole Ukraine."

If not, the risks are too high, she says. "Because in such an important and sensitive issue like the land market, even a small gap can be the reason for huge turmoil…"

"I am very cautious about that… because I know about the sensitivity of this topic, I know about the complexity of this topic and that's why, to tell the truth, this is exactly the kind of reform where we cannot allow ourselves any kind of mistakes," Trofimtseva said. "We should be prepared perfectly here."

One difficult task is to make sure that the sale of land is balanced, and that there are many players — both domestic and foreign — on the market instead of a few.

"What we proposed was, at least during the first stages of the land market introduction, to have constraints so that only Ukrainian citizens or Ukrainian legal entities can be eligible to buy the land," she said.

Irrigation

Another challenge for Trofimtseva is making sure Ukraine's irrigation system is properly managed and that Ukraine is adjusting to climate change and using natural resources more effectively.

"Everybody is talking about (Ukraine's) great black soils, but we should be more careful with the quality of these black soils and (use) sustainable agriculture to have these beautiful and productive black soils also in 10–50 years," she said.

Trofimtseva has to look at the macroeconomic picture of Ukrainian agriculture and make sure that decisions that are made will not only benefit one sector, but the economy as a whole. For example, making sure that biodiversity — such as bees — is not harmed because of the use of pesticides or the lack of crop rotation.

"It's about the whole environmental system, keeping biodiversity and the health in a wider meaning," she said.

"We are working on concrete instrument mechanisms: how from the state, the ministry side can we have an impact and give the proper impulses to the producers to be more responsible, to be more sustainable?" Trofimtseva said. "That is why we are trying to keep an eye on the whole chain."

More diversification

One way to achieve this is to make sure that the economy is more diversified and more competitive.

"We do have our competitive advantages in the production of cereals or oil seeds or cash crops, but I would also like to have strong horticulture, a strong organic sector in Ukraine, organic berry production," she said.

Some of the most undervalued sectors in Ukrainian agriculture include wine and grape production, agricultural machinery, and aquaculture.

Ukraine could learn from various other countrie how to become more productive and efficient in all of these sectors.

For example, Ukraine can take lessons from Turkey on how to process raw materials, from Germany on how to implement land market reform, and from Israel when it comes to agricultural technology, the minister says.

"The Netherlands, for instance, is one of the perfect examples when there is such a tiny country, but (it is) the second top agricultural exporter worldwide in the sense of the value of agricultural exports. How did they do it? Its about the know-how, technologies, high value-added."

Value-added

Ukraine's agricultural exports reached a record value of $18.8 billion in 2018. But Trofimtseva says there's no time to celebrate: most of the exports are still raw materials.

What she wants to see more of is processed products or niche ingredients and tech products. She also wants to see a "diversification of players" who export.

"If you compare the structure of the companies who are involved in agri-food exports in Ukraine and other countries, you will find that, in Ukraine, the share of small and medium-sized companies (SMEs) is not so high… as in Germany," she told the Kyiv Post. "So we would like to involve more SMEs in direct export activities in Ukraine."

One example the minister cites is a company in Poltava Oblast that produces single-use honey sticks, which can then be sold to airline companies and hotels.

She emphasizes that SMEs should also work on tech solutions for farmers, such as providing land bank management, meteorological services, and resource efficiency management.

"We would like to export not only grains, oil seeds, and sunflower but also drones and ag tech solutions worldwide."

Small players, big economy

Overall, Ukraine has about 43,000 farmers, of whom 33,000 are active.

"Out of the 33,000 private farmers, we have more than 80 percent, if I'm not mistaken, small farmers with 500 hectares or less…," Trofimtseva said. "So the share of SMEs in Ukraine is quite large in the agricultural sector."

But there are many challenges the ministry faces with SME players, including the need to educate them on land management.

For example, "bringing them to the civilized value-added chains" would allow farmers to sell their products at higher prices and also have the opportunity to export directly.


Ukraine's Agriculture Minister Olga Trofimtseva believes Ukraine should diversify its agricultural production to niche products such as berries instead of strictly producing grain. (Volodymyr Petrov)

But the level of economic and legal education in Ukraine is still lacking. "In general, I think it is quite low, unfortunately," Trofimtseva said.

What the ministry can do is extend consulting services to the regions for small producers.

"We discussed just today in the ministry how it should work and how we can make it more effective," she said. "Agri-business is like every other business — you should be able to calculate what is more profitable and sustainable for you… You should be able to have a business plan."

Some countries start educating farmers from a very young age. For example, the United States has a special program called the Future Farmers of America where high school students learn agricultural management and can continue building their career through specialized and hands-on programs.

Ukraine doesn't have anything similar — yet.

"(We don't have) such great programs like that, but we started last year to support young farmers," Trofimtseva said. "And we just had during our annual agro exhibition here in Kyiv… a meeting with young farmers, and we discussed with them how we can make this state support for them more systematic, something like Future Farmers of America."

But there is another problem: many of the smaller players are still in the shadow economy, according to the minister.

"Often times, there will be individuals or families operating a farm and not registered as a legal entity," she said.

The ministry is trying to establish more incentives for farmers to be part of the official economy, such as various state support instruments available only to producers who come out of the shadows.

Once the farmers join the official economy, there will be a "chain reaction" as the they pay taxes and, in turn, receive state or private support from international donors in the form of financial or technical assistance, Trofimtseva says. This will allow them to invest in new technology and equipment.

Despite the challenges, Trofimtseva remains an optimist. She says she personally sees more people who are not only engaged in farming, but also in less traditional agricultural production: producing craft cheese, growing organic produce, or cultivating unusual crops like asparagus and arugula.

"They are (trying out) very new subsectors," she said. "So we should support them not only with informational support but also with financial support."

A soybean field is fumigated in Argentina on Feb. 8, 2018. (AFP)

What Ukraine can learn from Argentina, US and Canada's agriculture experience

BY NATALIA DATSKEVYCH
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Not many countries in the world are global players when it comes to agricultural production. Ukraine, however, is one of them, thanks to its rich black soil and favorable climate.

Ukraine was the global leader in sunflower oil production, second in honey exports and fourth in corn exports as of 2018, according to a report by Aequo law firm. But the country can do better by upgrading its outdated technology, education and legislation to encourage long-term investment.

There are a few countries that Ukraine can learn from.

Argentina

One of the largest countries in South America, Argentina is well known for its established agrarian traditions. Due to the country's location, its climate allows it to produce a huge variety of agricultural products — from growing citrus crops and tea in the northern regions to raising cattle in its southern regions.

In 2018, Argentina was the third largest soybean producer in the world after the U.S. and Brazil, producing 53.7 million tons of soybeans, according to the Agriculture Ministry of Argentina.

There are some similarities between Ukraine and Argentina.

For example, nearly 55 percent of all exports in both countries are agricultural products, according to Alex Lissitsa, president at the Ukrainian Agribusiness Club. Both countries are in the top 10 grain producers, and among top honey exporters.

"We have the same scale of production as in Ukraine. We produce a lot of crops (in similar amounts) to Ukraine, like wheat, barley," said Federico Burlando, a representative at Sociedad de Cerealiasts, a union for agrarian entrepreneurs from Argentina's southwest provinces.

Brazilian agriculture businesses are also showing interest in Ukraine's market, and some products are already successfully being exported.

"We export (to Ukraine) seeds, fish, Argentinian lemons," said Elena Leticia Mikusinski, Argentina's ambassador to Ukraine.

During 2018, Coingra, a family agrarian company from Argentina, exported 36 containers of dried green peas to Ukraine — approximately 860 tons, according to Dolores Valdemoros, commercial director at Coingra.

"I believe that Ukraine is a promising, thriving country and that we can complement each other," Valdemoros said.

But both countries are also struggling to establish stable agrarian state policies, according to Lissitsa.

"In Ukraine, state decisions are accepted chaotically. And it is the same in Argentina. In fact, there is no state support. Moreover, (both countries) are constantly imposing export restrictions to get more money from farmers," he said.

In the past five years, the Ukrainian tax system in agriculture has changed six times, constantly confusing businesses.

"We need a predictable and understandable agrarian policy — this means to have the same tax system for at least 10 years," said Lissitsa.

Similarities, differences

There is also a cultural connection between the two countries. During the 20th century, there were three major waves of immigration from Ukraine to Argentina. Currently, there are around 350,000–500,000 ethnic Ukrainians living in Argentina, according to Ukraine's embassy in Argentina.

"Ukrainians were (some of the founders) who built Argentina. I know many (Ukrainian diaspora) families and they are very good people and work a lot on some very difficult soils in Argentina. They built cities and they are very qualified," said Burlando.

However, there are some major differences between the two countries.

Lissitsa was strongly impressed by Argentina's developed agrarian industry during his six-week trip to Latin America in 2018.

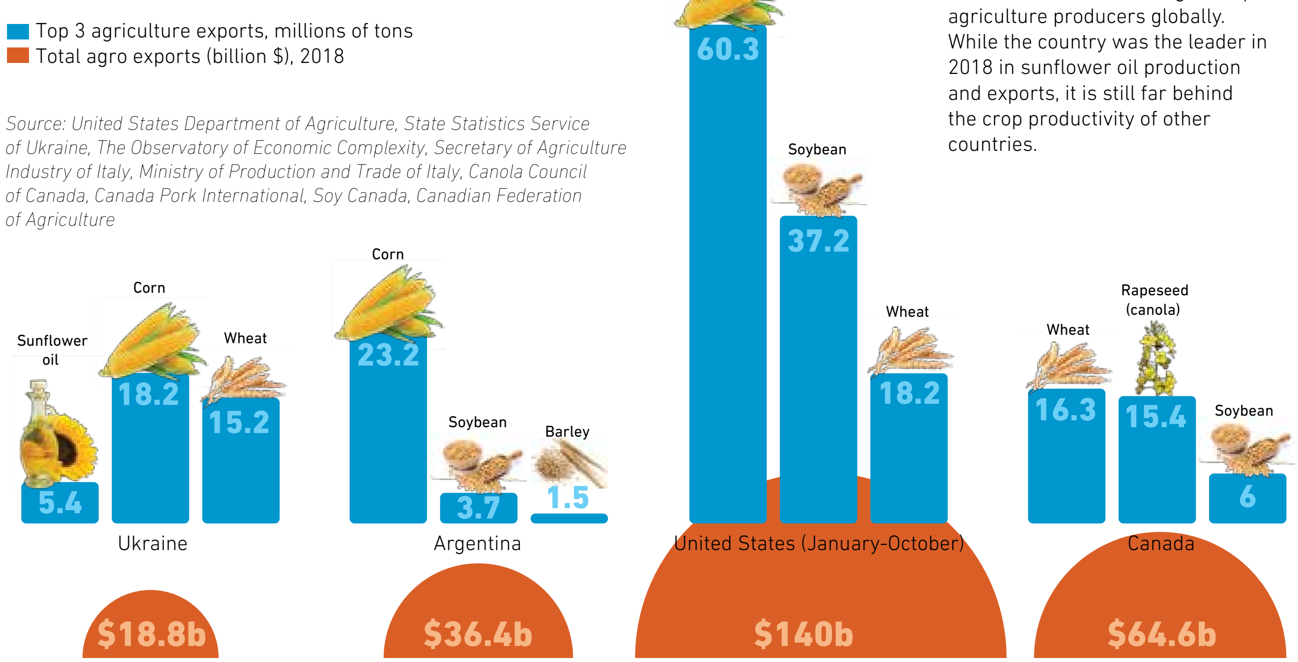
"Despite the fact that there are fluctuations in weather and a lot of traffic, Argentina's roads are in perfect condition, including rural ones," Lissitsa said.

Meanwhile, Ukrainian roads are still some of the worst, and have been ranked 130th among the 137 countries surveyed in 2018 by the World Economic Forum.

Lissitsa names another major difference: farmers in Argentina don't typically steal.

"Imagine: all innovations in Ukrainian

Top agriculture exports in Ukraine, Argentina, US and Canada in 2018



Ukraine was the global leader in sunflower oil production in 2018, producing 5.9 million tons of sunflower oil, out of which 5.4 million tons were exported, according to the ProAgro Group, an information services company. (Oleg Petrasiuk)

agriculture are focused on not letting people steal. But (in Argentina) they simply don't have to worry," he said. "They don't understand why people can steal fuel or spare parts... they do not understand how our workers can steal equipment, fuel, grain. It is nonsense to them."

Most importantly, Argentina has a free land market, whereas Ukraine doesn't because of a land-sales moratorium that has been in place for almost two decades.

According to the Berlin-based Centre for East European and International Studies, Ukraine has around 43 million hectares of fertile arable land, closely monitored by agrarian companies, both domestic and foreign.

With a land market, the maximum price per hectare could reach up to $3,000, according to Dmytro Yablonovskyy, deputy director at the Center for Economic Strategy think tank.

In Argentina, the land is already much more expensive. For example, for top quality land in the country's central Pampa Province the price could be $20,000–25,000 per hectare. On average, the price of land in Argentina is closer to $10,000–15,000 per hectare.

Another difference is the productivity of land.

"We can teach Ukraine how to implement new technologies, because you could produce more," said Mikusinski.

The problem of implementing new agrarian technologies is also tied to the lack of high-quality agrarian education and science in Ukraine.

U.S. and Canada

Like in Argentina, Canada and the U.S. both have advanced technologies and infrastructure.

These two countries also have developed land markets.

"For those who rent land in Ukraine, it means dealing with a huge number of land owners (and) that adds a lot of additional non-agriculture-related work," said Sergii Reznichenko, agronomy manager at Corteva Agriscience.

By contrast, North America is much more efficient than Ukraine.

In the U.S., only one or two farmers cultivate 1,000 hectares of land, while in Ukraine it takes 10–20 people to do the same amount of work.

American farmers will also often use outsourcing for non-agriculture related services such as accounting, agronomics and repairs as it is much cheaper, according to John Shmorhun, CEO at AgroGeneration and a former DuPont executive.

"A farmer may not have his own combines if he works in a cooperative. The cooperative has a distribution system for chemicals, they help with sales," said Shmorhun.

It is also difficult to insure land in Ukraine to minimize the risks caused by low prices on the global market or bad weather.

"In North America, if the cost of production, for example, is $100 but due to crop failure farmers will get only $80, then the state compensates $20 so the farmer can be profitable," Lissitsa said.

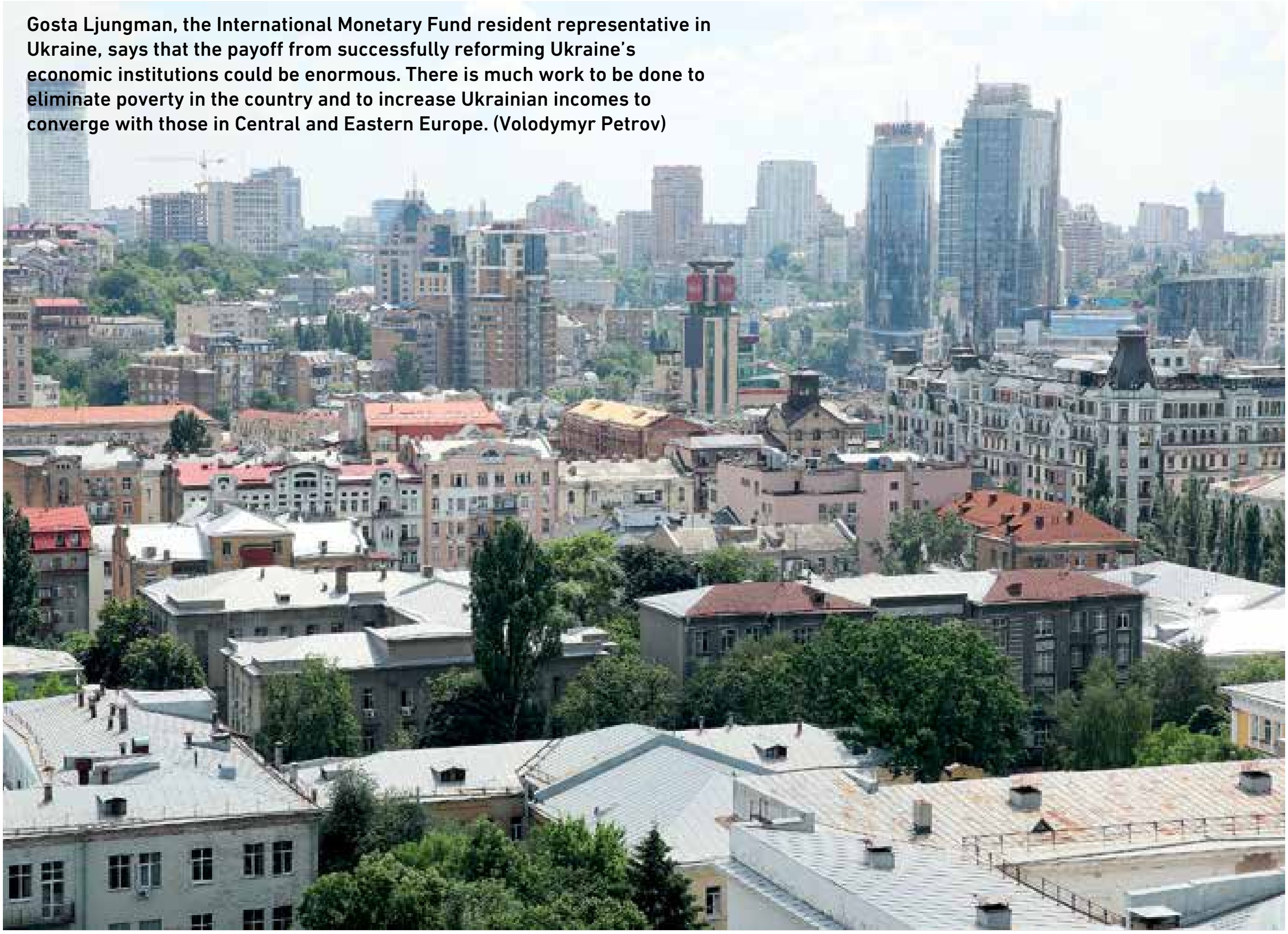
At the same time, the state is less involved than in Ukraine.

"In the U.S. everything is privatized, the state does not interfere. Of course, there are certain rules on what farmer can grow, the water cannot be polluted, there is also an Environmental Protection Agency," said Shmorhun.

Ultimately, the biggest problem for farmers in Ukraine is corruption.

"Corruption in Ukraine will exist as long as state authorities understand that they will not be imprisoned if they demand a (bribe)," Shmorhun said.

Agrarian production in Ukraine could increase by 20 percent with greater use of advanced technologies.



Gosta Ljungman, the International Monetary Fund resident representative in Ukraine, says that the payoff from successfully reforming Ukraine's economic institutions could be enormous. There is much work to be done to eliminate poverty in the country and to increase Ukrainian incomes to converge with those in Central and Eastern Europe. (Volodymyr Petrov)

Why does Ukraine need to reform?

GÖSTA LJUNGMAN

Whether Ukraine's reform glass is half-full or half-empty is a recurring debate. The transformation and economic stabilization that has taken place since 2014—the half-full part — is impressive, seen in the context of Ukraine's history and the immensely challenging conditions during 2014 and 2015. But it is equally true that progress is frustratingly slow and has met with much resistance, and that crucial sectors and institutions remain unreformed.

The scale of the remaining reforms — the half-empty part — required to bring Ukraine in line with other countries in Central and Eastern Europe is daunting. Complacency during much of Ukraine's history since


Farmers plow their fields on April 17, 2018 in Kyiv Oblast. (Oleg Petrasiuk)

independence has left many old institutions and practices intact. Not only does this mean that the list of things to do is long. It also means that the country has adapted to a certain way of doing things. Breaking up established norms and structures will meet with resistance and will require serious political will.

But the payoff from successfully reforming Ukraine's economic institutions could be enormous. Strengthening the judiciary and the rule of law, protecting property rights, eliminating corrupt practices, breaking up sectoral monopolies, opening up markets, and increasing the effectiveness and efficiency of the public sector would accelerate economic growth in Ukraine. Growth is needed for Ukrainian incomes to converge with those in Central and Eastern Europe.

That Ukraine has fallen behind in terms of economic development during the past decades is well-known. In 1990, Poland and Ukraine had similar income levels. Poland's per capita income has since grown to more than 85 percent of the European average. In sharp contrast, with incomes at around 25 percent of the European average, Ukraine has made little or no progress in catching up with other European countries during the last three decades.

So what is the problem? Why has Ukraine not emulated the success stories of neighboring countries? The answer is that labor, land and machinery are not being used in an efficient way. For the same amount of input, Ukrainian firms produce only one-tenth of the level of output of the most productive countries in Europe. The challenge is to improve productivity — in other words, to increase the value of what Ukrainian workers produce. This requires investment.

Much-needed investment is not materializing because of concerns that property rights are not protected, and that businesses will not be treated evenly and fairly. Surveys of potential investors confirm this picture. The most common answers to the question of what is holding back investments are: widespread corruption, lack of trust in the judiciary, and monopolization and capture by oligarchs. Before making the long-term investments that the Ukrainian economy desperately needs, investors are asking that outdated and inefficient institutions, plagued by corruption, be upgraded to good international practice.

A cross-country analysis by International Monetary Fund staff confirms that the strength of key institutions, such as an independent and trusted judiciary, is closely linked with higher productivity and income.

Applying this analysis to Ukraine, we find that, by first and foremost strengthening the legal system — but also by deregulating product markets, facilitating international trade, strengthening financial markets and opening up the agricultural land market — Ukraine could almost double its economic growth rate to 7 percent annually. In doing so, income levels in Ukraine would rise and finally begin to catch up with those in other Central and Eastern European countries. Future generations of Ukrainians would enjoy higher standards of living, comparable to those in neighboring countries. But achieving this requires a period of sustained reforms. It is high time that Ukraine presses ahead with these.

Gosta Ljungman is the International Monetary Fund resident representative in Ukraine.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Oksana Markarova's top priorities for Ukraine's finances

Finance Minister Oksana Markarova speaks during the 15th Kyiv Post CEO Breakfast on July 10, 2018, at the InterContinental Kyiv hotel. (Volodymyr Petrov)

BY BRIAN BONNER
BONNER@KYIVPOST.COM

Recruited by then-Finance Minister Natalie Jaresko to join her in 2015 and "do something good for your country," Oksana Markarova remains, leading the ministry that Jaresko left in 2016 and Oleksandr Danylyuk in 2018.

Jaresko and Danylyuk were forced out as finance ministers amid political disputes that started erupting two years after the EuroMaidan Revolution that ousted President Viktor Yanukovych in 2014. Markarova, a technocratic public finance expert with a background in private equity, has thus far managed to navigate those disputes.

"I stayed longer than I thought I would," the 42-year-old married mother of four children told the Kyiv Post in a wide-ranging interview in her office on a Saturday morning in June.

She's willing to stay on even longer, but she has her conditions.

"I believe in a European and NATO future for Ukraine. I believe in a market economy and fiscal consolidation," she said. "If

About Oksana Markarova

Born: Oct. 28, 1976 in Rivne, Ukraine

Education: Master's degree in ecology at Kyiv-Mohyla Academy and in public finance and trade from Indiana University.

Longest time in one job: 11 years as president of the ITT Group, an investment banking and asset management firm, from 2003–2014.

Did you know? In an interview this year with International Monetary Fund managing director Christine LaGarde, she identified these three global trends to contend with: migration of people, capital, profits; digital disruption; and the rise of populism from people demanding immediate "fast-food solutions."

the direction is any different, it's not something I can support or be a part of."

She's prudently preparing for her possible exit, which could come within weeks of a July 21 snap parliamentary election that is expected to be won by President Volodymyr Zelensky's Servant of the People party. The new ruling coalition will then form a new government by September that may or may not include Markarova in her current role.

"Right now, we in the ministry think we're at the finish line of this political cycle," she said.

Before she leaves, Markarova has things she wants to accomplish, including leaving the next government with a fiscally sound 2020 state budget that will spend less than $50 billion — about the size of the budget of the U.S. state of Maryland — next year.

Here are her top four priorities:

Macroeconomic stability

Ukraine's debt service is enormous at Hr 418 billion to external and internal creditors. It's more than $15 billion and nearly a third of the state budget in an economy that may officially have only $120 billion in economic output in 2019.

Amid these fiscal landmines, Markarova has to craft budgets that will repay the debt and continue to meet the nation's enormous social obligations to people, including 12 percent of gross domestic product to pensions.

"Regardless of all the political processes, the country should work without interruptions," she said. "It's clear what we need to do to get debt under control and get the country on its feet and continue to grow."

3-year budget plans

She admits the passion she has for longer-term budget planning sounds "technical and boring" to the average person, but defended it as essential to ensuring the financing of reforms while meeting current obligations during transition periods. She also wants the next government not to have to worry about next year's budget right away.

"The new government will not have a lot of time," she said. "Sept. 15 is the date when the cabinet has to submit the budget to the parliament."

Keep international lenders

She favors borrowing from "official lenders" such as the International Monetary Fund, World Bank and European Union, because the loans come for longer terms and cheaper interest rates than on the private market. Of course, the loans have strings attached. "They're tied with reforms, but it's a plus, not a minus."

She said that default on Ukraine's nearly $80 billion in public debt is out of the question. Already, she said, the nation is making progress in reducing the debt burden. The statistics back her up: The ratio of Ukraine's total state debt to GDP will decrease to 62 percent by the end of 2019, according to the IMF's World Economic Outlook, while Markarova wants to cut it to 43 percent by 2022.

Moreover, private investors are responding well to the relative macroeconomic stability in place, which also includes receding inflation to single digits and adequate hard-currency reserves. Ukraine on June 13 issued 1 billion euros worth of Eurobonds at a favorable annual interest rate of 6.75 percent with a seven-year maturity rate.

Timothy Ash, a London-based analyst who knows Ukraine well, said that the Eurobond sale "was very impressive" and shows what the nation can do with "a proper debt management strategy.

Ash said that Markarova "comes across very well with investors. She is direct, efficient, no messing around."

Another fan is Swedish economist Anders Aslund, a fellow at the Atlantic Council, who told the Kyiv Post: "She enjoys great respect both within the government and in the international community. She sticks to her fiscal goals. She behaves like a civil servant rather than a politician."

State Fiscal Service reform

Eliminating corruption and inefficiency in the State Fiscal Service, the nation's gargantuan tax and customs service, has bedeviled many politicians, lawmakers and finance ministers.

The temptation for personal enrichment

A woman withdraws money at a PrivatBank branch in Kyiv on April 4, 2019. PrivatBank is the largest state-owned bank in Ukraine, acquired after its former co-owner, oligarch Ihor Kolomoisky, left the bank needing a $5.6 billion taxpayer bailout. (Kostyantyn Chernichkin)

Men play chess in Kyiv's Taras Shevchenko Park on March 14, 2019. About 12 percent of gross domestic product goes to paying pensions to Ukraine's retired citizens. (Kostyantyn Chernichkin)

through graft, smuggling and kickbacks is huge. Two former heads of the state tax service, Roman Nasirov and Myroslav Prodan, have been implicated in criminal financial wrongdoing — accusations both have denied.

An attempt to separate customs from the tax service as part of a broader restructuring has been blocked in court. "The truth is on our side," said Markarova, who hopes an appellate court will overturn the ruling of the lower-court judges.

"The split of tax and customs into two parts is not the focus or the end of the reform or the reform in and of itself," she said, but the split would make changes easier to accomplish.

While the split is stalled, Markarova said, much can be done in making the tax service less repressive and more customer-friendly and digital. Among the changes, she said, are reprioritizing tax police investigators to crack down on major money laundering cases and excise tax evasion in cigarettes and alcohol. The tax police used to spawn numerous business complaints for arbitrary and heavy-handed inspections of law-abiding businesses, seemingly designed to extort bribes.

One major reform — the overhaul of the system for issuing value-added tax refunds — took place two years ago, shutting off a big avenue for corruption. Now the process is transparent, predictable and, Markarova said, "irreversible," unlike in the Yanukovych era, when businesses complained that tax service agents demanded 20 percent kickbacks to receive refunds.

Another bright spot in the State Fiscal Service: Markarova said that she has strong faith in the new head of the tax service, Sergei Verlanov, a former deputy finance minister. "He has a very good track record in business and a very good reputation after his work with the Public Integrity Council involved in the selection of new judges," she said. "He's very honest and very capable and a very good tax lawyer."

Stalled investigations

But another promising change — the creation of a special unit to investigate financial crimes — remains stalled. It would need a law by parliament to get started. There is no consensus, however, on whether the unit should just investigate tax violations and stay under the Finance Ministry or investigate all financial crimes, taking away these powers from all other law enforcement agencies.

"We have been discussing way too long," Markarova said. "We don't have a consensus at the moment, unfortunately."

In the meantime, huge financial crimes — like bank fraud that cost taxpayers at least $20 billion this decade alone — go unpunished.

Children attend the first lesson of the school year in Kyiv's No. 5 primary school on Sept. 1, 2018. (Volodymyr Petrov)

Courts & rule of law

Just as Ukraine's courts dealt a blow to State Fiscal Service reforms, judges have also put up obstacles to the privatization of the largest state-owned enterprises — part of a portfolio of more than 1,800 government-owned businesses that are sources of corruption and a fiscal drag.

"The record is very bad in large privatization," Markarova said. "In 2018, we had reason for optimism. After three years of fighting, we managed to adopt the law that is much better than what we have now. We selected professional advisers to prepare properties to attract real buyers. What did the vested interests do? They started stopping it through the courts. Every time we do something good, we come back to the need for full-fledged judicial reform."

What needs to be done

Ukraine would not have to borrow so much money — or any money at all — if it could get more people to voluntarily pay taxes, raise money through privatization of state enterprises, end corruption in the tax and customs services, start imposing real property taxes nationwide to benefit local governments, end monopolies in many sectors, create an agricultural land market, sell off more foreclosed assets from banks, raise excise taxes even higher on cigarettes and alcohol, stem the flow of offshore tax evasion and transfer pricing abuses… and more.

Ukraine is making progress in all of these areas, but vested interests in the status quo skillfully block radical changes in the nation's largely unreformed, distrusted and corrupt courts or through other methods.

When the "vested interests" — a euphemism sometimes used to mean oligarchs — don't use the courts or other means to block progress, a lot can be accomplished. Markarova points to this year's success of privatizations of small state enterprises — below the radar of the rich and powerful. In competitive, transparent and well-publicized sales, the state has already raised Hr 1 billion — or $37 million — in the selloffs, she said. In using ProZorro, the online tender system, the prices of some assets "went up three-or-fourfold."

In other areas, the tobacco industry has "a very strong lobby" to thwart high excise taxes, leaving Ukraine's cigarettes among the cheapest in Europe and fueling illegal smuggling to other nations.

Abuses in customs and transfer pricing are also being combatted, she said, through greater sharing of information with other countries and Ukraine's participation in the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit System, sometimes simply abbreviated as BEPS.

While entire sectors of the economy remain monopolized or oligopolized, she said that the adverse effects can be mitigated through a trifecta of sound public policies — better regulation, an effective Anti-Monopoly Committee of Ukraine and better corporate governance.

Markarova also said that cuts in the payroll tax and income tax (now 22 percent and 18 percent, respectively) have encouraged businesses to pay their employees in "white" salaries — officially declared — rather than hide the payments. When the nation can afford it, she said, she would favor an even lower income tax than the current 18 percent.

Greater transparency and efficiency in public spending, she said, will further encourage Ukrainians to voluntarily pay rather than dodge taxes.

"It's changing, not as fast as it should," Markarova said of taxpayer attitudes. "People have to be proud to pay taxes rather than be proud not to pay taxes."

But, she said, "it's a two-way street." Government has to cut corruption and spend taxpayer money efficiently and transparently.

"Transparency is the answer to a lot of problems," she said.

Troubled banking sector

Ukraine's economy is still digging itself out from the orgy of bank fraud and bad loans this decade that have cost taxpayers $20 billion and counting, leaving many banks crippled with a portfolio of uncollectable loans and unable to lend money.

Many of the deadbeat loans — or non-performing loans — were issued to owners or insiders before the 2014 change in power, which led to the start of a clean-up of the sector. The National Bank of Ukraine closed half of the nation's banks — leaving about 90 today. The central bank also imposed stiff new requirements to prevent insider lending and to ensure the institutions had sufficient capital.

"But we have to resolve the old loans," she said. "Otherwise it's a toxic part of the bank we keep dragging on and on and on."

The Deposit Guarantee Fund is selling off seized assets from the closed banks, but not getting anywhere close to the $2.6 billion that is owed to the state treasury. "We know that we will not get the 70 billion hryvnias that the DGF owes to us," Markarova conceded.

Today, more than half of the sector is owned by the state — overseen by the Ministry of Finance and supervisory boards. Among the largest state-owned banks: PrivatBank, Oschadbank, UkrExImBank, and UkrGasBank. She says they are much better-run now since the creation of new regulations and an independent supervisory board of directors for each institution.

Within five years, the state plans to own less than 24 percent of the banking sector. "It's achievable," she said. There are, however, bright spots: Oschadbank, for instance, won a $1.3 billion judgment against Russia for lost assets when the Kremlin seized Crimea in 2014.

But the sector is still not providing the affordable credit needed for the economy to grow more quickly, she said. Not only are interest rates too high, but the risk of lending is also too much for many bankers. And this goes back to the courts, who she said could issue rulings to invalidate loans so that borrowers would not have to repay the bank.

Credit register

Ukraine, however, still needs other features of a Western lending system. One of them is a credit score. Another is a public credit register listing all borrowers who have not repaid their loans. Such a register exists, but the information can be accessed only by other banks, not the general public.

However, for state-owned banks, Markarova "firmly believes" the names of people who are not repaying loans should be public. "The country capitalized them with taxpayer money. The shareholders have the right to know," she said.

Attracting investment

The numbers that Markarova and the Finance Ministry crunches would be a lot bigger if the nation had more foreign direct investment, which now sits at a paltry $2 billion or so for a nation of 42 million.

Ukraine doesn't have more investment for two reasons: corruption and lack of rule of law.

"The No. 1 question is judicial reform and rule of law," she said. "The free and fair judiciary is a must. Look at countries with a high level of investments. They go into two types of countries: they either go to the democracies, market economies where there is a strong judiciary and property rights or they go into horrible places, dictatorships, but where there are guarantees and you have to deal with just one person."

Ukraine, as a fledgling — or "not free and fair" — democracy as Markarova put it, "is the worst place for investors. Investors need certainty. Uncertainty scares investors. They have a lot of countries to choose from."

Ukraine, nonetheless, has made some progress in these areas — for instance, curtailing corruption of the road police at the street level while remaking the Supreme Court into a more reliable dispenser of justice.

The problems remain with the lower courts, she said, and such agencies as the Security Service of Ukraine, or SBU, a 40,000-member law enforcement body with tremendous powers as the successor agency to the Soviet KGB. It needs to narrow its focus to intelligence and counter-terrorism, she said, rather than investigating "economic crimes" of regular businesses, as it does now. "It is going to be the first test to see what is done in the SBU," she said.

Slawomir Nowak, head of Ukravtodor, Ukraine's state road agency, speaks with the Kyiv Post on June 14, 2019, about his plans for improving Ukraine's roads. (Oleg Petrasiuk)

Nowak: Help is on the way for Ukraine's battered roads

BY NATALIA DATSKEVYCH
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Ukrainian roads, 170,000 kilometers of arteries connecting cities, towns and villages across the country, are still far from ideal.

Unlike in neighboring Poland or Belarus, in Ukraine potholes are so common that they can considered distinctive features of the country.

In addition, in Ukraine there are still no toll roads, a weak system of weight control for overloaded trucks and poor enforcement of speed limits. In Poland and Belarus, such problems hardly can be found.

However, there has been some progress in road repairs in the past two and a half years, when Slawomir Nowak, the former minister of transport, construction and maritime economy of Poland, was appointed as the new head of the State Agency for Automobile Roads of Ukraine, better known simply as Ukravtodor.

When he took the job in late 2016, Nowak didn't realize the scale of work required.

"I didn't know the real picture. I received an independent report on Ukrainian roads made by the World Bank and it said that 95 percent of them were in critical condition," Nowak told the Kyiv Post. "But the critical condition of the roads in Europe is when the

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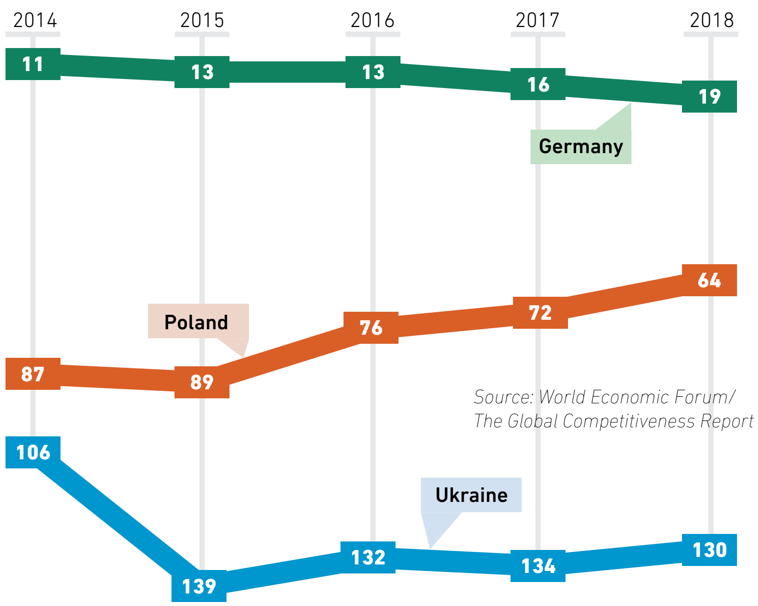
Quality of Ukraine's roads compared to Poland and Germany



According to the Global Competitiveness Report published by the World Economic Forum, Ukraine has some of the worst roads in the world. Out of the 137 countries surveyed in 2018, Ukraine stood at 130th place. The condition of the roads dropped significantly since 2014 and then started to slightly improve in 2016.

road requires routine repair. Here it turned out that critical condition is understood in a completely different way."

In some places, the roads were so bad that motorists found it easier to drive through fields than on the actual roads.

So far, 6,800 kilometers of Ukrainian roads have been repaired, according to Prime Minister Volodymyr Groysman in April 17.

But 90 percent of roads remain in critical condition, Nowak said.

"In Ukraine, for 20 years we did not invest anything. The system has reached almost complete destruction. In fact, we need to rebuild the entire road infrastructure again," said Serhiy Vovk, director of the Center for Transport Strategies consulting center. "We simply used the legacy that we inherited (from the Soviet Union)."

According to Nowak, the last repair of the road between Mykolaiv and Kropyvnytsky, the administrative center of Kirovohrad Oblast, was in the 1970s.

"There are some roads that have not been repaired since the beginning of construction in the 1950s," he said.

While Ukrainian roads have gradually been destroyed, Poland and Belarus were systematically repairing their roads.

The first toll highway in Belarus from Brest to Russia appeared more than 10 years ago. In Poland, there is a diverse toll roads system called viaTOLL, which was launched in 2011. By the end of 2018, the Polish treasury received 23.6 billion Polish zloty, or $6.2 billion, through this system, according to the Polish General Directorate for National Roads and Motorways.

In Ukraine, there are currently no toll roads.

Another hot issue for Ukraine, a country with a giant agricultural industry that requires good transport infrastructure, is the lack of durable cement roads. They are especially necessary for heavy trucks in the southern regions of Odesa, Mykolaiv, and Kherson oblasts, where the main gates of Ukrainian export — seaports — are located.

This year, for the first time in 28 years, a tiny part of a cement road under construction in Poltava Oblast opened. So far, travel is allowed on 1.7 kilometers of the road, which begins in the village of Reshetilovka in Poltava Oblast and will connect to the city of Dnipro, a distance of roughly 160 kilometers.

By comparison, a cement ring road with a total length of 160 kilometers was built around Minsk in just two years and was launched at the end of 2016, so that trucks can bypass the capital, something that Kyiv can only dream of.

According to Anton Usov, the European Bank of Reconstruction and Development's senior adviser on foreign affairs, Belarusian roads can easily be compared to German ones.

Poor financing

The huge difference between Ukraine and neighboring Poland is the amount of money allocated to build and repair roads, as well as the way the financing is organized.

In the European Union, there is internal financial support for member states with underdeveloped infrastructure.

"Other richer countries, like Germany or France, give their money so that Poland, Slovakia and Romania (can) align their standard of living with the help of the EU," said Nowak.

And Poland received a lot. For the period from 2007 to 2015, around $29 billion was allocated for new construction and for national highways alone — roughly 19,000 kilometers.

Ukraine, which is not a European Union member, has no such help.

For the past five years, the Ukrainian government has allocated only $6 billion not only for 50,000 kilometers of national highways, but also for all road infrastructure, according to Ukravtodor.

"We need more funding. It is not enough to repair the main transport corridors at a sufficient pace," said Nowak.

The sum would be even smaller if the State Road Fund hadn't been established in 2018. It is one of the most important reforms, Nowak says.

"Every citizen who pumps a car at a gas station pays a fee. Part of the money of the excise tax goes to the Road Fund," he said. It helped to allocate $1.5 billion to roads in 2018, with $1.9 billion expected this year.

"There is a reason for cautious optimism in the road sector, since we have a Road Fund for two years already. It is a guaranteed source of funds for road repairs," said the Center for Transport Strategies' Vovk.

In Poland, there is a National Roads Fund, which covers expenditures for the construction of national roads that connect cities and regions. It uses financial resources coming from the fuel fee, EU funds, bank loans and revenues from toll collection.

Potholes are a regular characteristic of Ukrainian roads. The country's roads have been mistreated, underfinanced and neglected for decades, making them some of the worst in the world. But Ukraine's state road agency, Ukravtodor, is looking for ways to fix the problem. (Oleg Petrasiuk)

Weigh stations, parking lots

Huge potholes, the bane of Ukrainian drivers' exitence, don't simply appear out of the blue. They are caused by overloaded trucks.

In the EU, this problem was solved thanks to the "weigh in motion" system, in which road sensors detect weight and photograph overloaded trucks, sending the evidence immediately to the police for investigation. The penalty is calculated automatically to eliminate bribes.

"In Poland, we quickly managed to minimize the number of overloaded trucks, and here it is a terrible problem," said Nowak.

A pilot project for such a system is currently under construction in Kyiv.

"We are building six gates at the entrance to Kyiv. By the end of the summer, all six must be completed," said Nowak.

Next year, Ukraine plans to have 50 such points along all the main transport corridors, especially at the entrances to cities and seaports.

However, Vovk believes that, even though this system will quickly pay for itself through fines, there is strong resistancce in Ukraine to moving this facet of law enforcement out of the shadows.

"Illegal transport companies carry 60 or even more tons, instead of the 40 tons allowed, thereby destroying roads. Behind illegal carriers there are often illegal controllers that have certain connections also with the Ukrainian authorities," said Vovk.

"This is a whole industry," he added.

Another huge difference between EU countries and Ukraine is the lack of parking places, especially in big cities.

Kyiv recently was ranked 13th among the 403 most traffic congested cities around the world, according to the TomTom Traffic Index report.

It means that drivers spend 46 percent extra travel time to get to their destination in Ukraine's capital.

"This is a very serious problem for Kyiv Mayor Vitali Klitschko. Everyone leaves their cars where they want. This should be strictly regulated, otherwise there will always be a problem — when, for example, we have five lanes to move (but) two are excluded because cars block (them)," said Nowak.

One of the ways to get rid of this problem is to build Park and Ride places at the entrance to the city, like in Berlin, Paris or Warsaw. People can leave their cars there and continue to travel by public transport.

Additionally, Ukraine will start installing cameras to catch speeders in 2019.

"It's not that much, but we need to take the first step at least," said Nowak.

Nearly 90 percent of Ukraine's roads are in critical condition. This is partly caused by overloaded trucks carrying 60 tons or even more, rather than of the allowed 40 tons.

Ukrzaliznytsia can modernize by looking at how others did it

BY OLEKSIY SOROKIN
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An old locomotive belonging to Ukraine's state-owned monopoly Ukrzaliznytsia is parked at the Darnytsia Railway Station in Kyiv on June 19, 2019. (Oleg Petrasiuk)

Ukraine's state-owned railroad monopoly Ukrzaliznytsia is among the most heavily criticized enterprises in Ukraine.

The company faces multiple challenges — an obsolete and inefficient fleet, causing severe financial losses most notably to agrarians who are forced to wait days for their products to be transported, a bloated workforce employing over 260,000 people, while the company is struggling to breakeven due to below-market prices both for passengers and freight transportation, which primarily benefits producers of steel, coal and ferroalloy, thus, oligarchs.

Andriy Ryazantsev, Ukrzaliznytsia's financial director, in September, told the media that the state-owned company needs around Hr 1 trillion ($37 billion) and 30 years time, to solve all existing problems.

"The services provided by Ukrzaliznytsia do not satisfy either goods suppliers or passengers," said Infrastructure Minister Volodymyr Omelyan, in a comment to Kyiv Post back in November.

He estimated that over 90 percent of the rail company's assets are obsolete, with cargo train depreciation reaching 98 percent. Yevhen Kravtsov, head of Ukrzaliznytsia, told the Kyiv Post that the depreciation is a direct cause of the company's lack of funds due to below market prices.

Not willing to wait 30 years, Kyiv Post looks at three European examples of a successful railroad policy — German state-owned monopoly, Polish steady modernization and the privatization of the British rail.

German monopoly

Germany's railroad system is the obvious choice when comparing to Ukraine. Germany has 33,331 kilometers of tracks, making it Europe's largest railroad network, Ukraine being the second longest with slightly more than 28,000 kilometers of tracks.

The second similarity is that Germany has a state-owned railroad monopolist — Deutsche Bahn (DB) — responsible for over 65 percent of all passenger and cargo transportation in the country, carrying over 2.5 billion passengers by train and carrying 255 million tons of goods through rail freight transportation in 2018. Ukraine's freight transportation accounts for over 322 million tons in 2018.

The company's net income in 2018 was 542 million euros, making it the largest European rail company in terms of passenger volume and net income.

DB's success was guaranteed by market prices for passenger and cargo transportation, as well as the government's financial support.

The German federal government declared an intention to invest over $12 billion in 2018, to repair 1,500 kilometers of tracks and to ensure better service quality on German railroads.

According to Anders Aslund, economist and member of Ukrzaliznytsia's supervisory board, the biggest problem of Ukrzaliznytsia is the pricing policy set by the government. Passenger prices are below the market.

"The cargo transportation covers the losses of passenger traffic," said Aslund, adding that without market prices the company can't generate profit.

"Economically, for Ukrzaliznytsia it makes sense not to perform passenger transportation at all," says Kravtsov, adding that the company lost Hr 12 billion ($450 million) with the pricing policy.

DB is also decentralized, having separate subsidiaries operating regional passenger traffic, nationwide traffic, cargo transportation and maintaining infrastructure, allowing the company to be more efficient.

According to Kravtsov, Ukrzaliznytsia is planning a similar model by creating a separate UZ Cargo subsidiary later this year.

Additionally, in Germany, private companies are permitted, ensuring competition, something that the Ukrainian business community had been advocating for years. But Ukrzaliznytsia is hesitant to allow private players into the market any time soon.

"We still have four years to implement European directives and allow private companies," says Kravtsov. He added that Ukrzaliznytsia's monopoly should be maintained to have time to renew its train park and be competitive.

Mykola Gorbachev, head of the Ukrainian Grain Association, told the Kyiv Post that since private companies aren't permitted on Ukrainian railroads, some grain storage facilities have to wait nearly a month for their grain to be shipped by Ukrzaliznytsia. "We gathered only 70 percent of the corn (in 2018), because there was nowhere to store it," Gorbachev said in November.

Polish modernization

Poland and its state-owned railroad company PKP Group faced similar problems — depreciation of locomotives and wagons, worn out infrastructure and a Soviet-type price regulation.

The government began by decentralizing the company, creating separate subsidiaries for long-distance travels, freight transport and track maintenance.

Further deregulation followed, with the government allowing private companies and introducing market prices. In 2018, around 50 percent of passengers used PKP, while the company's main competition comes from Deutsche Bahn and regional railroad companies owned by local governments.

Even though PKP transports fewer passengers and cargo than Ukrzaliznytsia, PKP is making substantial profits ($124 million net profit in 2018), while Ukraine's monopoly is struggling to break even ($8 million net profit in 2018).

This is due to Ukrainian cargo fares being among the lowest in Europe, up to 10 times cheaper than in neighboring Poland. While Poland has a flat rate for all freight passing through the country's railways, Ukraine divides commodities into groups, with those owned by oligarchs, such as coal and ferroalloy, usually transported substantially cheaper.

Additionally, PKP employs three times fewer people than Ukrzaliznytsia. According to Kravtsov, maintaining old assets, such as locomotives and wagons, requires more personnel.

While Kravtsov agreed that Ukrzaliznytsia employs too many people, he refused to say how many people should be laid off.

Nonetheless, PKP still receives government compensation for below-market prices on some routes, as well as for social prices for retirees and children. PKP in a 10-year span has received around $1 billion in price co-financing from the government.

Both the state and the European Union have also financed projects to renovate train stations and to electrify tracks, allowing modern locomotives to enter the country.

British privatization

A number of Ukrainian experts called for the unbundling and privatization of Ukrzaliznytsia, citing that the business is more efficiently run by private companies. While the scenario is unlikely, there are examples of a privatized railroad network.

According to the 1993 British Railways Act, the state-owned monopolist was fractured and privatized. The procedure was one of the final steps of a large privatization wave initiated by Prime Minister Margaret Thatcher.

Today, the state controls the tracks, stations and other assets, while leasing transportation rights to private companies for a fixed sum. The long-term advantages are the substantial increase in passenger volume and a rapid modernization due to private direct investments.

Yet, the system has its downsides, with train tickets in the UK being among the most expensive, the government still investing billions in renovation of tracks and services, while the public dissatisfaction of the current railroad system being so high, politicians speculate on the topic prior to elections.

Another point worth mentioning is that the privatization did not increase competition as franchises most often monopolize a certain direction, sometimes having a single competitor. Last, most British rail companies are owned by large European monopolists — Nederlandse Spoorwegen, a Dutch state-owned monopoly, and DB own the largest UK bus and train companies, while DB's subsidiary DB Cargo UK is the largest freight company in Britain.

Looking ahead

The Ukrainian government, on June 12, approved a new railway strategy up until 2023. According to Kravtsov, the strategy is meant to ensure modernization, financial stability and draw investments by ensuring efficient rates and rationalizing the company's assets — centralizing the company's governance, while dividing the freight and passenger transportation into separate entities.

This is not the first time similar claims have been made by Ukrzaliznytsia. However, with reforms overdue, the roadmap for a successful railroad strategy is set by European regulations — ensuring market prices for passenger and cargo transportation, permitting private carriers and modernizing infrastructure by financing renovation of stations and tracks.

Yevhen Kravtsov, head of Ukraine's state-owned railway monopoly Ukrzaliznytsia, is against allowing private locomotives on Ukraine's railroads.

Francis Fukuyama, world-renowned academic and author of "The End of History and the Last Man" and "Trust: The Social Virtues and the Creation of Prosperity," stands in Mykhailivska Square in central Kyiv during an interview with the Kyiv Post on May 22, 2019. (Oleg Petrasiuk)

Francis Fukuyama: 'Ukraine should grow an economy outside of oligarchs' purview'

BY ILYA TIMTCHENKO
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Political scientist Francis Fukuyama's books are often required reading in top universities across the globe, and today much of the academic's attention is devoted to Ukraine.

Fukuyama says that after Russia began its military aggression in post-Soviet countries — such as in Georgia in 2008 and then in Ukraine in 2014, when it annexed Crimea and started a war in eastern Ukraine — he started to devote more of his attention to the region. Today, he is putting his efforts into finding solutions for Ukraine to prosper both economically and socially.

Where do Ukraine's universities stand in global ranking?

Based on QS World University Ranking 2020

Rank	University	Score
1	Massachusetts Institute of Technology (MIT)	100
2	Stanford University	98.4
3	Harvard University	97.4
4	University of Oxford	97.2
5	California Institute of Technology (Caltech)	96.9
491	V. N. Karazin Kharkiv National University	24.3
541-550	Taras Shevchenko National University of Kyiv	-
651-700	National Technical University "Kharkiv Polytechnic Institute"	-
701-750	Igor Sikorsky Kyiv Polytechnic Institute	-
701-750	Sumy State University	-
751-800	Lviv Polytechnic National University	-

Source: QS World University Ranking 2020

Ukraine's universities are far from the world's leading educational institutions, according to the QS World University Ranking 2020. Ukraine's higher education system tends to be underfinanced and poorly managed.

If Russia hadn't "done that I wouldn't have been as involved," Fukuyama told the Kyiv Post during a recent interview.

Fukuyama's expertise lies between international affairs, political science and economics and he has written extensively for leading publications such as the New York Times, the Wall Street Journal, Foreign Policy, the National Interest and Newsweek. He is also the chairman of the editorial board at the American Interest.

Earning his Ph.D. in political science from Harvard University, Fukuyama now teaches at Stanford University. He runs several leadership programs that provide opportunities for the brightest from all over the world, including Ukraine, to hone their leadership skills.

He has been visiting Lviv and Kyiv for several years now as he teaches to some of Ukraine's brightest future leaders through Stanford University's Leadership Academy for Development.

Judicial fix

As nearly every international and domestic reformer in Ukraine says, the top priority in Ukraine's fight against corruption is to establish a truly independent and professional judicial system with an anti-corruption court that would have the ability to prosecute Ukraine's top officials.

"That's a political act because it means giving up power of politicians who don't necessarily want to face judicial scrutiny," Fukuyama said.

The process cannot be accomplished overnight and requires committed preparation.

"It's a longer process because a lot of state modernization is about education and in order to have an independent judiciary you have to have a bar, you have to have lawyers and judges that receive the right kind of professional education and then they need an institutional autonomy so that they promote themselves and not politicians," he said. "And that itself can be done and has been done in a lot of countries but not in Ukraine."

And it can be done relatively soon — during President Volodymyr Zelensky's term, the professor argues.

"I mean it has happened in Romania, it's happened in Indonesia, there's a lot of countries with high levels of corruption that managed to actually jail cabinet ministers, and governors, and officials of that level. That's not going to fix the system but it will at least put people on notice that things are changing and that's something that can be done this year if you wanted to politically."

More SMEs, non-profits

But it doesn't all depend on political will to eliminate corruption. The private sector can also play a major role by developing independent businesses that are more difficult to control for oligarchs.

"The main thing that I think Ukraine needs to do in the economy is to create something outside of the purview of these five oligarchs — and that's really growing independent businesses. I mean that's why the IT sector is really important," Fukuyama said. "...The capacity is there but there is an organizational level that really hasn't been achieved to the extent that it could be."

Another vital component of a healthy economy and democracy is having truly independent media. Ukraine is still far from achieving this as its media market is dominated by oligarch ownership.

"The media is actually part of the ecosystem that reduces corruption. Independent media is usually the source of information about corruption," he said.

Cultural identity

One of Fukuyama's most read books, "Trust: The Social Virtues and the Creation of Prosperity," argues that social capital rests on culture. Ultimately, he argues, culture concentrates on the virtues and vices of ethical habits of a society, which define a society's ability to spontaneously and easily cooperate with new communities and economically prosper. The good virtues that Fukuyama lists are: honesty, reliability, cooperativeness and sense of duty to others.

Ukraine is still defining its culture, and how it is shaped will define the country's ability to economically prosper.

Political scientist Francis Fukuyama has been visiting Lviv and Kyiv for several years, teaching some of Ukraine's most talented students through Stanford University's Leadership Academy for Development. (Volodymyr Petrov)

"We (recently) had a big conference on Ukraine at my center at Stanford… and we had a panel on culture and national identity. (Member of Parliament) Hanna Hopko and (University of Notre Dame professor) Yuri Avvakumov were on that panel and I think it was quite an interesting discussion," Fukuyama said. "I do think that Ukraine does need its own identity. Most Russians beginning with (Vladimir) Putin go around and say there's no such thing as Ukraine, that it's always been part of Russia and there's no separate Ukrainian culture."

But one very important cultural victory for Ukraine was the recognition of the Ukrainian Orthodox Church as independent from the Moscow Patriarchate by receiving autocephaly from the Ecumenical Patriarchate of Constantinople back in January.

He called it "an important step to show that, in fact, there is a possibility of religious independence and, therefore, since a lot of cultural identity is based on religion, that is one element of it," Fukuyama said.

Another distinction between Ukraine and Russia is that Ukraine is much more democratic: "…it's the fact that one is a free country and the other one isn't, that's something that is very valuable. Ukrainians ought to be proud of the fact that they can walk around and criticize the government, organize political parties and you know, pretty much, be free people."

But, according to Fukuyama, it takes a lot of time for a country to create its own culture and identity.

"Every country needs to live with its own historical legacy and you can't just create a national culture out of thin air. And you know the legacy of communism is something that pervades the whole former Soviet Union. And I think that that's something that needs to be overcome. I think that's a generation-long project. Or maybe a multi-generation-long project."

Golden rule: Education

And an important factor will be reforming Ukraine's education

Francis Fukuyama, world-renowned academic and author of "The End of History and the Last Man" and "Trust: The Social Virtues and the Creation of Prosperity," speaks with the Kyiv Post at the InterContinental Kyiv hotel on May 22, 2019. (Oleg Petrasiuk)

system, Fukuyama believes, as one of the fundamentals in nation-building and reforming a corrupt system is changing the education process.

"Most modernization projects have actually begun with an educational reform and it actually starts not with elementary school but with (higher) education," he said.

But Ukraine's higher education has placed a greater emphasis on technical skills and not so much on leadership and management: "What is needed is, first of all, a more specific emphasis on things like public administration. If you look at very high quality bureaucracies they are usually fed by specific training, (an) educational set of institutions that is designed to create very well-educated civil servants."

"The other thing has to do with the style of education and this is something where we have gotten involved, because I think that, with a lot of Ukrainian education, there still is a hangover from Soviet times, a fairly rigid, hierarchical system of learning where you are really not expected to think on your own, think critically, in which I think cooperation is not particularly valued or taught."

Higher education corruption

In addition, it doesn't take much to hear stories of bribe-taking in Ukraine's universities for students to receive good grades. Ukraine's higher education is typically still inefficient, outdated and underfunded. State universities struggle to finances their campuses.

One solution is to bring in more competition, including private players.

"That's part of the solution. We've been working with the (Ukrainian Catholic University) in Lviv, which is private and it is really an excellent university," Fukuyama said. "I think one of the things that the American system is very strong in is… not just private education but its competition among different schools for academic excellence."

Post-Soviet region

Ukraine's success in fighting for reforms and becoming a sustainable and successful democracy with a strong economy will mean a lot not only for its people but for the future development of the post-Soviet region, Fukuyama says.

"A lot of former communist countries are going to be affected by that. Not just in the former Soviet Union, but I think also in eastern Europe; it's going to set a very bad precedent if Ukraine becomes a kleptocratic, authoritarian country again like Russia," Fukuyama said. "I think that Putin understands that perfectly well, he does not want Ukraine to succeed because he doesn't want anyone to think that they can become a real European democracy in the former Soviet space."

Russia still has a strong grip on Ukraine's economy as it is the leading single country trade partner, although bilateral trade has been decreasing significantly. But Russia can still manipulate Ukraine's image by extending military operations within the country's borders, thereby scaring off investors.

Fukuyama believes, however, that Russia could eventually defeat itself through the approaches it has been using.

"There's also a certain benefit to that Russian aggression because I think that it created a Ukrainian national consciousness in a way that was not so evident before," he said.

Zelensky concerns?

Fukuyama is hopeful regarding Zelensky's presidency. But he is also concerned because too little is known about the new president.

"He can be a great president but we don't know at this point. I just think that there is danger, but there's also big opportunity here. I just think that we've got to give the guy a chance to see what he's going to do," Fukuyama said.

Asked whether he was concerned that the president has no political experience, Fukuyama said that it will really depend on who the president surrounds himself with.

U.S. President Donald Trump "didn't have much background in politics and never thought that it was important to acquire any expertise. But he also didn't think that it was important to surround himself with people that had expertise. And that's where I think he has been such a disastrous president; whether Zelensky will do that or not, we don't know yet. It's possible that he will go a very different direction and realize that."

Arbitration lawyers deliver Ukraine international success

BY VYACHESLAV HNATYUK
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In Ukraine, most businesses and services have been hit hard after the country's EuroMaidan Revolution in 2014.

After the Ukrainian people ousted Kremlin-backed President Viktor Yanukovych, Russia annexed Crimea and invaded the country's eastern Donbas regions. It was an enormous blow to the Ukrainian economy.

Despite that, some segments of the economy managed to succeed. Arbitration lawyers are one group who did particularly well.

In part, this is due to Russia's war. Many Ukrainian international arbitration practitioners decided to represent their country's interests in international courts — defending both state property lost and private businesses affected by the Russia's aggression.

Now, after a string of victories, they are hoping that the lessons learned and the skills gained will continue to serve Ukrainian lawyers in the future.

Growing under pressure

Aminat Suleymanova, a co-managing partner at the Avellum law firm, says that, so far, Ukraine's international arbitration performance has been successful over the past five years.

"We have shown great qualification, great selection of foreign counsel — because in such cases the best foreign... firms are also involved," she said. "We have been performing with tremendous breakthroughs, winning practically all the cases."

After the annexation of Crimea, lawyers from Ukraine and abroad quickly joined in to help with the country's international arbitration court cases. Law firms from Kyiv, London, Oslo, Paris, Stockholm and other arbitration capitals of the world began representing Ukrainian interests.

For example, Oslo-based law firm Wikborg Rein represented Ukraine's state-owned oil and gas monopoly Naftogaz in its case against its Russian counterpart, Gazprom. Dag Mjaaland, a partner at the firm, says that, in general, Ukrainian lawyers fared well considering their country's difficult conditions.

However, foreign firms are largely serving as lead counsel in Ukraine's major international arbitration cases. Besides Naftogaz's usage of Wikborg Rein, Ukrainian state-owned bank OschadBank was represented by Quinn Emanuel Urquhart & Sullivan's London office in its case against Russia.

Ukraine won those cases, and Russia suffered severe losses thanks to the work of both Ukrainian and foreign lawyers. Gazprom must now pay Naftogaz $2.6 billion dollars instead of the $56 billion it expected to receive from Ukraine prior to arbitration. Russia also must pay $1.3 billion after the International Chamber of Commerce arbitration court in Paris ruled in favor of OshchadBank.

Mjaaland told the Kyiv Post that, while working on the Naftogaz case, "the bulk of the work was conducted by (Wikborg Rein) and the Swedish counsel, and only partly by Ukrainian counsel..."

"What we have demanded from the Ukrainian counsel was (research) about Ukrainian legislation, witness interviews,

Asters law firm partner Svitlana Chepurna speaks with the Kyiv Post at the firm's office at the Leonardo Business Center in downtown Kyiv on June 4, 2019. (Volodymyr Petrov) review of documents in Ukrainian, etc," he added.

Svitlana Chepurna, a lawyer at Asters in Kyiv, says that the cooperation with the foreign counsel in the Oschadbank case was enormous.

"The level of output expected from the national counsel was very high: that is, the level of integration into the team, the level of responsibility, the issues handled."

According to Chepurna, Ukrainian lawyers are very knowledgeable on arbitration matters, but this does not prevent high-end cases from going to foreign firms.

"Ukraine as a jurisdiction still does not have a really voluminous dispute resolution experience, because we are just finishing reforming the legislation, the judicial system," she said. "We still need to get real law enforcement in place and overcome the (formalistic) approach in applying legislation. We need a change in worldview."

Markian Malskyy, a Lviv-based lawyer at the Arzinger law firm, says that Ukrainian practitioners must get more work experience.

In several cases, some Ministry of Justice employees are unhappy with the quality of service provided by foreign firms to Ukrainian companies because the foreigners fail to involve a local counsel.

Malskyy suggests making it mandatory to have Ukrainian lawyers participate at the official level in such major cases.

He also suggests having more state regulations requiring foreign law firms to disclose which Ukrainian firms they are cooperating within particular cases. In addition, he says law firms should be required to reveal what instructions the Ukrainian counsel receives, as well as the type and load of work that is being done.

Serhiy Hryshko of Redcliffe Attorneys also believes that there should be more state regulation in arbitration cases so that "the expertise stays in Ukraine."

International cooperation

But not all the expertise is being lost. The unprecedented work done recently in Ukraine-related cases has resulted in serious contributions to international legal theory.

Here, the cooperation with foreign lawyers has been critical, says Oleksandr Martynenko of the CMS Cameron McKenna office in Kyiv.

"Our lawyers have achieved phenomenal success because the international arbitration tribunals have arrived at a novelty in international investment law by treating investments made by former domestic investors on the territory of their own state as foreign investments (in case of the territories' annexation)," Martynenko said. "The theory (behind that approach) was that the treaties on mutual protection of investments refer to situations not only de jure, but also de facto.

"That is, when a party to a treaty exercises actual control over a certain territory... then investments on such territory are to be considered as foreign investments."

A number of companies belonging to oligarchs Ihor Kolomoiskiy and Gennadiy Boholyubov, as well as the state-owned Oschadbank, advanced their legal reasoning using this logic in arbitration proceedings and won their cases.

Aadne Haga from the Wikborg Rein law firm is confident that the demand for arbitration services in Ukraine will likely remain stable as "Ukraine opens up toward Europe and the rest of the world and becomes increasingly integrated in the global economy."

He says that integration into the global economy will increase the number of arbitration disputes in Ukraine because "arbitration is firstly the dispute resolution mechanism of choice for international trade."

Suleymanova knows that the number of cases caused by the Russian annexation of Crimea — the reason for this Ukrainian arbitration boom — is limited, but she also remains optimistic that "the large-scale foreign businesses investing in Ukraine will always choose arbitration."

"And we (Ukrainian lawyers), having proven ourselves as a professional community, will obtain the necessary trust and respect and will be able to handle some cases by ourselves," she said.

How attractive is Ukraine's business climate?

Sourse: World Bank, World Economic Forum, Global Innovation Index 2018 report (numbers are updated based on latest methodology)

A visitor puts his child on an armored personnel carrier during the Weapons and Security arms exhibition in Kyiv on Oct. 11, 2018. (Kostyantyn Chernichkin)

Despite bold promises, audit of UkrOboronProm defense giant making no headway

BY ILLIA PONOMARENKO
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The years-long battle of UkrOboronProm — Ukraine's giant state-run defense production concern absorbed by corruption — is still in full swing, and the parties clashing over it are not equal in strength.

In February, when the Bihus.Info journalism project released its explosive investigation shedding light on multimillion-dollar embezzlement in the country's defense production, it seemed to be a huge tactical win for reformers.

Oleh Hladkovkskyi, the former deputy secretary of Ukraine's National Defense and Security Council, was accused of patronizing corruption and subsequently fired (although never prosecuted).

Then-President Petro Poroshenko repeatedly vowed to launch a game-changing reform of UkrOboronProm, which would start with a comprehensive independent audit of the heavily compromised state company.

Several months later, amid numerous

declarations of "decisive action" from the ex-president, the government, and the National Defense and Security Council, a full-fledged international inspection is not even close to being launched. It is still hogtied by bureaucratic hurdles in government offices, despite the urgent need to launch an effective military production industry in the sixth year of Russia's war in Ukraine.

Nonetheless, according to some of the reformers, such as the recently-appointed UkrOboronProm Supervisory Board member Aivaras Abromavicius, there is still hope to overcome resistance from obstructionist forces.

Soon, the government is expected to finally make a decision to allocate funding for the audit, so that the long-overdue transformation of Ukraine's military production can be started as soon as possible.

UkrOboronProm facts

- Founded in late 2010 during the presidency of Viktor Yanukovych
- Over 130 defense production enterprises
- Over 30 design bureaus
- Over 80,000 employees
- Responsible for nearly 50 percent of Ukraine's state defense procurement
- Active in nine military production industries: aviation, shipbuilding, military vehicles and weapons, radio-electronic production, military device engineering, munition, military-purpose chemicals.
- The world's 72nd biggest defense producer in 2018, with $1.06 billion in revenue in 2017 (according to Defense News Top 100)
- The biggest enterprises: Antonov Aircraft Plant in Kyiv, the Malyshev Tank Factory in Kharkiv, the Kharkiv State Aircraft Production, the Luch Design Bureau in Kyiv
- Handed over to the Armed Forces of Ukraine over 3,500 items of military hardware in 2018
- Withheld Hr 400 million ($14.7 million) in wages from its employees in 2018 – the largest amount of any enterprise in Ukraine
- Nearly 480 criminal probes conducted regarding corrupt practices at the concern (according to former President Petro Poroshenko, as of March 2019)

No progress

Attempts to get a glimpse into the secretive bureaucratic abyss of UkrOboronProm are nothing new. The concern was created under ousted former President Viktor Yanukovych in 2010, and has largely been a black hole since then.

As far back as 2017, an ill-fated Hr 130 million ($5 million) tender "to provide services for conducting strategic, operational, technological, financial, legal, forensic review and due diligence" was announced in the Prozorro e-procurement system. However, it yielded no results and was eventually cancelled.

The defense embezzlement scandal around Oleh Hladkovkskyi, Poroshenko's business partner, inflicted a heavy blow on the ex-president's reputation just weeks before presidential elections. In a bid to save the day, Poroshenko began making promises to actually do something.

During a National Security and Defense Council meeting on March 6, he promised an audit, an assessment of UkrOboronProm's corporate management, a thorough cleaning of its supervisory board, and greater public control and transparency.

"All of that will help the concern transform itself and not lose the trust of citizens, partners, and investors," Poroshenko said.

However, the reality on the ground contradicted Poroshenko's rhetoric — and not for the first time.

No new competition to hire an international audit company was publicly launched on Prozorro, and the government announced no appropriations to fund the contract.

On April 17, facing the threat of a devastating defeat in upcoming runoff elections, Poroshenko even claimed that UkrOboronProm's audit had already started with the March 6 decree of the National Security and Defense Council, "obligating UkrOboronProm to… lift classification and select auditors that would have access to state secrets."

Nonetheless, in the following weeks, there was no tangible progress in finding a contractor and launching the check-up.

No money

After Poroshenko left office following the April 21 elections, Prime Minister Volodymyr Groysman became the most active verbal champion of UkrOboronProm's nonexistence audit.

On May 15, he released a statement demanding that the audit be launched within 10 days — in other words, before May 25.

"I am defining the deadline for the start of the company's financial audit," he said. "We have made a decision to obligate the UkrOboronProm within 10 days to complete all negotiations with legal auditing companies, to select a winner, and kick-start the public financial audit. And to give an account of every hryvnia spent over the past years."

He also added that the contract must be given to a company "having undisputed authority in the world."

On May 22, the government announced that it had allocated Hr 32 million ($1.2 million) from the state budget reserve fund on condition of repayment so that the UkrOboronProm could launch "a comprehensive financial audit of its activities."

Notably, Colonel Serhiy Kryvonos — appointed by Poroshenko to replace Oleh Hladkovkskyi at the National Defense and Security Council — asserted a much higher budget was necessary. On April 25, he said holding a complete audit could take nearly $5 million.

Expectedly enough, the audit was launched neither before May 25, as demanded by Groysman, nor any day later. The concern had not received the Hr 32 million allegedly allocated by the government, the Ukrainian News agency reported.

Citing a statement by UkrOboronProm's press service, the agency reported that no audit company was selected to hold the inspection. The defense concern's press service also pointed out that, despite numerous requests, the government had never


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allocated funds for the Hr 130 million audit tender announced in 2017.

Moreover, on June 14, it became known that the Cabinet of Ministers had, on June 5, canceled its own decision to allocate Hr 32 million.

"Therefore, the audit is not going to be held in the nearest time," said Hlib Kanievskiy, head of the StateWatch anti-graft watchdog, which revealed this cabinet decision.

That same day, the Independent Defense Anti-Corruption Committee issued a statement noting that UkrOboronProm's audit had been championed for more than 2 years, but the issue had been repeatedly set aside "for a variety of reasons."

"It looks like not everyone is interested in revealing corrupt schemes and the scale of embezzlement," the watchdog said.

A new hope?

However, as the government later claimed, that was nothing more than a technical delay.

Later on June 14, Groysman's spokesman, Vasyl Ryabchuk, explained that the decree was canceled because it required some more work.

"The approved decision regarding the allocation of (financial) support for holding the audit was commissioned to be fixed," the official said.

"At the same time, during the follow-up revision, it became obvious that the amount of support needed to be ascertained, therefore this decision was canceled. The passage (a new) appropriate decree is expected during the next government meeting."

But soon there was a glimmer of hope. President Volodymyr Zelensky appointed Aivaras Abromavicius, the former economy minister, to UkrOboronProm's supervisory board.

His nomination finally ensured a quorum on the board, which is supposed to execute financial control over the defense concern and, in particular, kick-start the audit. Since March, the five-member board had only two

Visitors look at missiles produced by UkrOboronProm and displayed at the Arms and Security exhibition in Kyiv on Oct. 11, 2018. (Kostyantyn Chernichkin)

duly authorized members, making it invalid.

Long before the appointment, Abromavicius, then a member of the Zelensky campaign, strongly advocated for holding an international audit involving one of the Big Four accounting firms — namely, Deloitte, PwC, EY, or KPMG.

"A company with billions of dollars in turnover must undergo an international audit by the Big Four," he said on May 27. "Because not a single accounting chamber will find anything there, including counter-partners hiding their money in offshore accounts."

Back in July 2018, during an interview with the Kyiv Post, Abromavicius was already talking about the need to audit UkrOboronProm.

"…I have a Bloomberg terminal here and if I type in Lockheed Martin, I get a lot of news on Lockheed Martin," Abromavicius said, stressing the transparency of the company's sales. With more than $50 billion in revenue, its board of directors is diverse and consists of retired generals as well as business corporate executives.

"And yet our UkrOboronProm — which is like lots of companies in a possibly very profitable sector — has decided to go for minimum transparency… This is unfortunately one of the reasons why (then-President Poroshenko) gets criticized, because it's quite clear some of his closest allies (are) basically overseeing that sector with a minimum level of transparency."

Abromavicius is also known for his strict opposition to the somewhat popular idea of totally liquidating UkrOboronProm and creating a brand new government body to regulate Ukraine's defense production.

From his perspective, a comprehensive international audit must be held regardless of the concern's ultimate fate — and those proposing to kill the concern right away "want to cover things up."

At the same time, pushing through the bureaucratic jungle — particularly the government funding issue — remains a serious obstacle, even with Abromavicius on the board.

"Resistance," Abromavicius wrote on Twitter on June 14, referring to the Groysman cabinet's failure to allocate money for the audit.

"Again, the system is reluctant about rapid changes. But, after discussions with certain ministers, there is a hope that next week the Cabinet of Ministers will vote again and approve the right decision. We're keeping this issue under control and expect the audit to start very soon."

Ukraine's State Fiscal Service, which controls taxation and customs, has the reputation of being one of the most corrupt institutions. Vested interests have blocked many attempted reforms, but the Finance Ministry hasn't stopped trying. (Kostyantyn Chernichkin)

Ukraine weighs implementing exit capital tax

BY VYACHESLAV HNATYUK
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Ukraine's government is trying to decide on making a big change in the tax system.

One of the ideas is an exit capital tax. Under such a system, companies' revenue would not be taxed — as it currently is — unless it is withdrawn from the firm's internal circulation, such as when shareholders or related parties receive dividends.

Such a change would be a non-traditional global approach. So far, only two countries in the world — Estonia and Georgia — have introduced the exit capital tax and kept it. Macedonia and Moldova tried an exit capital tax, but eventually returned to the standard corporate profit tax.

"It seems to be a fix for something that is not really so much of a problem," says David Saha of Berlin Economics, a German think tank that advises governments on economic policies. "The problem for businesses is tax administration, not the nature of the corporate profit tax, which is totally normal by any international standards. And the new tax would suffer from the same problems as the corporate profit tax suffers."

Despite that, the proponents have their arguments. If the exit tax is introduced, enterprises will receive an additional incentive for growth, as more money will be available for reinvestment. Additionally, the proposal could potentially simplify tax administration.

Proponents of the exit capital tax believe that the effectiveness of a corporate profit tax is exaggerated and see long-term benefits in replacing it.

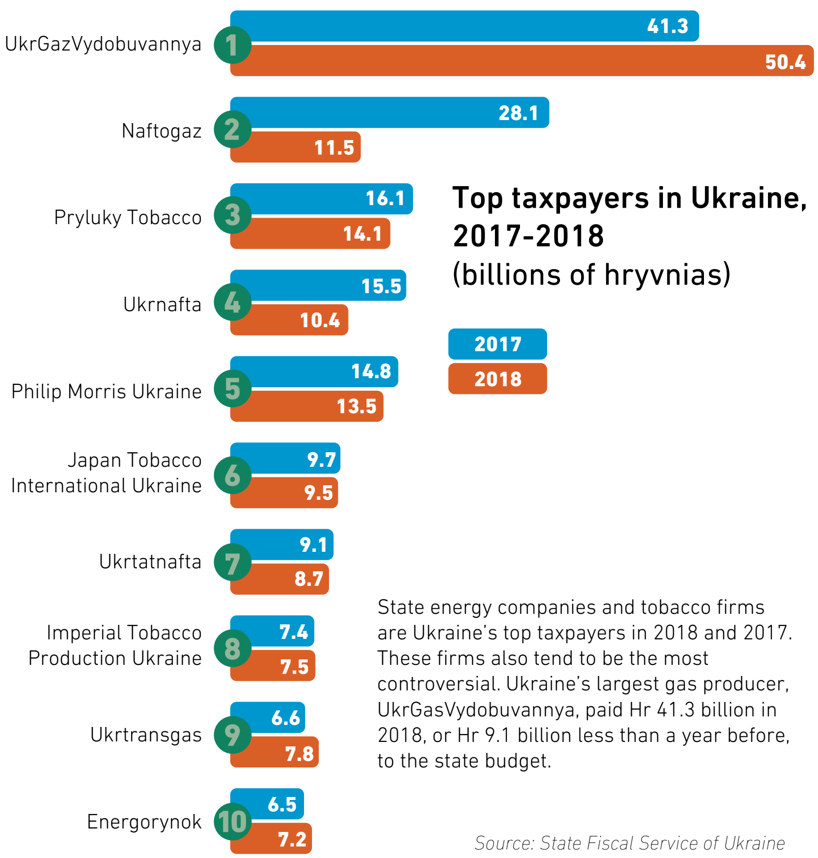
Olha Hermanova, a tax expert and spokesperson for Ukraine's parliamentary committee on tax and customs policy, believes that "primarily mid-sized businesses" are hoping for the exit tax. Hermanova explains that the new tax is opposed by "the European Business Association, the American Chamber of Commerce, because they unite big enterprises that transfer the funds off to their ultimate parent companies and are currently paying next to nothing (in taxes)."

Under the proposed tax plan, "the funds that they are siphoning off will be subject to the taxation of exit capital," Hermanova said.

Gaining political support

"Essentially, what big multinational corporations can do is use transfer pricing, credit interactions and so on with their affiliates in order to shift profits into low tax jurisdictions," he said. "And, in theory, that is still possible under the new system. And (there are) some safeguard measures that could be increased under the exit capital tax as well as… under the usual corporate profit tax."

But the exit tax proposal appears to have some popularity: in the recent elections, 11 presidential candidates included the proposal in their electoral programs. So did President Volodymyr Zelensky. Even former President Petro Poroshenko submitted a draft law on introducing the exit capital tax into parliament a year ago, but did not have enough support in the legislature.



Top taxpayers in Ukraine, 2017-2018
(billions of hryvnias)

State energy companies and tobacco firms are Ukraine's top taxpayers in 2018 and 2017. These firms also tend to be the most controversial. Ukraine's largest gas producer, UkrGasVydobuvannya, paid Hr 41.3 billion in 2018, or Hr 9.1 billion less than a year before, to the state budget.

Source: State Fiscal Service of Ukraine

UKRAINE BY THE NUMBERS

- **14th least peaceful nation in the world**
- **43rd most startup friendly nation**
- **62nd best quality of life**
- **64th global passport ranking**

(Sources: 2019 Global Peace Index, CEO World Magazine)

Zelensky could resubmit the bill, but that would most likely happen after snap parliamentary elections set for July 21.

Costly switch

Still, despite its support, implementing this tax would not be an easy task. One reason is that switching to an exit capital tax would cost Ukraine anywhere between Hr 37–47 billion ($1.4 to $1.8 billion), or 1.5 percent of the country's gross domestic product, according to a research paper published by Saha and his colleagues Robert Kirchner and Oleksandra Betliy in January 2018.

To complicate matters, the International Monetary Fund opposes the introduction of a new tax system. Instead, it thinks the country should focus on overhauling tax administration.

Zelensky's team has given contradictory statements.

Oleksiy Honcharuk, deputy head of the presidential administration, said in an interview with the Novoye Vremya magazine that the president's team wants Ukraine to cooperate with the IMF and to be "a predictable country for its partners, which cooperates with international institutions, which is trusted (and) performing its undertakings rather than developing exotic scenarios."

During the same interview, Honcharuk said that the presidential administration would work toward the quick implementation of an exit capital tax.

"(It's) just a matter of time and certain details," he said. "It is almost impossible to introduce by the beginning of 2020, but this does not mean that this issue should linger."

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A man walks past solar panels of the UDP Renewables power plant in Kyiv Oblast on Sept. 26, 2017. (Kostyantyn Chernichkin)

What renewable auctions mean for Ukraine

BY IGOR KOSSOV
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All around the globe, renewable energy subsidies are giving way to renewable auctions and last month Ukraine joined the club.

Scores of countries incentivized green energy with subsidies. One of the most popular kinds of subsidy was a feed-in tariff paid to energy producers. Ukraine's 2009 feed-in tariff was the most generous in Europe. Now, a new law is set to phase it out for larger developers.

"It is in the interest of Ukraine to receive the lowest possible price" for renewable energy, said Olga Bielkova, the deputy head of the Rada's committee on Fuel and Energy Complex. "Only countries that switched to auctions were able to achieve this."

Energy experts agree that feed-in tariffs helped expand the global renewables industry and massively drive down capital costs. According to global asset management firm

Lazard, photovoltaic costs dropped 88 percent and wind costs dropped 69 percent since 2009.

Yet in the long run, high tariffs can also drive up energy costs for nations and consumers. Subsidy dependence and policy uncertainty made for a series of boom-bust cycles across some green energy markets. In Ukraine, the high tariff led to the rise of so-called green oligarchs.

The past decade saw a global trend to let the market take over. According to the International Renewable Energy Agency (IRENA), the number of countries that adopted renewable auctions rose to 67 in 2017 from 6 in 2005 and that number is growing. Major countries that introduced renewable auctions include India, Germany and Brazil. Dozens of states across Europe, Asia, Africa and the Americas introduced auctions either to replace or accompany existing subsidies.

"Now that the price came down and the technology matured, auctions are a better way to award contracts," said Heymi Bahar, International Energy Agency (IEA)'s senior analyst.

In Ukraine, the push for auctions came from international financial institutions. For example, last year, the European Bank for Reconstruction and Development said that it would stop financing solar projects in Ukraine until auctions were introduced.

"It became apparent (in the view of international financial organizations and players in the market)... that with intense stimulation of green energy in Ukraine, there is a risk that certain parties will not be able to meet their obligations in paying out the green tariff," said Oleksandra Gumeniuk, the director of the European Ukrainian Energy Agency, a business association.

In most countries, auctions made renewable electricity prices dramatically cheaper for utilities and consumers. Yet, because renewable projects are now much cheaper to build, developers can still make a profit.

Still, some auctions work better than others. And in some countries, the switch accompanied either a drop in renewable investments or a scramble to get projects completed before the subsidies ran out. Bahar told the Kyiv Post this is common during such transitions but auction schemes are still better in the long run.

Most analysts who spoke to the Kyiv Post agree, saying that feed-in tariffs have already served their function in Ukraine and the time has come to replace them with auctions.

However, when designing auctions, the devil is in the details.

Transition uncertainty

In May, the IEA reported that renewable energy development stalled worldwide in 2018. The biggest factor was China, a leader in renewable development, starting to change its feed-in tariffs after its green energy fund ran into big deficits. In May, China announced that it will build 20.8 gigawatts of renewable energy projects without subsidies.

In the European Union, the IEA saw a big decline in wind power due to the U.K. cutting incentives for onshore wind and Germany's transition from feed-in tariffs to auctions. "We saw a significant peak last year and a big decline this year because developers wanted to put their capacity online before the transition happened," according to Bahar.

Hanns Koenig, an analyst with the research firm Aurora, agreed that this kind of "rush" is common in countries that are transitioning from subsidies to auctions.

Multiple lawmakers and industry experts told the Kyiv Post that they, too, saw a last-minute scramble to get the last of the feed-in tariff locked in until 2030. The first quarter of 2019 saw more renewable projects come online than all of 2018, according to the State Agency on Energy Efficiency.

Right now, in Ukraine, more foreign companies than ever before have expressed interest and started applying for renewable projects. Bielkova said that introducing auctions in the gas industry attracted serious investments.

"In Ukraine, renewables are in the headlines, it's an industry where you have real investment," said Oleksiy Feliv, a partner at law firm Integrites. "Real, international, big, professionally structured investment. We don't have any other industry that would attract this kind of investment."

However, it is hard to know for sure how much international participation Ukraine can expect. Magnus Johansen, a business development manager at Norwegian company Scatec Solar, wrote in February that the company is looking to see if Ukraine's auction scheme is well-implemented, like in South Africa, Brazil and Argentina. If it is, the company could invest into additional projects.

"Should however the scheme not be well implemented as we have witnessed in several markets — where the auction scheme has led to market collapse and where projects have not been realized due to ineffective mechanisms (Turkey, Kazakhstan, Mexico, etc.) then we would likely not be able to construct further projects after 2019," he wrote in an expert analysis.

Ensuring delivery

The financing requirement was the most hotly disputed aspect of the legislation. If the requirement is too high, it could lead to reduced competition. If it is too low, it could lead to project non-completion and manipulation of the auction by traders who would try to sell a winning bid to other developers.

Ukraine's law requires a bank guarantee of 5,000 euros per megawatt of electricity being bid on, as well as existing land and construction rights. Winners must provide a bank guarantee of 15,000 euros.

This is a lot lower than in other countries that held successful auctions. Argentina asks for a minimum of $500,000 in net worth per megawatt requirement and for each bidder to provide a bid bond of $50,000 plus $250,000 shareholder equity. Germany

A view of 250 MW Syvash wind farm by INTEGRITES' client - Norwegian-based NBT
Photo provided by NBT

Investing in renewables in Ukraine:
auctions as a game-changer

Oleksiy Feliv
Managing Partner at INTEGRITES

Although Ukraine's feed-in-tariff (FiT or green tariff) was introduced back in 2009, for many different reasons the real development of the market started only in 2016. Today, Ukraine has one of the highest FiTs in Europe and the market is booming, attracting significant foreign direct investment into the country. As a result, renewables became one of the top 5 most investment attractive sectors in the Ukrainian economy. Many international developers, equipment producers and advisers have already been here, whereby international commercial banks are still to come. On the financing side, the market is driven by international finance institutions and sovereign development banks. And not surprisingly, these were the IFIs who pushed the Ukrainian Government and the Parliament to a new renewable support scheme, namely an auction system.

In April 2019, the Ukrainian parliament adopted the law which will become a game-changer for the industry. The goal is to ensure competitive conditions for the generation of power from renewables.

The new law is purposed to establish an economically viable price for "green" electricity, ensure transparent distribution of FiT between producers, ease the burden for the state and make the industry more transparent.

The law introduces an e-auction mechanism for future renewable projects and provide transitory provisions for the projects under development. Namely, those projects which achieve a 'ready to build' status in 2019 including a signed pre-PPA with the offtaker will be able to qualify for the existing FiT, if the developer commissions the solar plant within two years and other projects, including wind, within three years thereafter. Notably, the existing FiT runs until 2030 only, with a FiT of 15 eurocents per 1 kW hours for solar and 10 eurocents per 1 kW hour for wind. The next FiT reduction shall take place in 2020, where solar FiT will be decreased by 25% and wind FiT by 10%.

Auctions will become mandatory from 2020 for wind power farms with 5 MW+ and solar power plants with 1 MW+ installed capacity. Auctions shall be held twice a year for each type of renewable power generation. The offtake contracts to be signed as a result of the auction will be set for 20 years and can be subject to international arbitration for the purpose of dispute resolution.

The auction quotas will be established yearly for the next five years. The auction bidders will have to provide bidding bonds in the amount of 5 euros for 1 kW in order to be able to participate in the auction and 15 euros for 1 kW as a performing bond of the best bidder, whereby the bid bond for participation in the auction will be refunded.

Tariffs to be set through an open competition are a strong message to the international business that works or is considering to work in Ukraine. Transitory provisions giving the right to the current developers to qualify for the existing support scheme is a good proof of predictability of Ukrainian policy towards renewables.

In summary, the Ukrainian renewable market and state policy proved to be consequent and the FiT was kept even during the most difficult years in 2014-2015 when Ukraine was close to default. Transfer to an auction system shows maturing of the market, strong commitment to renewables and consistent movement towards energy independence which is an essential condition for Ukraine's national security. Among the post-Soviet countries Ukraine clearly takes a leading role in establishing an energy independent and renewables-oriented market.

Turbines rise above trees at Primorskaya wind farm in Zaporizhia Oblast. The installation was one of many renewable energy projects launched in 2019 as developers race to grab the last of Ukraine's generous feed-in tariff. (Mykola Lazarenko)

asks for bid bonds of 25 to 50 euros per kilowatt hour (100 per kilowatt hour of offshore wind). The IRENA guideline is a bid bond of 35,000 euros per megawatt.

Feliv said that Ukraine's requirements are sufficient to prevent market manipulation by traders. Johansen would disagree, suggesting that Ukraine needed to increase its bid bond requirement to screen out traders, who are one of the main reasons why auction schemes in countries including Mexico, Turkey and Kazakhstan were less successful.

Access to financing is another question that hangs over developers worldwide. According to a 2018 report by the United Nations Environment Programme and Bloomberg, renewable energy projects in many countries are losing two pillars at once. One is government subsidy and the other is ease of financing, due to rising interest rates.

"A new era may be beckoning in which solar and wind costs are lower but financing is more difficult to get and more expensive," the report said.

Tetiana Kovalenko, spokeswoman for Ukrainian developer Indian Solar said: "As for onshore industrial projects, investors are frozen in anticipation of fundamental changes and are not in a hurry to resume their activity." She added that investors will be encouraged in part if many Ukrainian banks implement financing programs.

Auction structures

Ukraine's auctions are single-stage sealed bid: developers submit sealed proposals with a description and a power price. The bids are reviewed simultaneously and the lowest price wins.

Koenig says this approach is very common. According to IRENA, it is one of the most commonly used strategies in the world and its virtue is simplicity. China, India, Dubai, Morocco, Peru and South Africa use the sealed bid process.

Lawmaker Oleksiy Ryabchyn, head of the Rada's subcommittee on energy efficiency, is worried that the auction law will halt investment into Ukraine's renewables. One of his concerns is possible collusion between businesses during the bidding process.

"Whatever the auction system, it requires thorough elaboration in terms of the applicable procedures, trading algorithms and technicalities that should be designed in such a way to prevent and minimise abuses," Svitlana Teush, head of renewable energy at Redcliffe Partners, told the Kyiv Post in an emailed response.

But Feliv, who consulted on the law's creation, countered that there is sufficient transparency and anti-collusion protection in the auction's design. He expressed confidence that it would be hard for companies to subvert or manipulate the process.

Balancing and grid

One of the biggest challenges for Ukraine is to work out its balancing capacity, experts say.

With a high amount of renewable energy like wind and solar comes a lot of fluctuation. Solar power surges during the day and ebbs away at night. Wind power is also inconsistent. Conventional energy sources are required to balance them out and deliver consistent power.

"When the sun sets, you need other plants to increase their production to balance the solar excess that's leaving the system," said Koenig. "You need flexible gas or coal plants that could increase production rapidly as solar decreases. If the conventional technology is quite old, it would be challenging."

Experts said that while Ukraine's large hydropower can take some of the edge off these fluctuations, there is not enough of it. Balancing might require the construction of new coal power plants, which defeats the entire purpose of renewables in the first place.

"We now have this paradox because the balancing role will be played, in part, by hydro energy but mainly thermal, meaning coal," said Bielkova.

Renewable energy producers who participate in the auction and the feed-in tariff will be responsible for balancing costs as a group. The responsibility will be phased in gradually until 2024. Experts say that it's unclear what financing for balancing costs will look like.

The grid also needs significant extensions, repairs and upgrades, as is the case in many places with auction regimes. For example, according to a 2018 report by the University of Cape Town, Argentina needs thousands of kilometers of transmission lines to accommodate its growing renewable sector, which represents a significant risk for the offtaker.

Even Germany, one of the most mature renewables markets in the world, is not an exception. Grid development lagged behind wind power development, according to media reports.

Multiple experts agreed that Ukraine's aging electrical infrastructure is a source of uncertainty. To make effective use of renewable energy, a great deal of power lines, energy storage facilities and other infrastructural projects will need to be rebuilt or upgraded. Experts said that it's not clear who is going to finance this or how.

*Poltava Petroleum Company (PPC) is celebrating its 25th anniversary this year. PPC is the first Ukrainian oil and gas company with foreign capital. **Viktor Gladun,** PPC General Director, shared some details about the British company's operations in Ukraine.*

PPC is celebrating its 25th anniversary. Is this a significant period of time for a company?

VG: It is quite a significant period for a private oil and gas producer. PPC was the first company with foreign capital in Ukraine's oil and gas sector. When it was founded PPC accounted for 99% of the private oil and gas market. Other private companies appeared later.

What significant achievements from the past 25 years is PPC proud of?

VG: PPC's experience has been full of landmarks for the entire industry. For instance, it was the first company to run a 3D seismic survey in Ukraine. Before that, the gas industry had been focused on 2D acquisitions only. We have a unique combination of local experience and international expertise. By the way, PPC was among the first companies to drill a horizontal section. Today this technique is one of the most cost-effective and efficient drilling practices.

Has PPC been involved in any other activities in addition to hydrocarbon production?

VG: Hydrocarbon production is PPC's primary business activity. It should be mentioned that we also sell the hydrocarbons produced, with a significant portion of sales done via electronic trading platforms. We have our own electronic trading platform where we sell oil and condensate. Since 2017, we have been selling natural gas through the Ukrainian Energy Exchange. It is critical for the market to see as many participants as possible switching to this trading practice. It makes the pricing mechanism transparent and contributes to the competitiveness of the market. PPC also produces LPG. We were the first private producer to build its own LPG plant. It happened in 2011.

Does British business have difficulties operating in Ukraine? What are the main challenges PPC has faced?

VG: The main business requirements have always been as follows: rule of law, level playing field, and stable legislation and taxation environment. I have always said investors should be able to plan their business development strategy and return on investments for years to come, which is impossible with tax rates and legislation that change rapidly. So there should be a provision in place envisaging steady fiscal rates for at least 5 years or even 10 years.

Today we can see some positive changes in that area due to efforts by the Parliamentary Committee, the Cabinet of Ministers, the Association of Gas Producers of Ukraine and the public.

There have been some media reports on PPC's cooperation with state-owned enterprises. What kind of cooperation is that? How efficient could it be?

VG: We have been successfully cooperating with NJSC Nadra Ukrayny and PJSC Ukrnafta (with the state holding 50%+1 share in the latter), as well as with UGV. We started this cooperation project with NJSC Nadra Ukrayny. The cooperation pattern is as follows: PPC leases wells from another company with the wells being within PPC's licence territory. Historically, state-owned companies had operated on the land plots before those were licensed, and the wells have remained their property. At present, such wells are abandoned or suspended.

Can a state-owned company do any work in such wells?

VG: Neither a state-owned company, a well's owner, nor a private company, a licence holder, can get access to wells on their own. We have found a solution which now works for the entire industry: we conclude agreements with a well owner, reinstate the well (i.e., make investments), and the state-owned company gets remuneration. This is a profitable cooperation. The well owner bears no risks, makes no investments, and gets financial benefits as a result.

You became General Director in 2016. How would you evaluate the Company's performance?

VG: PPC showed its best performance in 2008 which was followed by a decline. In 2016-2017, it suffered a severe crisis and had difficulties with liquidity as there were no new drills, no incremental production, and the hydrofracturing project had failed. The shareholders voted against the old JKX Board. I was appointed acting CEO of JKX. We ran cost optimization, altered the work programme, and shifted our focus onto reinstatement of abandoned and suspended wells.

Our team showed excellent results. The financial results PPC achieved in 2018 were the best since 2011 (mainly due to high oil and gas prices), the Company drilled a new well for the first time in 5 years and stimulated dozens of old ones. In 2019, we have already drilled two new wells and performed successful workovers in some old wells within our fields. It mainly became possible because of our success in getting access to the wells I mentioned before.

In 2018, we managed to change the gas production trend from decline to growth. Over one year, from 2017 through 2018, output grew by 5%, oil and condensate production increased by 4%, from 32,400 tonnes in 2017 to 33,640 tonnes in 2018. The increase we have today is over 30%.

What are the priorities for the gas industry development, in PPC's opinion?

VG: The development of Ukraine's oil and gas industry is in progress. Several licensing rounds were held through auctions to sell hydrocarbon-bearing assets. A tender was run to conclude production sharing agreements (PSA) with a few foreign companies participating in it. This is indicative of investors' interest. It is necessary to carry on. The next step in the industry's development is data transparency.

On June 17-19, the Extractive Industries Transparency Initiative (EITI) Global Conference was held in Paris and over 1,000 participants from around the world shared their experience in data transparency. PPC was invited to share its experience and we presented our case on disclosure of geological information. Geological data transparency is a priority for the extractive industry's future development. The round table discussion attended by representatives of the Government, companies and NGOs has resulted in an important conclusion: transparency ensures better protection of companies against external risks. We are positive that transparency makes our country more attractive to investors. In turn, this leads to a more competitive environment and, as a consequence, to energy security. The more companies, the more diversified resource suppliers.

What plans for the future?

VG: PPC's midterm development strategy was approved in a five-year development plan. The plan was approved by the Board of JKX Oil & Gas plc in September 2018. It covers all five production licences PPC holds. The Plan implementation started in December 2018. To date, we have completed three successful projects: one sidetrack and two new drills. Currently, we continue fulfilling the programme and looking for opportunities to acquire new assets.

JV "Poltava Petroleum Company", a joint Ukrainian-British venture, was founded in 1994. JV PPC is one of the leaders among private oil and gas producers in Ukraine. The Company's scope of activities includes prospecting, extraction and processing of gas and oil. PPC uses state-of-the-art technologies and practices to make its contribution to Ukraine's energy independence.

ppc.net.ua

A field of photovoltaic panels at Yavoriv solar electricity station in Lviv Oblast, photographed in November 2018. Over the past two years, solar power has been the fastest growing renewable energy source in Ukraine. (UNIAN)

Ukraine's renewable potential and competition

BY IGOR KOSSOV
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Ukraine itself set a goal to produce a quarter of its energy from renewable sources by 2035. At the end of 2018, total renewables excluding large hydropower accounted for only about 2 percent of total energy produced in the country, but represented more than 8 percent of total energy costs.

In contrast, the European Union produced 17.5 percent of its power from renewable sources in 2017, according to Eurostat data released earlier this year. Sweden's is the highest, with about 54.5 percent by the end of 2018. The lowest, Luxembourg, has 6.4 percent renewable energy.

The EU members' green power costs are also a lot lower. For example, Ukrainian plants launching in 2019 under the feed-in tariff can get 15 euro cents per kilowatt hour

"Big Boom" for Ukrainian business

Yevhen Metsger
Deputy Chairman of the Board

In 2016, when Ukraine signed and ratified the Paris Agreement on fighting climate change, Ukrgasbank took the lead of the "green trend" and became the first specialized Ecobank within the territory of Central and Eastern Europe. The financial institution set up green-banking course development as a primary focus and started supporting vitally necessary environmental and energy-saving projects in Ukraine, which inherited an excessively cost-intensive power industry from the Soviet Union. That industry is based on burning fossil fuels, which is one of the main sources of greenhouse gases. Ukraine is on the global list of 20 countries with the highest absolute man-made greenhouse gas emissions and on the list of 10 countries with the highest level of energy absorption capacity and carbon capacity of gross domestic product.

That same year the bank enlisted the support of a worldwide expert: the International Finance Corporation (IFC). Partnership with IFC opened Ukrgasbank's access to unique expertise, which allow us to evaluate the expected outcomes of projects in the phase of prior review and adjust them to achieve the best possible indexes of expenditure cover and power consumption economy. Just like the other banks in the Green Bank Network, Ukrgasbank works in three areas. The first one is financing renewable energy: solar power, hydro energy, wind energy, etc. The second one is financing energy-saving technologies, the third area is financing projects associated with environmental protection.

As early as 2017, Ukrgasbank became the absolute leader in "green" financing in Ukraine. In 2018, the dynamics of the Ukrainian renewable energy sector came to public attention. In the span of a year, 813 megawatts of new power capacity were established. This generates power from renewable sources. It is almost three times more than the power capacities introduced in 2017, specifically almost 300 megawatts more. According to the data of the National Energy and Utilities Regulatory Commission, almost 55% of the new power capacities from renewable energy sources introduced in 2018 were financed entirely by Ukrgasbank. In general, a quarter of all the power capacities active in the renewable energy sector of Ukraine were financed or refinanced by Ukrgasbank.

Since the beginning of collaboration with IFC, the bank has already financed 150 large project of "green" energy. Among them there are 109 solar power plants, 7 wind power plants, 18 small hydro plants and 16 biomass power plants. All these projects provided a reduction of CO2 emissions of 1,215 thousands of tons annually and saved 757 million cubic meters of natural gas a year.

The main achievement of the bank in the context of social implication is financing the first solar power plant on the territory of the nuclear power plant in Chornobyl. Of course, the country's leading Ecobank could not remain uninvolved in issues of environmental safety that are important for the state – "green" investments in the right-of-way area to build plants that will generate ecologically friendly electric energy. This is because, in the bank, everyone is convinced that the Chornobyl zone should finally provide a benefit to Ukrainians as the potential for producing solar power in the right-of-way area is higher than in the majority of places in Europe situated on the same latitude. The new plant already generates ecologically friendly power at a feed-in tariff.

In general, the modernization of the energy industry and the transition to renewable energy sources is not just a contribution to saving the world. For Ukraine, it is not only an investment attractiveness improvement issue – first of all, it is a national security issue, a certain chance to achieve the true energy independence. Ukraine's transition into renewable energy sources is a national issue, and the state-owned Ukrgasbank carries on its solution professionally.

Ukrgasbank has already proven itself in the Ukrainian market as the leading ecobank that cares about the environment by financing projects on energy efficiency and energy saving. It impresses with new achievements in dealing with small and medium businesses. Despite the fact that it is a relatively new sphere for the bank's activity, it has already achieved good results and became a serious competitor even for representatives of global financial groups that are present on the Ukrainian market. During the last year the amount of lending received by representatives of small and medium-sized enterprises (SMEs) at Ukrgasbank has more than doubled — up to UAH 5 billion or EUR 160 million. This is a serious achievement for a beginner. Ukrgasbank continues to strengthen its support for Ukrainian businesses by offering new loyalty programs. The ECO-BOOM program is one of the newest and perhaps the most interesting for entrepreneurs.

The new initiative has been developed specifically for representatives of Ukrainian SMEs, who want not only to earn, but also to save significantly. Bankers will help entrepreneurs to understand the needs of their business and develop an individual development plan. ECO-BOOM is the future of Ukrainian business, allowing entrepreneurs to have easy access to modern banking products and services, as well as unique programs and financial decisions that can bring the business to a qualitatively new level. The program provides various sets of financial instruments for different business areas. Entrepreneurs and small companies, businessmen engaged in renewable energy, farmers, commodity producers and trade enterprises will be able to find modern programs suitable for their activity.

Bankers are convinced that the lack of communication and knowledge is the biggest problem for SMEs in Ukraine today. Potential clients are in high need of funding, but often simply not aware of the opportunities existing on the market. For example, 90% of SMEs in the agricultural sector do not understand that it is possible and necessary to build effective and transparent relations with the bank. Likewise, entrepreneurs are often not aware of numerous interesting products and international programs, which can finance equipment modernization and make production more sustainable. These processes require help from specialists, and the ECO-BOOM program is designed specifically for this purpose. Often, businesses think not only about increased output and entering new markets, but about the need to make production more efficient and less costly. ECO-BOOM offers programs that can benefit from economies of scale. The bank has a staff of experts that can analyze the entire production process of the client. If the company wants to improve its efficiency through modernization, the bankers will make recommendations on how to do it better, as well as recommend partners who have successful experience in implementing such projects. For example, sometimes specialists recommend a more comprehensive energy modernization, increasing the cost of the corresponding program of modernization, resulting in a faster payback by the project. As a result, the clients are satisfied: they experience significant savings, which enables them to repay loans and increase their profits.

Apart from that, Ukrgasbank was the first in Ukraine to offer loans for energy-efficient renovation for associations of co-owners of multi-apartment buildings and has been the leader and trendsetter in this market segment ever since. Nowadays, energy-saving technologies in Ukraine are in demand and banks actively help such projects to be implemented. Municipal housing and utility systems are the places where the most economic effect from energy saving is seen. On average, the efficiency of the plant increases by 10-30%, and costs are reduced by 20-50%. Such projects recoup their value in approximately six months to two years.

for solar energy, while Germany's latest auction had costs dip below 6 euro cents per kilowatt-hour. Germany had about 40 percent of renewable generation by the start of 2019.

A 2015 IRENA report estimated Ukraine's achievable renewable potential at 68.6 million tons of oil equivalent per year, approximately half of the total energy consumed in 2015. This estimate includes both electricity and heating. More realistically, the country can expect renewables to reach between 13 and 21 percent of its energy mix by 2030, according to the report.

As a major agricultural producer, Ukraine has millions of tons of biomass that can be harnessed into bioenergy. Agricultural and forestry waste, as well as energy crops and biogas can contribute to a feasible potential of over 800 petajoules per year — equivalent to a quarter of the country's total final energy consumption in 2015. Biomass and biogas power plants now collectively comprise just over 100 megawatts as of the end of the first quarter of 2019.

"All the stakeholders that were earlier involved in preparing (Ukraine's) energy strategy, they saw that there is huge potential in bio-energy," said Gumeniuk. But, "because of the green tariff, this has skewed somewhat in favor of solar energy."

Solar feed-in tariffs will drop by 25 percent in 2020, and by an additional 2.5 percent each year for three years. Wind will drop by 15 percent and 1.5 percent over the same periods, respectively.

According to IRENA, solar energy in Ukraine ranges from 1,070 kilowatt hours per square meter in the northern regions to 1,400 kilowatt hours per square meter in the south. Solar is the fastest growing source of green energy in Ukraine, with over 2 gigawatts. Close to a third of that amount, 684 megawatts, was installed over the first quarter of 2019. Several estimates found that Ukraine can accommodate 4 gigawatts of photovoltaic power.

The report estimated the country's total economically feasible wind potential at 16 to 24 gigawatts. The most promising regions are in the south and southwest of Ukraine, where wind can reach above 7.5 meters per second at a height of 80 meters. Wind power is also growing very quickly, with capacity increasing by 68 megawatts in 2018 and by 173 megawatts in the first quarter of 2019.

Hydropower supplies around 7 percent of Ukraine's energy. According to the report, Ukraine's total feasible hydro power potential is 7 million tons of oil equivalent.

Ukraine also has economically viable geothermal spots, although some of them are in Crimea and Luhansk Oblast, regions occupied by Russia.

Historical challenges

One of the new green auction law's biggest aims — and challenges — will be to improve competition.

Since the feed-in tariff was introduced in 2009, renewable projects and subsidy streams became concentrated in the hands of a select group of politicians and business elites. When Viktor Yanukovych was still president, 85 percent of the country's solar power production was owned by his ally, Serhiy Kluyev, who fled the country after Yanukovych was ousted in 2014 by the EuroMaidan Revolution. The China National Building Material company, a state-owned enterprise in Beijing, acquired Kluyev's six solar plants in 2016.

According to Ekonomichna Pravda, a Ukrainian news magazine, and the Organized Crime and Corruption Reporting Project, over 300 companies are getting the green tariff and at least 35 of them belong to lawmakers, 19 to local officials and 30 more to a handful of the richest Ukrainians, especially the billionaire Rinat Akhmetov, who owns DTEK.

Multiple experts told the Kyiv Post that unlike in the rest of Europe, Ukraine has an upside-down system dominated by large players. Small players and citizens have 12 percent of the market, he said.

In contrast, citizen cooperatives own more than a third of renewable energy in Germany. However, investigative reports revealed that some cooperatives are backed by major German energy companies. Denmark's cooperatives also hold a significant share of the country's renewable energy projects, even though their total number is declining.

"Historically, many projects started to develop when (the feed-in tariff) was introduced," said Oleksiy Feliv, a partner with the law firm Integrites. "Then in 2012–2013 they stopped because of more or less monopolization of the market by governmental or close to government companies. Then in 2014–2015, there was no development."

In 2015, the Rada abolished a clause requiring renewable projects to use Ukrainian equipment, which had effectively closed the market off to foreign competition. Also in 2015, extremely high feed-in tariffs were reduced for major producers, which mostly consisted of Kluyev's plants. Foreign investment into Ukraine's renewables is relatively recent, starting a few years ago.

It is possible to draw a parallel with what happened in the Czech Republic over a decade ago. Czech media reported on a wide-ranging scandal involving ex-employees of the Czech Energy Regulatory Office who allegedly boosted energy purchase prices so that some companies would get higher profits, in exchange for bribes.

The Czech Republic's high green tariffs led to tens of thousands of solar plants built, even when the state could not support them. The subsidies were later cut and a heavy tax was slapped on them, leading to outrage by many developers. The scandals cost the state about 200 billion koruna (about $8.85 billion), president Milos Zeman was quoted as saying. Renewable investment then stagnated.

Meanwhile, Spain had once introduced a high green tariff, attracting so much investment that the government could not sustain it. Spain then retroactively changed the tariffs, creating scandals with investors and dropping renewable development in the country to near zero for years.

This specter haunted some Ukrainian lawmakers who were worried that excessive feed-in tariffs would cause the market to fail.

Fears that this would happen in Ukraine helped the green auction law pass, despite the legislation having opponents. Olga Bielkova, the deputy head of the Rada's committee on Fuel and Energy Complex, said that developers who already had projects on the way in Ukraine, fought to delay the green auction law, to extend their feed-in tariff "honeymoon period."

Future competition

Bielkova finds the green auctions very encouraging for healthy competition and fair energy costs. According to her experience in the gas industry, introducing auctions brought out genuine market prices for energy and attracted the interest of serious investors.

No developer can bid for more than 25 percent of the capacity of any one auction under the Ukrainian law. This is meant to ensure that large companies don't monopolize the sector. To promote competition, no more than 80 percent of an auction's total capacity can be granted to all participants.

It is not clear what will happen with smaller producers. Those whose projects are below 1 megawatt solar and below 5 megawatt wind will continue to enjoy existing feed-in tariffs until 2030, even though these tariffs will go down over the next few years.

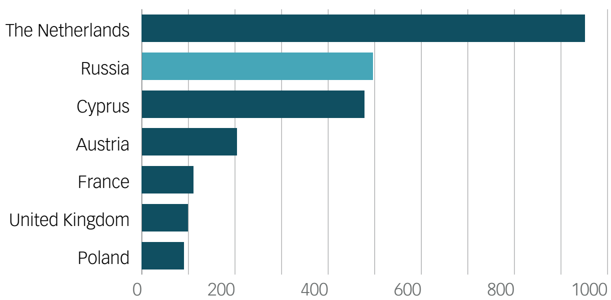
Tetiana Kovalenko, spokeswoman for Ukrainian developer Indian Solar, said "the new rules will force the small players to leave the alternative energy market. Those companies that really see the development of alternative energy in Ukraine as their mission will remain on the market. Our company will also be among them."

"The payback period of projects will increase due to a significant reduction in tariff and an additional financial burden in the form of a bank guarantee at the auction. The payback period for solar projects will be more than seven years, which is not attractive for SMEs in the current environment," she added.

Multiple experts told the Kyiv Post that the future role of "prosumers" — small players and households that both produce and consume energy — is still not clear in Ukraine.

The biggest investors in Ukraine in 2018

in million dollars



In 2018, foreigners invested $2.9 billion in Ukraine, according to the State Statistics Service data. The Netherlands was the biggest investor with $951 million, followed by Russia and Cyprus. According to the National Bank of Ukraine, the FDI figure is closer to $2.4 billion.

Source: State Statistics Service

A DTEK-owned electrical substation in Kyiv, on July 12, 2018. Billionaire Rinat Akhmetov's DTEK controls 45 percent of energy distribution in Ukraine. (Oleg Petrasiuk)

Amid demonopolization, oligarchs maintain grip on Ukrainian energy market

BY OLEKSIY SOROKIN
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They're some of the most powerful companies in Ukraine: regional electricity suppliers known as oblenergos in Ukrainian. And come July 1, they may lose much of their power as new market regulations come into force.

But as with many top business sectors in Ukraine, there are oligarchs involved. They are doing their best to hold onto these energy monopolies.

Oblenergos and oblgazes — a term referring to regional gas distribution monopolies — have long been standing in the way of a fair and transparent energy market. These regional distributors are responsible for supplying enterprises and households alike with electricity and gas, making them particularly valuable to their owners.

And even though a state-led national commission oversees pricing policies, the regional distribution companies still have a number of ways to influence the market.

Energy ownership

Ukraine's electricity distribution is still largely controlled by Russian and Ukrainian oligarchs, often in partnership with each other.

Until recently, VS Energy — a company headed by nationalistic Russian lawmaker

Alexander Babakov — had majority stakes in seven oblenergos before selling two of them to Ukraine's richest man, Rinat Akhmetov, on May 16.

Akhmetov also owns DTEK, which controls over 80 percent of coal production used to produce energy in Ukraine. The oblenergos' sale, and the resulting vertically integrated monopoly, cements Akhmetov's position as the most powerful player on Ukraine's energy market only weeks before energy reform is intended to de-monopolize the energy sector.

So far, regulation hasn't restrained Akhmetov.

On April 25, the Ukrainian Anti-Monopoly Committee ruled in favor of the oligarch, allowing him to buy majority stakes in Kyivoblenergo and Odesaoblenrgo.

The committee justified its decision by stating that Akhmetov is only buying the distribution network, which is responsible for carrying energy from producers to consumers, and doesn't have the right to sell energy to consumers.

Akhmetov now controls seven out of Ukraine's 25 oblenergos, together accounting for 45 percent — or 55 billion kilowatt hours — of the country's total electricity distribution.

According to Andriy Gerus, a presidential representative to the Cabinet of Ministers, Akhmetov might acquire the remaining oblenergos controlled by VS Energy, which would increase the oligarch's share on the energy distribution market to 57 percent.

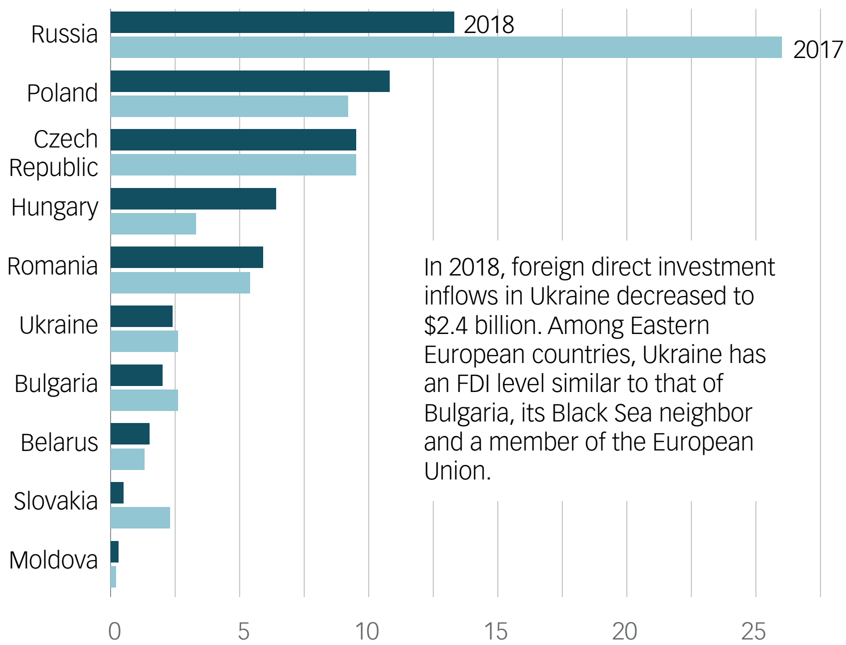
Oleksiy Feliv, managing partner at Integrites, said that, under the new system, oblenergos might become an attractive asset as their value will increase.

"The transparent pricing system might result in the capitalization of oblenergos rising," he said.

On May 13, Natalya Yemchenko, the spokesperson for SCM Holding, which is owned by Akhmetov, published an article in support of DTEK's acquisition of the two oblenergos. Europe has similar natural monopolies, she claimed.

Foreign direct investment in Eastern Europe

in billion dollars



Source: United Nations Conference on Trade and Development World Investment Report

Ukraine's top export destinations in 2018

Country	Billions of dollars
Russia	3.7
Poland	3.3
Italy	2.6
Turkey	2.3
Germany	2.2
China	2.2
India	2.1
Hungary	1.6
Netherlands	1.6
Egypt	1.5
Total exports	**47.3**

Source: Ukraine's State Statistics Service

Top exporters to Ukraine in 2018

Country	Billions of dollars
Russia	8.1
China	7.6
Germany	6
Belarus	3.8
Poland	3.6
United States	3
Italy	2
Turkey	1.7
Switzerland	1.6
Hungary	1.3
Total imports	**57**

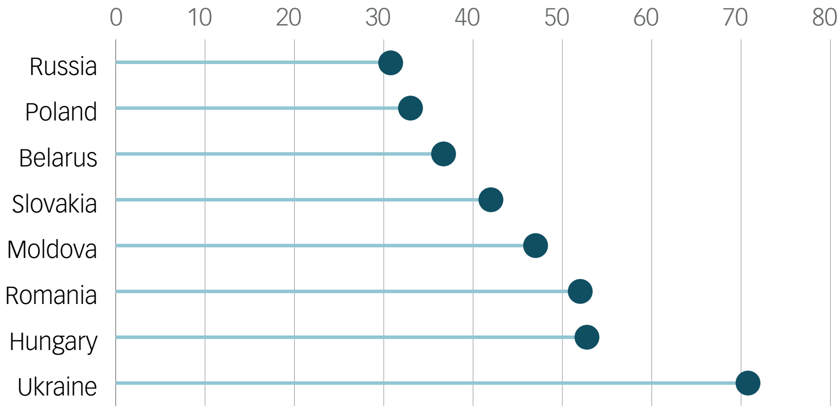
Source: Ukraine's State Statistics Service

Russia and China are Ukraine's top sources of goods, although Ukraine-Russia trade has been decreasing since Russia started its war against Ukraine in 2014.

"In Portugal, 84 percent of (electricity) networks are owned by a private company, Energias de Portugal. In Italy, 70 percent is owned by Enel. In Spain, Iberdrola and

Ease of doing business in Ukraine compared to its neighbors

Doing Business 2019 Ranking



Among neighbors, Ukraine ranks worst in the 2019 World Bank's Ease of Doing Business ranking which evaluates economies based on how business-friendly the regulatory environment is. Ukraine ranked 71st out of 190 countries in 2019 and climbed five positions compared to previous year's ranking.

Source: Doing Business ranking

Endesa Energia own together 78 percent. E.ON in Germany (owns) 48 percent. It is like this everywhere," Yemchenko wrote.

But Ariel Cohen, a senior fellow at the Atlantic Council's Global Energy Center, says there is a difference: the environment in which these companies operate.

"Europe does not struggle with same issues of capacity, corporate governance, corruption, and over-regulation (compared to Ukraine)," Cohen told the Kyiv Post in an emailed comment.

EU-Ukraine differences

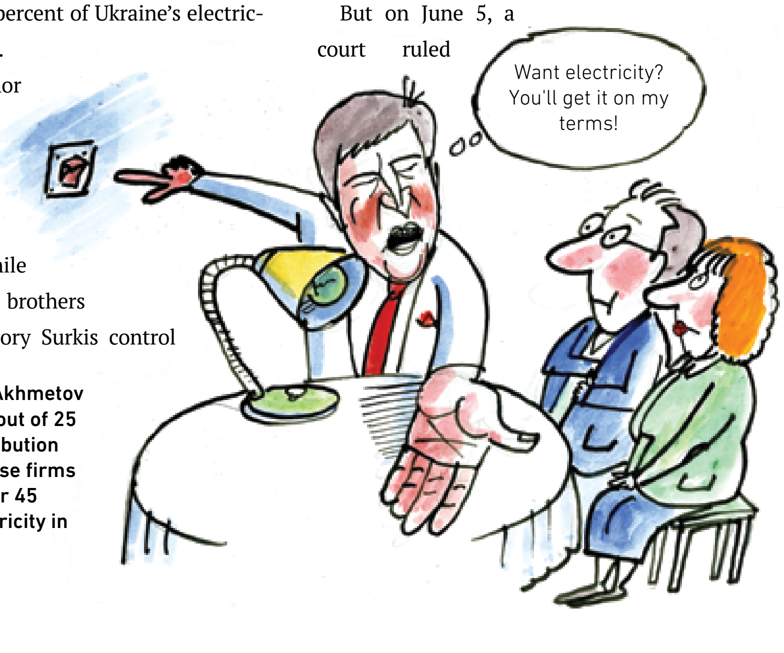
According to EU regulations, European energy companies have the option of either having an independent transmission operator or unbundling the ownership structure. Most European companies choose the first option. In addition, market players are overseen by both national regulatory agencies and EU institutions.

The structure of company ownership is also different in Ukraine and EU countries. For example, Energias de Portugal's rules allow a single shareholder to have no more than 25 percent of voting rights. Enel is owned partly by the Italian government and partly by institutional investors. And all of the companies' shares are freely traded on stock markets.

DTEK is fully owned by Akhmetov.

Other players in Ukraine's electricity distribution field include Russian-Ukrainian businessman Konstantin Grigorishin, who has a stake in 11 oblenergos that account for at least 15 percent of Ukraine's electricity distribution.

Oligarch Ihor Kolomoisky controls 4 percent of the distribution market, while businessmen brothers Ihor and Hryhory Surkis control an additional 7 percent. The state owns 17 percent, but most often in partnership with the abovementioned oligarchs, who own minority shares but have major influence in decision-making.



Oligarch Rinat Akhmetov controls seven out of 25 electricity distribution companies. Those firms transmitted over 45 percent of electricity in 2018.

Oblgazes

When it comes to oblgazes, 75 percent of all gas transmission companies are owned by oligarch Dmytro Firtash, who is fighting U.S. bribery charges from exile in Austria. He denies wrongdoing.

As of 2019, Firtash controls 20 oblgazes through his Regional Gas Company. In 2018, they transported 20 billion cubic meters of gas, or over 70 percent of the country's total.

On April 11, Yuriy Terentyev, head of the Anti-Monopoly Committee, wrote on Facebook that all 20 oblgazes owned by Firtash are being investigated by his organization due to suspicions of abuse of power.

The National Commission for State Regulation of Energy and Public Utilities (NERC) launched a probe supported by the government into allegations that the oblgazes were overcharging private consumers. The commission found this claim to be true and fined 12 oblgazes.

According to state-owned gas monopoly Naftogaz, the oblgazes overcharged consumers by 5–10 percent between December and January. The Regional Gas Company did not respond to a request for comment.

But on June 5, a court ruled

that the fines were illegal and overturned the commission's decision.

Overcharging is not the only issue. Because the government keeps household prices below market rates, distribution companies have been known to use the price difference between household and industry consumers to make substantial illegal profits.

Top countries by renewable energy capacity
(in gigawatts, 2017)

China — **600**
USA — **230**
Brazil — **128**
Germany — **113**
India — **105**
…
Ukraine (2018) — **2**
Source: International Renewable Energy Agency

Anders Aslund, an economist and senior fellow at the Atlantic Council, estimates that around a third of gas sold to domestic consumers in Ukraine may actually be getting resold to industries.

"Politicians continue to comment on what prices of electricity or gas ought to be, as if these are political decisions rather than determined properly by the market," Edward Chow, a senior associate at the Center for Strategic and International Studies, told the Kyiv Post via email.

Market prices for both household and industry consumers should be the primary objective of energy reform and integration with Europe, according to Chow.

Unbundling oblenergos

In 2017, the parliament supported a law on reforming the energy market. Its new regulations will enter into force on July 1.

The reform is meant to bring Ukraine's legislation in line with EU requirements. The new law gives consumers the right to choose a seller, something that will be achieved by dividing the oblenergos into two separate companies — an electricity seller and a network manager. In that way, it aims to introduce market prices instead of regulated ones for industry consumers.

As for oblgazes, a gas market law came into force in 2015, stating that oblgazes must be unbundled by separating pipeline managers and gas sellers. But four years later, oblgazes are still non-transparent. The sellers and pipeline managers continue to be controlled by a single owner, while the network manager is constantly blocking other players from entering the gas selling market.

The unbundling of oblenergos may yield a similar result.

According to Cohen, "unbundling is certainly the right path for the country's energy security in theory." However, he added that, when it comes to Ukraine, theory and practice are very different things.

"If done with proper oversight and transparency, Akhmetov will not have much leverage for market manipulation," Cohen said.

But Cohen says he will believe it when he sees actual results.

Fog covers transmission towers in Kyiv Oblast on June 15, 2015. On April 25, DTEK was allowed to purchase Kyivoblenergo which owns all electrical grids in Kyiv Oblast. (Oleg Petrasiuk)

Access to expensive medical treatment has been a problem for millions of Ukrainians. Ukraine is often a battleground between international companies trying to maintain their patents and public health advocates who favor producers of generic drugs. (Oleg Petrasiuk)

Ukraine challenges evergreen patents on expensive drugs

BY IGOR KOSSOV
KOSSOV@KYIVPOST.COM

Pharmaceutical intellectual property disputes are an ongoing issue in Ukraine, where millions of citizens struggle to afford certain critical medications.

It's relatively easy to keep extending a drug patent — and its monopoly. It's harder to challenge these patents or bring cheaper generics to the market. The past few years have seen multiple legal disputes against multinational pharmaceuticals. Legislation from last year that proposed raising the patentability bar failed after not getting enough votes in the Verkhovna Rada, Ukraine's parliament.

In December, the Cabinet of Ministers revived the legislation. Public health advocates hope to advance it in the next Rada, with the help of the next Cabinet.

"When this legislation passes, it will be a very major breakthrough, because in the world there are few countries that have this kind of (intellectual property) policy concerning medication," said Inna Boyko, director of patients' rights group Patients of Ukraine.

advertising

Catching the hype

What associations do you have with the word Ukraine: Chornobyl, EuroMaidan, Donbas? If we talk about business — it is the agrarian sector, IT. Hardly anybody will include the pharmaceutical industry in that list. This is exactly what I am going to talk about.

After I left my position in the Presidential Administration of Ukraine and returned to business, people kept asking me why I chose pharmaceuticals. I have no less than five answers to this question.

Dmytro Shymkiv,
Darnitsa Group Chairman

5 reasons why you should believe in Ukraine's pharmaceuticals

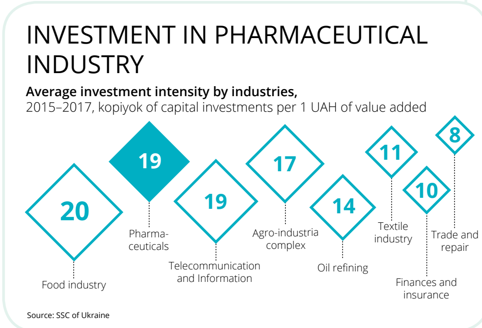
1 Healthcare is in the spotlight

The world changes rapidly. New technologies make our life more comfortable and interesting. It is not surprising that the modern human wants to live a longer and healthier life.

Longevity is in the spotlight and pharma is a basis for long life. The life expectancy keeps growing with the help of modern medication. New medical agents, marketed after 1990, address 73 percent of the factors that influence life expectancy of infants. This index is even higher for the seniors – 95 percent.

The world pharmaceutical business is booming. The numbers are impressive: in 2016 the world pharmaceuticals sales volume was $804 billion, in 2019 it will grow to $911 billion, and in 2024, it is expected to grow to $1.25 billion.

Healthcare is not only medicine but also economics. Healthcare is considered to be an important basis for a country's competitiveness, the World Economic Forum report reads.



Healthcare is a new hype for the next 20 years. Innovative technology in healthcare and pharmaceuticals will soon change the world in the same dramatic way as the internet did in the 1990s

2 Ukraine keeps pace in the race

The Ukrainian pharmaceuticals industry follows the world trend. The industry is growing by 11 percent a year recently — which is three times faster than Ukraine's economy in general.

Pharma makes 0.83 percent of Ukraine's GDP. Also, it employs only some 0.15 percent of all Ukrainians.

For every dollar of added value in pharmaceuticals there are 19 cents of capital investments. It is a high figure for Ukraine. Only the food industry brings more money.

In the Darnitsa company, we sent 10 percent of our gross income to R&D.

And I am not only talking about production modernization. We are going to become a digital company and transition to electronic document flows and medical agents' production cycle.

Ukrainians take part in innovative projects. The Odesa start-up Kwambio in partnership with international companies has been producing human bone tissue on a 3-D printer.

3 Growing markets

Let me reinforce my emotion with numbers. The Ukrainian pharmaceuticals sales market is growing. In 2014 Ukrainian pharmacies sold 973 million medical agents, in 2016 – 1.115 billion, and in 2018 – 1.144 billion. The hospitals have also started buying more pharmaceuticals. In 2016 they bought 50 million packages, and in 2018 – 134 million.

In money equivalent, the pharmacies market has been growing by 11 percent annually during the last three years, and hospitals procurement — by 7 percent.

Of course, Ukrainians have also started spending more on pharmaceuticals. In 2016 a Ukrainian consumed medication worth $54 on average. In 2018 this index grew to $73.

> The pharmacies market has been growing by 11 percent annually during the last three years

The geography of the export is also expanding. In 2017 Ukrainian pharmaceutical products were exported to 50 countries of the world, in 2018 — to 81. Pharmaceuticals from Ukraine have already appeared on shelves in the Middle East, Asia Pacific region, and European Union countries.

4 Big potential

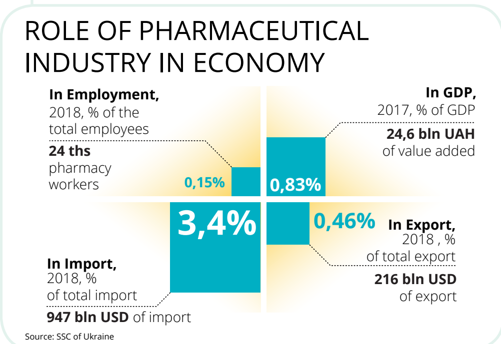
The numbers tell us not only about past achievements but also about future successes. The Ukrainian pharmaceuticals industry has not unlocked its huge potential. The essential growth is ahead of us.

For now, the internal market consumes a lot fewer medical agents than the European Union markets. Just compare! In Ukraine, a resident spends $73 on medication a year, and in Estonia — $258, while in Sweden — $509.

The growing income of Ukrainians provides the growth of consumption in the upcoming years. However, Ukrainians purchase 99 percent of medical agents at their own expense.

In the U.S. and European Union, insurance companies and state healthcare programs cover much of the costs. We have an ongoing healthcare reform in Ukraine, which promises state support for medical treatment.

As for the external market, the certification of the Ukrainian pharma producers in compliance with international standards will become the main factor of the market's growth. In 2016–2018 nine Ukrainian companies got GMP (good manufacturing practice) certificates in the European Union countries.



Competition is another important factor in growth. The Ukrainian pharmaceuticals market consists of 113 companies. Hardly any controls more than 7 percent of the market. That means there are no monopolists in the industry.

5 Patent cliff

Last but not least is the patent cliff. The massive patent cliff on the popular medication brands is coming on the world's market. This will give a green light to the production of generics — the authorized copies of the original medical agents. Generic medication costs a lot less than the originals. That guarantees strong demand and provides colossal opportunities to Ukrainian pharma.

Cooperation with global pharmaceutical market players will speed up the new medication registration. And Ukrainian companies have been already negotiating about such cooperation.

Source: the infographic guide book Pharmaceutical industry of Ukraine 2019, created by TopLead with the support of the pharmaceutical firm Darnitsa, law firm Aequo and Ukrainian Chamber of Commerce.

Darnitsa

According to the Ukrainian pharmaceutical company Darnitsa and research firm Aequo, sales of medicine in Ukraine in 2018 added up to $3.1 billion. Many Ukrainians struggle to afford more expensive medications, especially ones that are patented by multinational pharmaceuticals. (Courtesy)

Ukraine's own pharmaceutical industry is growing quickly, now controlling 38 percent of the total pharma retail market value in a roughly $3-billion industry, according to Darnitsa. Ukrainian companies have the ability to produce advanced generics. Many existing generics are available for import from other countries.

However, some advanced medications are restricted to the original patent holders, putting them outside the price range of millions of Ukrainians and costing the state billions of dollars. This is especially true for treatments for serious illnesses like HIV, cancer, hepatitis, tuberculosis and others. Balancing innovation against public health will be a major challenge for the incoming government.

"The leadership [of Ukraine] lacks consensus and a general vision regarding the direction of the development and function of the intellectual property system," said Mykyta Trofymenko, intellectual property counsel with 100% Life Network, Ukraine's largest pro-patient NGO.

NGOs and health officials hope to change this, backed by United Nations organizations. This year, Ukraine is set to draft its intellectual property strategy, with the hope of large-scale reforms.

Background

Like most countries, Ukraine is a signatory to the World Trade Organization's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Some of Ukraine's intellectual property, or IP, rules are more restrictive than other countries'.

For example, Ukraine uses patent linkage, which shifts the burden of defending patent monopolies from the holder to the government. "[Patent linkage] hangs like a Sword of Damocles over the generic applicant," said Oksana Kashyntseva, a legal expert with Patients of Ukraine.

The country also extends the normally 20 year patent terms by up to 5 years, based upon how much time passed between filing the patent and getting market authorization. The European Union has a similar provision.

Still another provision is data exclusivity, which restricts the availability of the original drug's clinical data. This effectively cuts off generic producers' ability to register a biosimilar product for a number of years. The EU's data exclusivity period is the longest in the world — up to 10 years. Ukraine's association agreement with the EU includes this provision.

The company Gilead Sciences used data exclusivity to prevent a generic version of the hepatitis C drug Sofosbuvir from being marketed in Ukraine for several years, even though the generic manufacturer filed its application before Gilead did for its brand name drug, Sovaldi.

The EU is currently reviewing some of these rules after protests in multiple member countries. Ellen 't Hoen, a researcher with Medicines Law & Policy, suggested that Ukraine can use a waiver to get around this requirement or risk being stuck with this rule even if the EU relaxes it.

TRIPS provides flexibilities to safeguard public health. The best-known one is compulsory licensing — the government forces a patent holder to issue a license to a generic producer, who pays a licensing fee. However, experts told the Kyiv Post that Ukraine never even came close to using this method. International pharmaceuticals have been known to retaliate against countries that try to use compulsory licensing by pulling production or imports.

Patentability, evergreening

Patents protect the intellectual property of innovators and, without them, there would be no incentive to create new medical inventions. However, not all innovation is created equal.

Evergreening is a controversial practice where pharmaceuticals take an existing medication, make a slight tweak (such as changing the dosage) and try to apply a secondary patent — presenting the drug as a completely new substance.

"Evergreen patents remain a serious problem," said Trofymenko. "Patents for many drugs that are the most expensive in Ukraine, by volume of purchase, are evergreen."

Even developed countries have seen a trend toward secondary patents in the past several decades. A 2018 study in the U.S.-based Journal of Law and Biosciences found that 78 percent of drugs associated with new patents in the U.S. were previously existing ones. However, secondary patents cause the biggest challenges in developing countries.

Trofymenko's group, 100% Life Network, fought multiple pharmaceuticals over their patents, which many NGOs say don't meet innovation criteria.

Evergreen patents had denied Ukrainians the ability to afford cheaper generic versions of antiretroviral drugs for HIV, breast cancer and leukemia treatments and antibiotics for tuberculosis and many other substances. They also drained huge sums of money from the state budget.

Law lessons from abroad

Ukraine's 2018 patent legislation intended to make it harder to get a secondary patent on an existing drug. It would also relax the data exclusivity provision. Finally, it would have excluded drugs from a list of inventions that could be protected as "utility models" — a patent-like protection with lower standards and shorter protection periods.

The bill failed to get the amount of votes it needed in September 2018. A new version of the bill was registered in December and approached committee reading in April. Patients of Ukraine told the Kyiv Post that the presidential and parliamentary elections interrupted progress. They plan to push the legislation forward this fall.

There are lessons Ukraine can learn from other countries that had previously adopted similar legislation. India became one of the first countries to raise patentability standards and reject applications without significant innovation with the active ingredient. Global pharmaceuticals challenged and ultimately failed to overcome this legislation, which helped India become the pharmacy of the developing world.

However, since India was among the first, it was afraid of overstepping TRIPS and its law is riddled with unnecessary complications and dependent clauses. This makes it much harder to implement and allows loopholes for pharmaceutical companies to exploit, according to Achal Prabhala, an international activist and researcher who works on pharmaceutical IP. The country should be rejecting over 80 percent of patent applications. Instead, it rejects about 40 percent.

"They don't understand their own law," said Prabhala, referring to Indian patent authorities. He said that the lesson for Ukraine is to make its version of the law simpler and easier to implement.

A much better example to follow is Argentina, which also adopted strict guidelines on patentability, but in a tighter way. This law does not contain the ambiguities and technicalities that secondary patent applicants can exploit in other countries. Argentina's anti-evergreening resolution is "considered an example worldwide in terms of public health perspective," wrote IP researcher Marcela Vieira.

According to research by Columbia University, Argentina is one of the few countries which grants significantly fewer secondary patents than primary ones. Vieira added that Argentina was granting less than five percent of submitted patents, several years after the guideline was introduced.

All this allows Argentinians access to more medicines at lower prices and keeps companies from littering the market with monopolies. However, Argentina is facing down multiple legal challenges to its patent system. Experts said this kind of pressure is ubiquitous in developing countries, including Ukraine.

"There is considerable external pressure from business associations, which lobby the interests of large pharmaceutical companies," said Trofymenko.

Expertise shortage

Like many developing countries, Ukraine lacks the resources and expertise in its patent authority, Ukrpatent. Ilarion Tomarov, a lawyer with the firm Vasil Kisil & Partners said that patent reviewers don't thoroughly review applications.

"In Ukraine, the reason for evergreen patents isn't so much in its legislation, as it is in the quality of the expertise," he said.

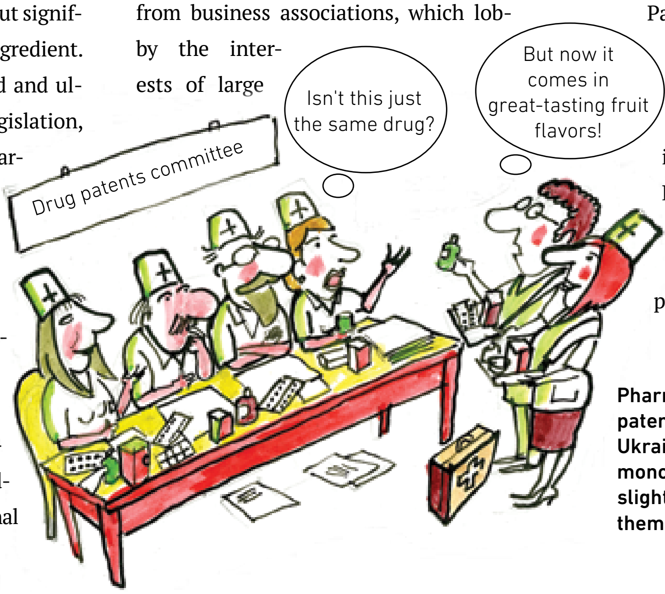
As a result, it is much easier to get a patent than to challenge one. Once the patent is granted, challenges by generic competitors or patient groups require a minimum of two and a half years in court. The court has to assign an expert to review the claims, which takes a long time. Then, if the case goes to appeals and cassation, more years pass and, in the meantime, generics can't reach the market.

A better way to improve expertise could be to apply a model like that of Brazil. Besides Brazil's patent authority, its Ministry of Health also takes part in reviewing pharmaceutical patent applications. Three years ago, the health ministry had to give consent for the patent to go forward.

"The expertise that was built in the regulatory authority agency, bringing it to the table increases the quality of the patents that are granted and reduces the chances of getting unmerited patents granted," said Vieira.

Patients of Ukraine's Kashyntseva agrees: "This is a super idea."

Earlier in June, multiple patent officials and advocates met in Ukraine. At the conference, the Ministry of Health of Ukraine said that it would be willing to step in and participate in pharmaceutical patent reviews.



Pharmaceutical companies use exclusive patents on drugs to charge prices that Ukrainians cannot afford. To extend their monopolies, pharmaceuticals make slight changes to their drugs to patent them anew.

Darnitsa taps Dmytro Shymkiv to lead firm to greater global success

BY IGOR KOSSOV
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Dmytro Shymkiv, the former deputy head of the presidential administration of Ukraine and now chairman of the Ukrainian pharmaceutical company Darnitsa, answers a question from the audience at Straight Talk on March 20, 2019, in Kyiv. (Oleg Petrasiuk)

Darnitsa is one of Ukraine's largest pharmaceuticals. It's in fourth place in Ukraine by value of sales, with about 3.3 percent market share, and in first place by volume, with 14.4 percent of products sold, according to data from the company and the research firm Aequo.

Dmytro Shymkiv, the former deputy head of administration for ex-President Petro Poroshenko and former general manager of Microsoft Ukraine, has been working as the chairman of Darnitsa's board of directors since September. Under his watch, he wants the company to leverage its research, production and quality control to break into the global market.

Shymkiv sat down with the Kyiv Post to discuss Darnitsa's desire to become a global firm, the future consolidation of Ukrainian pharmaceuticals and the controversial reputation of company owner Hlib Zahoriy, who will soon be stepping down from his post as lawmaker.

International aspirations

Though Darnitsa already exports to 14 countries, Shymkiv said that he wants the company to be a bigger player in the global market.

"The objective is to grow Darnitsa from a Ukraine-based company to an international one," he said. "We would like to go further and bring more international perspectives to the company."

Darnitsa is looking to buy up pharmaceutical portfolios from international companies. It will also try to lure some foreign talent to bolster its human capital and possibly even acquire entire companies based in Europe or North America. Shymkiv did not reveal which companies are currently on the short list.

The chairman had previously written that Darnitsa wants to cooperate with international firms. He told the Kyiv Post that the company is also interested in contract research organizations, companies that support pharmaceutical and biotech research on an outsource basis.

Shymkiv said that he observed aggressive activity by investment firms that play in the pharmaceutical space. "If you look at the competition which is taking place in M&A in Europe, we are not competing with pharma," he said. "We are competing with private equity."

In the local market, research by Darnitsa and Aequo found that the top 20 players in Ukraine control 47 percent of the market value, which is almost equally distributed among Ukrainian and foreign manufacturers. Among importers to Ukraine, Germany is in first place, followed by India.

Despite the volume of generics coming from India, Shymkiv said he believes that Darnitsa can outcompete them with safety and quality in part by adhering to the U.S. Food and Drug Administration's Good Manufacturing Practices standards.

Shymkiv also hinted that Darnitsa is working not only on complex generics but also researching its own original molecules, as are a handful of other advanced Ukrainian companies. He did not provide any further details.

Consolidation

Shymkiv believes that Ukraine's pharmaceutical market, which is currently very fragmented, will undergo a lot of consolidation in the future. While the market is underdeveloped and most companies have more room to grow, "as we go forward, the market will become more dense. It might require companies to merge," he said.

Another major reason for consolidation is the track and trace requirements demanded by the U.S. and European Union for companies doing business there. Medication packages must be trackable through the entire supply chain.

Implementing this will require "significant investment, meaning millions (of dollars)," said Shymkiv. "Lots of companies can't afford millions so they will look into a consolidation strategy."

Shymkiv added that he sees parallels between Ukrainian companies, which are primarily family-owned such as Darnitsa, with earlier trends in other European countries including Italy and Switzerland. If children who inherit the companies don't want to go into the business, it might lead to sell-outs and mergers.

Some mergers are tougher than others. Darnitsa has yet to complete its acquisition of a majority stake in the Borschahivskiy Chemical Pharmaceutical Plant, which it has been trying to do since 2015, when it bought 30 percent of the chemical manufacturer.

The majority stakeholders of the Borschahivksiy plant had previously alleged that Darnitsa's bid was tantamount to a hostile takeover, according to Ukrainian media. Shymkiv said that Darnitsa is still willing to buy the majority stake but conceded that the other side is not willing to sell.

"You can talk to any investment banker in this country, I think everyone tried to persuade them to do a deal," he said. "I haven't seen any successes there."

Shymkiv added that Darnitsa has not been getting paid its full dividend by the plant and is looking into how it can address this "corporate issue."

Controversy,- transparency

In May, company owner Hlib Zahoriy announced that he will be stepping down as a legislator and returning to the private sector to focus on running Darnitsa full-time.

Over his years in public office, Zahoriy became an object of scrutiny for Ukrainian media and civil society, which linked him to alleged corruption scandals. Some accused the lawmaker of trying to game the system to give Darnitsa an unfair advantage.

For example, several NGOs had stated that Zahoriy was linked to people appointed to several Ministry of Health committees. They alleged that this gave him some conrol over what substances are allowed into the country. Zahoriy was also accused of being behind the temporary ban of a foreign-made chemical that competed with Darnitsa's product.

Public health advocates also accused Zahoriy of co-authoring legislation that would have interrupted Ukraine's medical procurement reform, had it passed.

The Kyiv Post tried to reach Zahoriy through Darnitsa spokesperson Mike Gladky. Zahoriy did not respond in time for publication but Gladky also rejected all the negative allegations.

Shymkiv said that the allegations are "invented," dismissing them as typical rumors that surround most political figures in Ukraine. He added that because Zahoriy is a known enemy of Russia and on that country's sanction list, it's possible that pro-Russian figures may have tried to tarnish his reputation at some point.

"It's invented by someone, it's classic stories that could have been broadcast on anyone," said Shymkiv, saying that the company does not consider it worthwhile to pay attention to these allegations.

He added that Zahoriy leaving politics will be good for the company, as it will no longer be connected to a shareholder who is active legislator. Shymkiv said that there's no chance of him ever returning to politics either.

Regardless, Shymkiv said that the company had been audited by the global audit firm KPMG as well as a German legal auditor over the past seven years — both audits concluded in 2018. He said that since Darnitsa wants to be a global player, its main priority is transparency and compliance, which are prerequisites for taking the company international.

"We see more opportunities in taking a strong Ukrainian player and elevating it to the international market and that's more exciting than playing in a small pond," he said. "There's an ocean out there."

A Darnitsa manufacturing line with a row of bottles containing the company's infusion solution, a product launched in 2015. Darnitsa sells the most medications in Ukraine by volume. (UNIAN)

Women take selfies at iForum, the annual tech conference, on May 23, 2019. iForum is considered to be the biggest tech conference in Eastern Europe, with at least 12,000 people attending in Ukraine every year. (Kostyantyn Chernichkin)

Ukraine wants to be Silicon Valley, but still average in Eastern Europe

BY DENYS KRASNIKOV
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Just 10 years ago, tech investors wouldn't even consider Eastern Europe as an advantageous place to run a tech business.

But then there came tech startups like Prezi, Transferwise, Bolt, GitLab and the myriads of software outsourcing firms. They have drawn eyes east, marking the region a serious contender in the tech world.

The world's attention converted into investment: financing of Eastern European startups has surged from $10 million to $400 million in just five years. And this is only the money that came from outside Europe, including Asia and North America.

With strong mathematics education that the country inherited from the Soviet Union, this investment converted into hordes of skilled tech specialists. Ukraine alone has 172,000 programmers, or 60,000 more than just two years ago. Neighboring Poland, in turn, boasts even a bigger crowd — 250,000 techies.

Seeing the opportunity, each post-Soviet country has been attempting to refocus their economies around the knowledge-based information technology industry — software eleks®

New Elements for Building Trust in the Value Delivery Chain

ARTICLE BY IURII GARASYM, ELEKS CIO AND CISO

It is added value that motivates your customers to stay with you long-term. You need to understand your customers, their services, products and industries. Sometimes, added value comes in an unexpected form. As Gartner explains: "*Every organization exists in multiple business ecosystems. These business ecosystems are dynamic networks of entities interacting with each other to create and exchange sustainable value for participants. The challenge is deciding how your organization will survive and thrive in its ecosystem.*"

BUILDING BUSINESS ECOSYSTEMS

When you are a company that serves global markets, your tempo is crazy, your heartbeat is close to threshold, and your risks are unpredictable. Nevertheless, you stay confident.

"To deliver value to the end customer, you need to play the team game. You need to partner both with your vendors and your customers in order to create and exchange sustainable value. Your need trust, collaboration and agility,"

explains Andriy Krupa, CEO at ELEKS.

In our practice, we work with companies in North America, Europe, MENA and Asia-Pacific. You can imagine how significant the cultural differences are. It's the same with regulations. Working with startups and small and medium businesses, we face more risk acceptance, agility and speed in decision making. At the same time, big enterprises have challenging procurement, mature change management and complex organizational structures.

Security is the embodiment of trust in its digital form. Regardless of size or location, your customers value quality products and services. They want them to be secure by design. As an example, here at ELEKS we've built and developed security with two clear purposes: to meet high customer expectations and to meet the compliance requirements of the markets in which our customers and vendors operate. Together with our customers, we work on risk reduction on our way to strategic goals. In our case, security is an enabler, not a showstopper.

"*Your customers need more value. Think about what you can do for them to make them more successful. In our case, it is a mixture of quality and on-time engineering with security hardcoded into our corporate DNA*", adds Mr. Krupa.

THE CYBERSECURITY LANDSCAPE

The following cybersecurity threats could have a serious impact on the value delivery chain and therefore need careful consideration:

1. **The next generation of social engineering with Artificial Intelligence-generated fake video and audio:** Just imagine how hard it will be to protect original materials – voice and appearance – in a world where anyone can create a fake video stream.
2. **Intentional manipulation of machine learning:** Machine learning tools learn by finding relationships within training data and applying that knowledge to real-life situations. By targeting training data sets, it is possible to compromise the results. On average, it takes 100+ days to identify a data breach and 50+ days to fully contain it.
3. **The loss of company data as a result of breaches:** The good news is that in most cases, the lost data is encrypted so it can't be used. The bad news is that within the next decade, it is expected that quantum computers will be able to decrypt such data.
4. **Cyber-physical threats:** Cyber criminals can now change the way objects around us operate. When software is everywhere, in autonomous cars and trucks, pacemakers, insulin pumps, your watches and coffee machines – the attacks can easily produce serious physical damage.

TRAIN YOUR PERSONNEL

You need to help your personnel understand the business and the security risks associated with it. They need to recognize the security challenges they are likely to meet on the way to a data-driven future.

What we normally encounter across different businesses is the following:

- Companies integrate critical systems, apply analytics, and automate a lot, while still relying on legacy systems and business processes and widening the emerging skills gap.
- Value continues to migrate online. Your entire "enterprise digital world" could be at risk of disappearing in just a few keystrokes.
- Companies are open; no clear boundary or perimeter exists any longer. Bring Your Owns (devices and apps), social networks, IoT, home offices and remote work are easy entry points for attacks.

We believe that 90%+ of breaches can be avoided with good cyber hygiene. A good base for cyber hygiene is compliance with industry standards, regulations and requirements, which starts with such basics as timely use of updates and backups.

Invest in people to strengthen your security. Keep a balance between having the best people in appropriate positions and robust processes with supporting technology.

AUTOMATE YOUR COMPLIANCE

Building and maintaining a robust security baseline is a challenge. On the one hand, you have regulatory requirements that constantly change. On the other, you have changes in your internal processes, which must be documented in policies and procedures. Moreover, your digital artifacts, logs and other evidence can either help you validate whether you are doing well – when used as a kind of security health check – or create additional difficulties.

We are facing the same problems, so we aim to solve them with automation. At ELEKS, we are working on a prototype for an AI and ML driven solution and integration platform. The idea is to analyze different versions of regulations, customer policies, and a set of the organization's governance documentation automatically with a Natural Language Processing comparison model. Such a platform can help you to investigate the raw logs from servers, endpoints and networks to identify malicious activity or anomalies not captured by correlation rules and analysts.

As a result, such a platform could generate and make instantly available a customizable and dedicated dashboard with a compliance/risk score. You could then provide online access for your customers and thereby strengthen their trust in you.

IMAGINE

Recently, an anti-fake program the Finnish government introduced back in 2014 has gained a lot of momentum in worldwide media, including a special report on CNN. It aims to educate all Finnish citizens regarding how to live in the modern interconnected society where manipulation of information has become the norm.

"*Unfortunately, it's not a threat to businesses only, but to the foundations of our democratic societies as we know them," Andriy Krupa warns. "Perhaps it's high time we teach people the risks associated with an interconnected society, not only on its benefits. We, as business leaders, can at least make sure that our personnel are well aware of the security risks in modern business and ensure they can utilize that knowledge in their private lives as well.*"

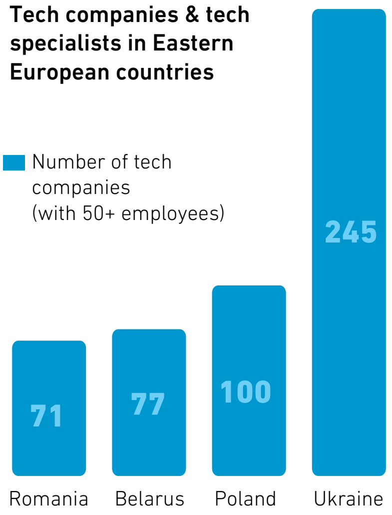
More insights at eleks.com

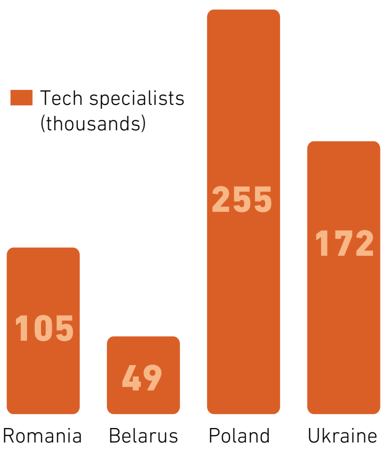
and hardware producers. Ukraine tries to encourage IT development, too.

In 2018, Belarus, Ukraine, and Poland together exported tech services of a total worth of $13 billion. According to Ukrainian tech executive Yurii Antoniuk, the head of Ukraine's biggest tech employer EPAM, the figure shows that natural resources like gas and oil will play a smaller role in the future, while intellectual capital will be growing its significance.

"That's why nations are fighting for brains today," he told the Kyiv Post. "The development of IT, science-intensive spheres — it's the ticket to the future for countries that want to become and stay competitive."

Tech companies & tech specialists in Eastern European countries





Source: CEE Software Development Report

Investment in Eastern European start-ups has surged from $10 million to $400 million in just five years.

Same conditions?

Ukraine shares its southwestern border with Belarus, also a non-European Union which inherited a Soviet past. Its IT sector seems similar to the Ukrainian one.

But not similar enough, according to Antoniuk.

"There are no countries with similar conditions," he argues. EPAM also has offices in Belarus. In fact, the company was initially founded by Belarusians and it hires as many as 10,000 Belarusians while only 6,600 Ukrainians.

Antoniuk believes the key difference between the countries is "obviously" geographic size: Belarus has 200,000 square kilometers while Ukraine — 600,000. The two countries also have different populations: Ukraine has 42 million residents while Belarus — 10 million.

This means both: Ukraine has "a bigger pool of talents" and its IT — because of the vast territory — tends to decentralize and form clusters, Antoniuk said.

The IT clusters spread across 20 Ukraine's cities, including country's largest Lviv, Kyiv, Kharkiv, Odesa, and Dnipro. The clusters have different regional specializations, some are more focused on improving technical education in their regions or promoting Ukraine abroad, others act as labor unions.

"And there's no decisive leader — all cities are strong in IT," Antoniuk said. Meanwhile, in Belarus, the only "gravitational center" for talents is Minsk, its capital.

According to statistics, however, Belarus has similar export volumes compared to Ukraine, despite the different in population size. While Ukraine's tech brings their $4.5 billion in export, Belarus's techies make $3.1 billion. Thus, for Belarus' economy, the tech sector secures 5.7 percent of its gross domestic product, while for Ukraine — 4 percent.

Very focused

All the same, similarities between the countries do exist, agrees Antoniuk.

"Ukraine and Belarus have just recently recovered from the post-Soviet period and they started looking for a "magic pill" to grow their economies," he said.

And tech industry seemed to be exactly what they were looking for. This business is simpler to start than a classic manufacturing business, but most importantly — the tech sphere creates an intellectual product with high added value that trades abroad.

"Such products make a significant contribution to the development of the economy," he said. That's why both countries have become "very focused" on the development of their IT, he added.

Belarus, for example, proves it by having built High Technologies Park, a special economic zone with a special tax and legal regime for tech workers. Those who work in the Park exempted from most taxes, including value-added tax and income tax. Moreover, employees of the resident companies enjoy a 30 percent reduction in personal income tax compared with other sectors.

The main goal of the tech hub is to stimulate the development of IT businesses. Today 400 companies with their 30,000 employees work within the economic zone. This is 60 percent of all of the country's techies.

Ukraine doesn't have such special economic zones, but it does have comfortable taxing conditions like a flat 5 percent tax rate for entrepreneurs, including tech freelancers; this explains the reason why 130,000 Ukrainian entrepreneurs are registered as programmers.

Besides, Ukrainian tech industry players organize international conferences like iForum (12,000 attendees) and Lviv IT Arena (3,500 attendees), publish IT industry reports, and form communities like private innovation park Unit City.

Antoniuk thinks that both countries have "historically a very good base" for the development of the IT business and both can use it to improve their economies.

Powerful neighbor

For Ukraine and Belarus, the tech sector isn't only about money — it helps countries integrate into the global economy, according to Igor Byeda, a regional head at software firm GlobalLogic.

Countries like Poland, Slovakia, and Croatia, on the other hand, are EU members and are already integrated into the European and global IT markets, Byeda says. His firm generates up to 50 percent of its revenue in the region.

Take Poland, he said. Global integration along with stability ensured by the EU membership makes it more attractive to investors than Ukraine. This also makes the country have more programmers than any other Eastern European country.

But Ukraine has an advantage: its IT doesn't depend as much on the foreigners as Polish IT does. In Poland, global product companies like Microsoft, Google, Ericsson and many others have engineering centers all over Poland.

Meanwhile, the majority of leading IT businesses in Ukraine are either chiefly Ukrainian service companies or global firms with offices here like GlobalLogic or EPAM. They generate the major part of export income from IT.

This makes Ukraine's tech sector grow fast. Local IT market grows 20–25 percent per year, while in Poland the sector annually grows by 6 percent.

'Stop lying to ourselves'

Despite the fact that Ukraine's tech industry doesn't stand out in Eastern European region, local tech entrepreneurs tend to over-promote the country, naming it "the next Silicon Valley."

But according to John Kim, an American tech millionaire from California, who last year founded an information technology company in Ukraine, such comparison is deeply wrong.

According to him, one in every 11,000 people in Silicon Valley is a self-made billionaire who contributes to the ecosystem by investing, teaching, and giving jobs. Silicon Valley has $128,000 per capita in annual gross domestic product. Meanwhile, Ukraine's is $9,700.

"When the same will happen in Ukraine, then it becomes the next Silicon Valley," Kim told the Kyiv Post. "Before then, it's just marketing bulls**t and everyone with half a brain knows it."

"It's time," Kim went on, "that we in Ukraine stop lying to ourselves so that we can begin the real work of transforming from a service economy of cheap IT labor to that of an innovation economy, where we are at least considered peers of Silicon Valley talent level — and not 'cheap IT!'"

According to the entrepreneur, that is done only through teaching businesses English and soft skills from real Silicon Valley people living in Ukraine. "There is no other way," he said.

Michael Balyasny migrated from Ukraine to the U.S. and founded startup Attendify in Silicon Valley. He echoes Kim's words.

"People make this comparison because they're lazy and it's easy to make a sweeping statement without investing much thought," he told the Kyiv Post. In his view, however, Ukrainians aren't the only ones who make such exaggerated statements.

"Whether it's projects like Skolkovo or even huge successes like Israel's technology hubs, everyone reflexively (starts) saying, 'We're building Russia's Silicon Valley' or 'Israel's Silicon Valley,'" he said. "That kind of approach is doomed to fail because it's an oversimplification."

Balyasny believes Ukraine can't recreate Silicon Valley and shouldn't try to. Instead, it should aim to be the better version of itself, he said.

"The keys to success are not in building flashy real estate projects or the president showing up and cutting a ribbon, it's about boring things like education, fostering entrepreneurship at a young age and making it truly easy for companies to do business in Ukraine," he said. "When we're making progress on those vectors there will be plenty of time to cut ribbons and make bold proclamations.

"That's the foundation, and I completely recognize how boring and long-term that sounds, but I don't believe there are silver bullets."

The Kyiv Post's technology coverage is sponsored by Ciklum. The content is independent of the donor.

A person uses a laptop to access government services online. Estonia provides 99 percent of its government services on the internet. (e-estonia.com)

Battling red tape: Estonia's e-government success to help Ukraine fight 'spravka culture'

BY DENYS KRASNIKOV
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Waiting for his flight at the airport in Frankfurt, Estonian Ragnar Saas decided it was high time to start a business. He took his laptop out, filled out several forms, signed them, and paid a fee — all online. It took him 15 minutes to become a businessman.

Saas could do that because his native Estonia provides 99 percent of its government services online. That includes voting, paying taxes, signing documents and buying property.

"Estonia's e-government allows me to be super effective," Saas told the Kyiv Post. "Visiting a government office seems so very strange to me, as everything can be done on the internet."

He makes use of e-government "almost every week" and can hardly imagine his life without it.

And it's not just convenient. On the national level, digital signature — the ability to sign official documents electronically — saves for Estonia $600 million a year, the equivalent of 2 percent of the country's gross domestic product.

"E-gov is the reason I am such a big patriot of my country," Saas said. "Many Estonians like me can't imagine the world without it. Filling (out) physical papers seems so historic."

For Ukraine, however, that isn't history — it's everyday life. Most Ukrainians still go to a government office to start a company, to a polling place to vote in elections, or to a bank branch to pay taxes. They give officials paper documents and receive paper documents in return.

By not using e-government, Ukraine is wasting both its financial resources on paper and its people's precious time. More importantly, it is holding back development of its small and medium-sized businesses and failing to harness the full potential of its 172,000 tech specialists, experts say.

'Spravka culture'

E-government is not an entirely foreign concept to Ukraine. For example, Ukrainians can use the internet to register a business. But only 20,000 out of 1.8 million local entrepreneurs have done that. The reasons are, in part, cultural.

Above all, it's a trust issue, says Ivar Tallo, a former Estonian lawmaker who played a key role in introducing e-government in Estonia back in 2001; Tallo has also co-founded the e-Governance Academy and advised many governments — including of Moldova, Ukraine, Northern Cyprus, and Palestine — to adopt Estonian e-gov experience.

Ukraine, in his view, didn't have a systematic approach to implanting e-government. As a result, amateurs and e-government evangelists — not the Ukrainian government itself — set up electronic services. If officials had rolled them out, people would have trusted them more, he believes.

On top of that, Ukraine still suffers from low computer literacy. Many Ukrainians don't know how to use a computer or mobile phone on an advanced level, Tallo added. Estonia overcame this challenge back in 1996, when it launched Tiigrihüpe, or Tiger Leap, a national program to build computer and internet infrastructure and educate the public.

Because of that "you still have the 'spravka culture'" in Ukraine, Tallo said, referring to a generic type of paper document that is usually requested by officials in the post-Soviet countries. "And there's no need for paper documents in the modern world anymore."

Leap of faith

Both Estonia and Ukraine broke free from the Soviet Union in 1991, but they have taken different paths since then. When Ukraine was signing the Russian–Ukrainian Friendship Treaty in 1991, Estonia watched Finland introduce plastic identity cards with electronic chips.

These smart cards would replace passports, transport tickets, pension and social benefits cards, national health insurance cards and medical and tax records. More importantly for developing e-government, the built-in electronic chips allowed the government to verify a citizen's identity online.

Many Estonians were thrilled by this Finnish idea, according to Tallo. Some did oppose it, however: the cards were expensive, and there were no services yet that could make use of them.

"That was a chicken and egg situation," Tallo said.

The Estonian government eventually took a risk and introduced ID-cards in 2001, hoping that online services would follow. Tallo calls it "a leap of faith."

"Quite an expensive one," he adds.

Estonia both forced and incentivized people to get those smart cards. It made obtaining them mandatory, but also reduced the fee for a card from $20 to $10. A paper passport, in turn, became more expensive, from $3 to $10.

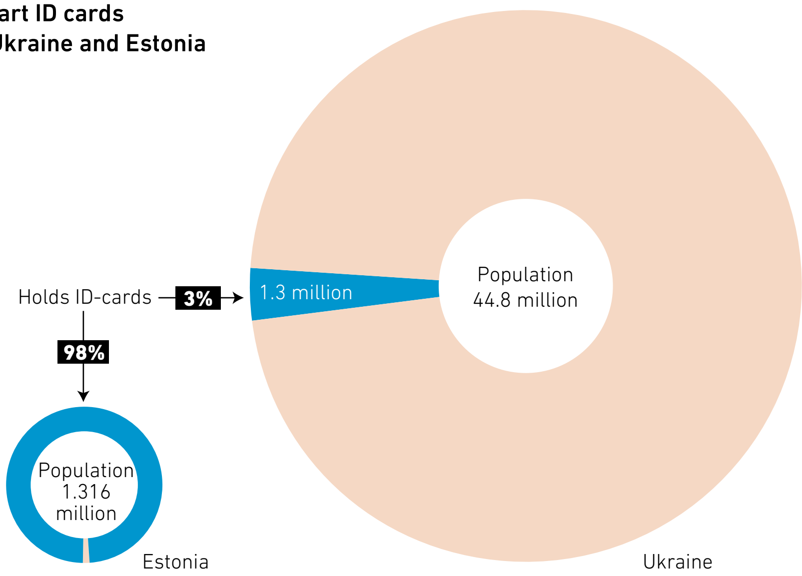
"We subsidized the way from passports to cards," Tallo said.

Today almost every one of the 1.3 million Estonians holds an ID card, and 99 percent of government services are available online. This has helped Estonia take 16th place in the E-Government Development Index compiled by the United Nations. Ukraine lags behind at 82nd.

This electronic approach has also made it easy to run business in Estonia, rocketing the country to 16th place in the Ease of Doing Business ranking by the World Bank, where Ukraine remains in the 71st spot.

Ukraine did try to follow this model: in 2016, it issued ID-cards. But Ukrainians couldn't simply exchange a paper passport for this ID — the government issued smart

Smart ID cards in Ukraine and Estonia



Source: World Bank, State Migration Service of Ukraine, e-Estonia

A person takes a photo of an 'e-Estonia' neon sign. Having electronic government services is not just convenient. On the national level, digital signature — the ability to sign official documents electronically — saves Estonia $600 million a year. (e-estonia.com)

cards only to those who lost or damaged their paper passports or to children who reached the minimum legal age to acquire a passport.

Only two years later, in the spring of 2018, Ukraine abolished paper passports for good and started issuing ID-cards. Anyone can now get one. In 2018, 1.3 million Ukrainians (out of 44 million) received smart ID-cards, according to the State Migration Service.

Estonian experience

After such a success with the e-government at the domestic level, Estonia decided to share its e-experience with other nations: it introduced electronic residency, which anyone can obtain.

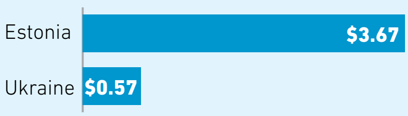
Being an e-resident means one receives an Estonian smart card and, thus, can use all the e-government services remotely, including business registration and the services of European Union banks. But the card holder won't have a residency permit or a visa and will have to pay a flat 20-percent Estonian tax rate.

Today, 55,000 people have already obtained Estonian e-residency, and 3,500 of them are Ukrainians. Only Russians and Finns slightly outpace them.

Ott Vatter, the director of the e-Residency program, told the Kyiv Post that opening its "digital borders" helps Estonia generate additional revenues and connect local companies with international ones.

According to him, e-residents have so far paid over 10 million euros to Estonia in direct taxation alone, which is "much more" than Estonian taxpayers pay for the e-Residency program. The country may be gaining even more from the business connections the program creates, the executive added.

Average internet price (price for 1 gigabyte)



Source: cable.co.uk

But e-residency doesn't only help Estonia. It is a win-win for everyone, Vatter said. It has won popularity with Ukrainians, in particular, because "Ukraine is among (the) worst affected by location-based restrictions on a wide variety of online tools and services."

For example, online payment system PayPal functions only partially in Ukraine. Local users can't receive money on their PayPal accounts. Meanwhile, U.S. businesses widely use this service: marketplaces like Amazon, eBay, Etsy, Craftsy, Ravelry, and many others request PayPal as the only payment option. Many Ukrainian freelance workers, who want to sell handmade goods through these stores, have to rely on shady intermediaries or look for other loopholes.

"These location-based restrictions are depriving an entire country's economy of additional income that could be generated from abroad," Vatter said. "This explains why Ukraine is e-residency's top market: the program helps unleash their

A person uses a smart ID card to verify herself on the internet to use government electronic services. Estonia introduced smart ID cards in 2001, and 99 percent of the population has these ID cards today. (e-estonia.com)

entrepreneurial potential."

Electronic corruption

Using e-residency, however, is a short-term solution for Ukrainians, according to Vatter. If the people here want to change the country for better — to uproot corruption and make Ukraine more democratic and wealthy — they should embrace e-government, he said.

Ukraine is working on that: apart from ID cards, the country has created a separate body that controls the development of e-services, the State e-Government Agency. It appears to be very ambitious as it publishes roadmaps of e-services it will launch and talks up how it will help fight corruption.

However, the agency may not be free from corruption itself. Investigative journalists from Channel 24 (owned by Lviv Mayor Andriy Sadoviy) found that private company Advanced Data Integration won eight tenders worth $1.3 million and held by the State e-Government Agency in 2017–2018. The firm did this through another state company, Derzhinformresurs, which carried out the auction. The founder of Advanced Data Integration used to work for the e-Government Agency.

According to the Accounting Chamber of Ukraine, the agency has misused a total of at least $2.5 million from Ukraine's state budget in the last two years. An internal audit made by the agency itself, however, detected no such violation.

Meanwhile, Ukrain's newly-elected President Volodymyr Zelenskiy has supported the idea of electronic government.

Giving a speech at tech conference iForum on May 23, he claimed that using a mobile application to request governmental services is "30 times cheaper than talking to a bureaucrat."

"You can think I am a naïve dreamer, but I do want to create 'country in the smartphone,'" he said, referring to an app through which one could get information about the government, communicate with officials, and be involved in managing the country.

Five days later, on May 28, the president launched a social program called Lift to attract people to contribute ideas and seek state jobs focused on changing Ukraine — including digitally. In the first three days, people sent 200 ideas aimed at digitizing the country.

Ease of Doing Business ranking

...
16th Estonia
...

...
71st Ukraine
...

Source: World Bank

Estonia's recipe for Ukraine

The E-Government Academy's Tallo thinks that, in order for any country to have its own e-government in the future, it has to take four steps: spread the internet everywhere, store government data digitally, connect the databases, and give people smart ID-cards.

For now, Ukraine has checked two of these boxes: it has mobile 4G internet with the world's 4th cheapest tariffs and the government bodies store data online. What's left, Tallo said, is to connect the databases and distribute IDs for online verification.

IDs are on the way, he said, but connecting databases looks like a challenge.

For example, today, when applying for a foreign passport, Ukrainians need a certificate proving they have no criminal record. So people get that document from one government body and then hand it over to another. If the databases were connected, the government bodies could communicate directly.

Solving this problem depends on the government. Ukrainian tech people have always published "nice papers" about e-government, but there has never been a concrete plan from top officials, Tallo said.

"There's clearly a question of mismanagement," he added.

"Your politicians were proud of Ukraine's IT sector 10 years ago. Quite rightly so, but they haven't been using this expertise," Tallo continued. "At the same time, if today you don't have an electronic document management system, I think you can't call yourself a modern country."

Meanwhile, Estonian tech businessman Saas, who is running his co-working venue Lift99 in Ukraine as well as Estonia, thinks Ukraine needs e-government.

"Every country needs it," he said. "Electronic government reduces corruption risks a lot. So Ukraine needs it even more."

The Kyiv Post's technology coverage is sponsored by Ciklum. The content is independent of the donors.

Located near Kyiv's Ocean Plaza mall, the Ocean Mall should open its doors during the second half of 2019, adding more retail space for the capital. Many international brands will rent out the space, including Swedish giant Ikea, which will open its first store in Ukraine. (Volodymyr Petrov)

Commercial real estate sector reaches pre-crisis level, limited by sluggish economy

BY GABRIEL HARDY-FRANÇON
HARDYFRANCON@KYIVPOST.COM

Kyiv's commercial real estate market has recovered since the EuroMaidan Revolution that ousted ex-President Viktor Yanukovych in 2014. But it struggles to reach new historic growth due to constraints of a soft economy.

The four major commercial markets — office, retail, hotels and warehouse — all have managed to stabilize. Vacancy rates are at healthy levels, prime rents are within European averages, and construction projects are, for the most part, moving forward.

'Unbalanced' office market

According to JLL, a leading firm in real estate and investment management, the

A lucrative investment

Which residential property in the capital is the most lucrative in terms of investment and when is the best time to invest

Purchasing residential property to grow your own savings has long been a popular global trend. In Ukraine, the primary (new build) residential property market has been the most attractive option in terms of liquidity, as apartments in older buildings generally come with problems (from deterioration of utilities to poor quality infrastructure).

There are approximately 280 residential complexes being built in Kyiv now. The categories of housing offered are as follows: 15% economy class, 45% comfort class, 30% business class, and 10% elite class. As we can see, comfort and business class represent the biggest portion of Kyiv real estate.

Price ranges for housing at the stage of construction are*:

Comfort class: from \$376 to \$1,610 per m^2;

Business class: from \$695 to \$2,455 per m^2;

Elite class: from 1,492 to 4,729 per m^2.

(based on the interbank exchange rate as of June 2019)

The distribution of apartments in new housing projects in Kyiv by classes of real estate is not uniform with location playing a significant role. According to recent surveys, it is practically impossible to find expensive residential property on the left bank of the Dnipro River: it accounts for around 1% of offers in Darnytskiy, Desnyanskiy and Svyatoshynskiy districts, and not more than 9% in Dniprovskiy district. The situation is most favorable in Shevchenkivskiy (25%), Holosiyivskiy and Pecherskiy (24%) districts, although one should keep in mind that the prices are also higher there.

Montreal House offers many advantages. The location is near St. Nicolas Roman Catholic Cathedral and Olimpiyskiy National Sports Complex, and it is surrounded by business centers, top restaurants and shops. In addition, the complex fully corresponds to the status of business class property – a guarded territory, underground parking lot, 24-hour video surveillance, access control, lobby and open terraces on the top floors. Montreal House Residential Complex offers different types of apartments and penthouses. What makes it even more attractive for investment is the fact that the residential complex is at the initial stage of construction.

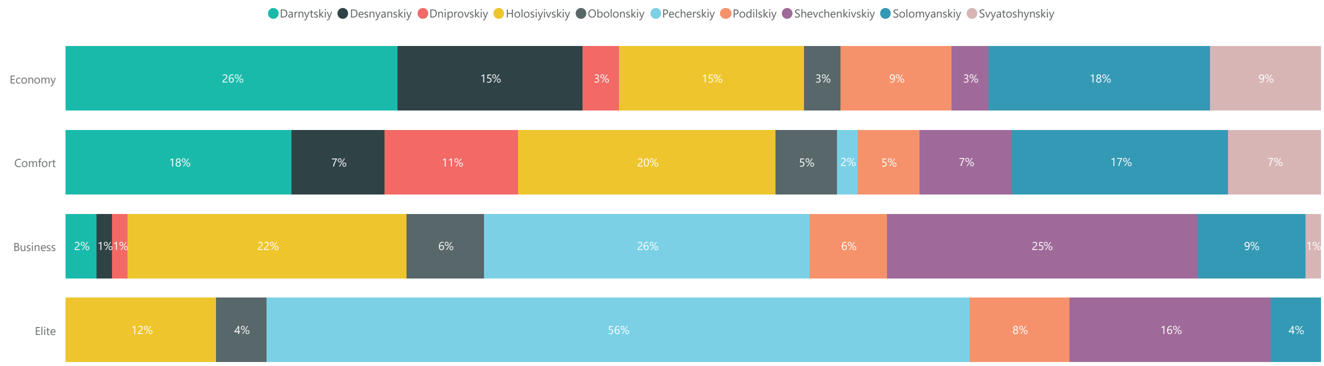
Purchasing an apartment at the early stages of construction is most lucrative for a potential investor for a number of reasons:

1. **Great choice**
   At the start of sales, there is the greatest choice of the apartments of different sizes and with different views. The later you make the purchase, the poorer choice you will have.

2. **Payment by installments**
   Investment at the early stage of construction allows to pay in installments for a lengthy period. In some cases, like at Montreal Residential Complex, it will be with zero interest. This decision will protect investors in their relations with the developer and also save them from mortgage obligations to the banks.

3. **Price and return of investment**
   The price of a square meter of residential property largely depends on the time left until the residential complex is commissioned. The most beneficial price offer will be at the initial stage of the construction.

Distribution of the number of residential complexes by classes of real estate

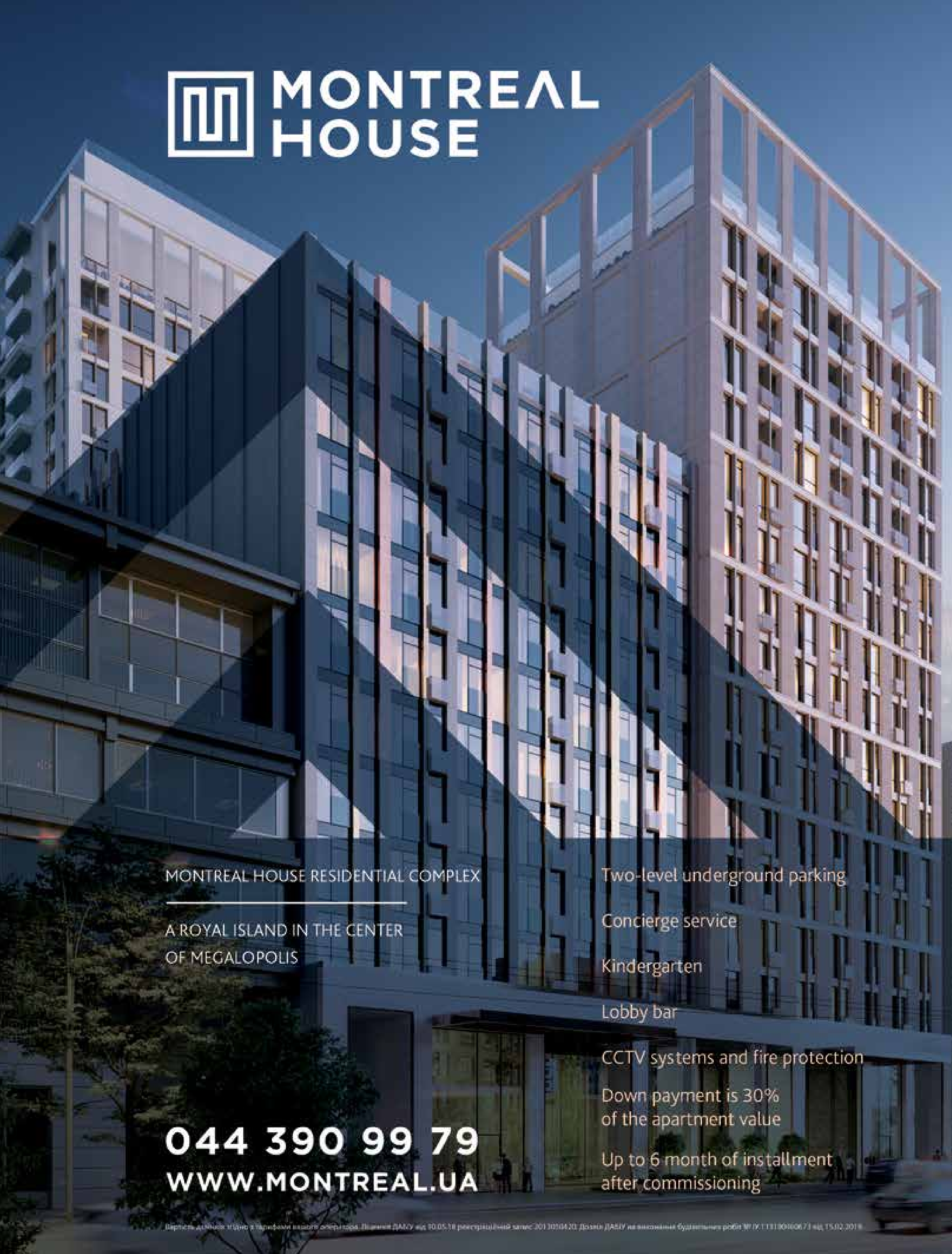


From the point of view of investment, experts recommend to consider more expensive residential properties in central districts. Business class is at the moment the best choice. The number of offers in business class is on the rise, but the growth potential is very limited by the size of the city center. It is also important to keep in mind that residential property in the center continuously competes with commercial property. It is always possible to sell an apartment in the city center, because the demand for such property will always exceed the number of offers.

Genuinely interesting, including pricewise, offers can be found on the district boundaries. Montreal House Residential Complex project at 83 Antonovycha St. is rather indicative in this sense, according to our assessments. It is actually located in Pechersk, but due to the curvature of the administrative boundary, the residential complex will be legally situated in the Holosiyivskiy District.

Having studied new business class residential buildings within the range of 1 kilometer from Montreal Residential Complex, we can see that the price of a square meter increased 80% on average from the beginning of the construction until commissioning (2-3 years). If the investor wishes to resell the apartment a year after the building was commissioned, without spending the money for refurbishing, their profit will increase up to 95% on average. In this case, however, the owner needs to take into account the expenses for the utility bills, which they will have to pay as soon as they get the keys to the apartment.

As of today, real estate is one of the most reliable and lucrative types of investment. Interest rates for deposits in foreign currency are incomparably lower. Meanwhile, investment in the residential property in the city center at the early stage of construction will allow you not only return your money, but also substantially increase your capital.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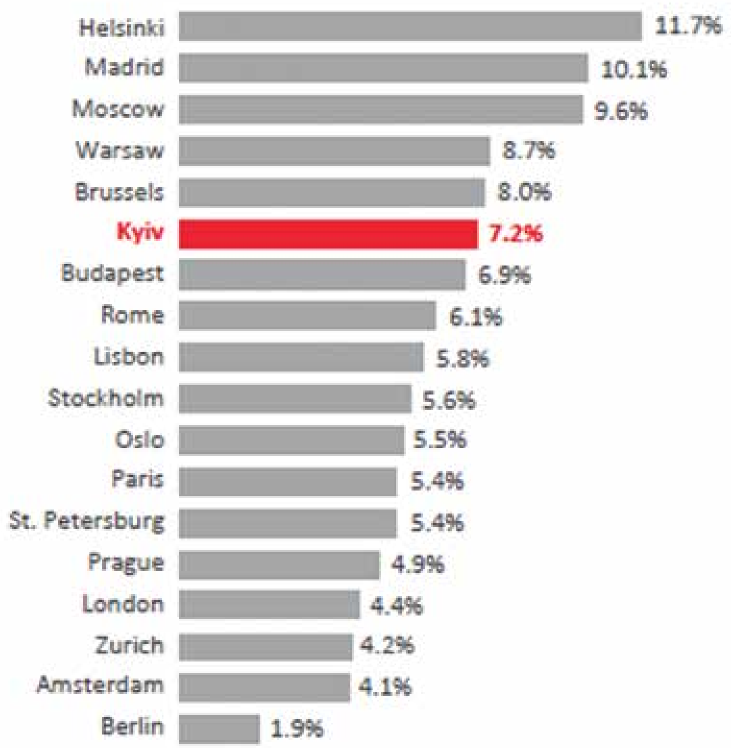
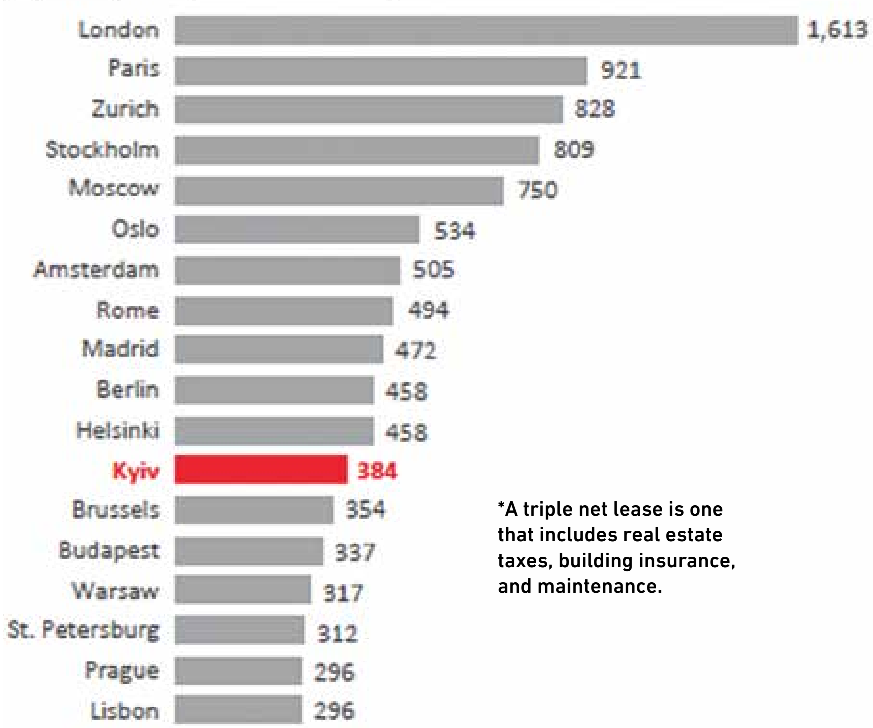
Vacancy rate: European comparison



Rental rate: European comparison

dollars / square meters / year (triple net)*



***A triple net lease is one that includes real estate taxes, building insurance, and maintenance.**

office vacancy rate in the capital has decreased during the past three years to 7.6 percent in the last quarter of 2018, down from 27.9 percent in the fourth quarter of 2014.

Yevgenia Rozumna, director of Colliers International's office department in Kyiv, says that this figure is too low.

"The low vacancy rate is not always an indicator of a healthy economy. Our market is still developing in comparison to Western markets, which means that there always are shortages of office space," she told the Kyiv Post.

Rozumna and her peers say that this figure demonstrations Kyiv's "unbalanced market." For a market to be balanced, the rate must revolve around 10 percent, the experts say.

"This low vacancy rate is more of an indicator of an underdeveloped market," Rozumna said.

"No significantly big projects were delivered for the last four to five years," she said. "90,000 square meters will be delivered in 2019 if everything goes according to plan, but it isn't sufficient. In 2014 for instance, (only) 150,000 square meters were delivered," she added.

This creates difficulties for big companies such as IT firms that wish to gather all of their departments under the same roof but are forced instead to scatter them around the city.

"Several massive sites are in the early stages of construction, but it will take another year-and-a-half or more to deliver them to the market," Rozumna said.

With a vacancy rate of 7.2 percent, Kyiv's market is not as balanced as neighboring capitals, according to JLL. For example, Warsaw's vacancy rate is 8.7 and Moscow's is 9.6 percent. However, it is higher than in Budapest (7.3 percent) and Prague (5.1 percent).

According to JLL, Kyiv stood as one of the most expensive cities for prime rents in Eastern Europe with an average of $360 per square meters during the fourth quarter of

2018. Kyiv's average prime rent has increased slightly for the first quarter of 2019, up to $384, whereas Russia's capital remains stable.

In 2018, 35 percent of the space acquired was taken by the IT industry followed by the financial industry (23 percent). The wholesale-retail as well as manufacturing industries come in respectively third and fourth with 15 percent and 12 percent. In 2019 so far, only the IT industry has increased demand, reaching 55 percent of the overall acquired space.

Altogether, currently there are five major business centers scheduled for commissioning in 2019.

Retail real estate

Kyiv's retail real estate is showing more positive signs compared to the office space. Some major retail companies have decided to come to Ukraine in 2018 such as H&M, Polo Ralph Lauren, Ted Baker, Karl Lagerfeld and Zara Home.

French sporting goods retailer Decathlon has just arrived in April and additional iconic brands are scheduled to enter the Ukrainian retail market by the end of 2019 or soon after such as: Swedish giant Ikea, Steve Madden, the Kooples and North Face.

All these new players have created more demand for retail space and considerably lowered the vacancy rate since the last quarter of 2016, going from 12.1 percent to 4.2 percent during the first quarter of 2019.

According to Igor Zabolotskyi, a retail expert at Colliers International, a low vacancy rate is the sign of an economy that is on the right path.

"In one or two years, lots of new projects are coming, which will greatly influence the market," he added.

In terms of prime rents, Kyiv's rate has grown 11 percent from $85 per square meter in the first quarter of 2018 to $95 during the first quarter of 2019.

Hotels

According to a Ukrainian Trade Guild report from 2016, the hotel occupancy rate fell from 53.2 percent in 2012 to 30.4 percent in 2014. The EuroMaidan Revolution had a major impact on the attractiveness of the city as the media showed Ukraine as an unsafe — and therefore unattractive — location.

Tatiana Veller, the head of JLL's hotels and hospitality department, confirmed that Ukraine's capital took a major hit in 2014, but added that Kyiv's hotel occupancy rate rarely goes over 55 percent even during non-crisis periods.

But five years later, the rate now revolves around 50 percent for five-stars hotels and between 55–65 percent for four and three-stars hotels, according to Colliers International.

In terms of prices, the average rack rate (highest rate without discount per room) for three-star hotels was $54 in 2015 and stood at $61 toward the end of 2018. Four-star hotels went from $130 in 2015

Crowds walk on the new pedestrian bridge in Kyiv during the opening of the bridge on May 25, 2019. (Oleg Petrasiuk)

down to $120 in 2016, and up to $143 at the end of 2018.

Veller highlighted the good job done so far by the city administration "to attract large scale international events that promote the city."

The UEFA Champions League Final hosted in Kyiv on May 26, 2018 is a prime example. According to official city estimates, 300,000 football fans visited the city and all hotels reached 100 percent occupancy.

"This is very good because it helps show the world community that the city is hospitable… and in general making the image of the city better," she added.

Four hotels entered the market in 2018: Aloft, Ibis Kyiv Railway Station, the Favor Park Hotel and Bursa.

"A hotel is a long-term investment," Teller said. "When we see that new projects are being unfrozen, completed and put into operation… it means that investors are confident enough in the future of the economy and the stability of the country… so they are ready to risk a 10-to-15-year long investment."

Warehouse market

According to a 2018 report by CBRE Ukraine, a commercial real estate and investment firm, the past year has shown improvements for the country's warehouse market since 2014.

2018 was a good year due to the take-up volume increase of 31 percent up to 157,000 square meters in comparison to 2017. The market was mainly dominated by the wholesale and retail trade sector that took up 59 percent of the total share volume.

The vacancy has recovered since 2014, going from around 16 percent to 3.7 percent at the beginning of 2019. Prime rent today is at $5.1 per square meters, down from $6.3 in 2013.

But Sergiy Sergiyenko, managing partner at CBRE Ukraine, says there's still plenty room for growth.

"The warehouse market looks healthier than it used to, but there is no financial market that can give some impetus to development," he said.

According to him, the main issue is the absence of an effective lending market in Ukraine.

"You cannot take a loan for commercial real estate development… the cost of funds is so high and lending limits are so low that commercial real estate just doesn't fit the bill… The only way (to develop commercial real estate today) is through the equity that has questionable origins," he said.

"Nobody wants to commit to develop in this country; if internationals wish to come they just buy something already standing, otherwise development risks are way too high."

Only one block from Kyiv's main Kreshchatyk Street, buildings that were once architectural gems are clustered on Pushkinska Street. A combination of poor urban planning, no property taxes and real estate speculation has left central Kyiv with dozens of abandoned and decaying buildings that once stood proud with ornate charm. (Kostyantyn Chernichkin)

Ukraine could do much more to preserve its architectural history, heritage

BY GABRIEL HARDY-FRANÇON
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Kyiv's historical and architectural heritage is at risk of disappearing, and with it the authenticity of the city.

Allocations of insufficient funds, a centralized, opaque system and a dysfunctional legal framework illustrate how far the country is from its European neighbors. Ukraine is endangering at best — and losing at worst — landmark architecture throughout the Ukrainian capital as well as around the country. It will take serious introspection and bold reforms in order to put the country on the safeguarding track.

Low budget

When it comes to state policies, budgets often reflect lawmakers' ambitions. As it happens, Ukraine allocates considerably less funds to its Ministry of Culture than European countries — even those that have less incentives to invest money for preservation.

The Ukrainian state has allocated Hr 6.9 billion ($234 million) to the Ministry of Culture for the 2019 fiscal year. Out of that, only Hr 1.2 billion ($41 million) were allocated to the preservation of historical and architectural projects. In comparison, France has allocated slightly above one billion euros for 2019 to the preservation of its historical heritage out of the 10 billion euros given to the Ministry of Culture. The Czech Republic — a country with a population of 10.6 million people — has allocated 13.5 billion korunas ($608 million) to the Ministry of Culture for 2019.

One could argue that countries like France or the Czech Republic have greater incentive to provide more funding for preserving their historic architecture. In 2017, for example, France alone attracted 87 million visitors whereas Czech Republic had 21 million.

But even when looking at neighboring Romania, the country's Ministry of Culture allocated one billion euros in 2018 — five times more than in Ukraine for 2019 — whereas the number of foreign tourists in Romania in 2018 reached only 2.8 million, compared to 14.2 million in Ukraine.

Municipal vs state power

Apart from the funding, Ukraine does not have a strong system that would protect Ukraine's historical heritage.

Kateryna Gonchareva, a journalist who specializes in historical and architectural heritage preservation in Ukraine, told the Kyiv Post how the centralized nature of the decision-making process inherited from Soviet Union does not even give local authorities a say in constructions that alter the historical parts of their own cities.

"Anything that happens in historical centers of any Ukrainian city is being dealt with by the Ministry of Culture... just like in Soviet times, every decision is made at the center" said Gonchareva.

France has a more decentralized system, similar to the rest of the European Union, where the responsibility of signing-off construction permits lies primarily upon local authorities.

Historic preservation expert Olga Rutkovska, a member of Ukraine's National Committee of International Council of Monuments and Sites (ICOMOS), agrees with Gonchareva. In Ukraine, the Ministry of Culture is solely responsible for making decisions regarding historical heritage, which is opposite to European nations where the responsibility is shared between national and local authorities, and where members of society also have a say.

In Paris or Prague, both local and national authorities have to work together.

According to Rutkovska, construction projects altering historical buildings outside of Ukraine's capital are being signed-off in Kyiv without consulting local authorities, and sometimes without the local mayor being notified.

For locals to complain, they must travel to the capital where decisions are made, causing more obstacles to oppose a construction permit for anyone not residing in Kyiv, according to Gonchareva.

Opaque system

In Paris, construction permits are published online for everyone to see, whereas in Kyiv, the lack of effective transparency is problematic.

Karine Mourot, a representative from Paris Historique, an association that advocates for the safeguard of Parisian historical architecture, says that the problem in Paris

The Eastern Orthodox monastery Kyiv-Pechersk Lavra is prey to several pedestrian bridge projects that would likely alter the UNESCO world heritage site. (Volodymyr Petrov)

is that there are not enough people available to check all permits. But in Kyiv, there is no such list that is easily publicly available.

A list of permits is said to exist in Ukraine somewhere on the Ministry of Culture's website portal, but the system's poor design makes it difficult and dissuasive to access, according to Vitaly Beletskiy, a member of the General Council of the Organization for the Protection of Ukrainian Historical and Cultural Monuments.

The Kyiv Post compared the accessibility of the list of construction permits for Paris and Kyiv. A simple google search is enough to illustrate the gap between the two cities.

Whereas the research for Kyiv results in a page full of links to various real estate companies, the one for Paris leads directly to the city's website, on which one may find a live map of the city.

The map even differentiates between the constructions projects that have been submitted, approved or refused, with a detailed description for each.

Ownership vs. preservation

Frequently in Ukraine, private owners buy historical buildings to let them decay and fall apart as they are not allowed to destroy them by law. Once the building is destroyed, the empty land plot often becomes a new sight of a commercial project like a business center or a mall.

So even though owners are not allowed to demolish the historical buildings, they are not obligated to preserve them. As a result, buildings often deteriorate to a point of no-return and destruction becomes inevitable — if only for safety measures.

Is this issue only in Ukraine? No, it is not.

France and the Czech Republic encounter the same problem, according to expert and head of the Club for the Old Prague, Richard Biegel. Even though the demolition of buildings that are categorized as historical monuments is forbidden, nothing compels owners to invest their money into restoration. Biegel confessed that "Prague's architecture is heavily influenced by money," too.

Moreover, in Ukraine "the public registry of property rights isn't synchronized with the list of historic buildings," Rutkovska said during an interview with the Kyiv Post 2018. This makes the tracking of construction projects even more difficult.

Legal framework

Laws pertaining to the preservation of historical heritage do exist in Ukraine, but there is no authoritative body that holds to account those who violate them, according to Beletskiy.

This illustrates a major discrepancy in regard to European countries where if a construction permit is refused, it is impossible to circumvent the decision made by authorities — to the risk of facing serious judicial pursuits.

In Czech Republic for instance, Monika Rutland, a Czech lawyer who specializes in urbanization in Prague, told the Kyiv Post that a construction that has been realized without the consent of the city, in the historical center of Prague, could be destroyed or required to be returned to its original state if alterations of a historical building were made — all at the violator's expense.

When a construction involves a building labeled as historical in Czech Republic, there needs to be an approval by the Commission of Monuments in addition to the local district's approval, which is very difficult to obtain, according to Rutland.

"It is like a permit within a permit," she said.

Historical sites in peril

Kyiv's iconic landscape represented by the multiple hills that surround the Dnipro river are currently endangered by reckless constructions that threaten to modify the city's scenery.

In Prague, such reckless constructions would be difficult to build considering the whole process one must go through before launching a major project.

The Czech law imposes three pre-construction phases. First, one needs to envisage its project in accordance to what is called "the city's master plan," as Rutland explained. The city is essentially divided in residential, commercial and industrial zones.

"It is extremely difficult to change the masterplan," Rutland said.

"If you buy land in the wrong zone, it can take years to change... if you buy land in the right zone, then you need a zoning permit... the local construction office will ask for the exact location, the shape, the height and also the (purpose) — how much of it will be commercial or residential."

For instance, several pedestrian bridges are scheduled to go around Kyiv-Pechersk Lavra, a UNESCO protected sight, within what is considered as its immediate vicinity — or buffer zone — which will unavoidably alter the landmark's beauty.

This is where Kyiv differs from cities like Prague.

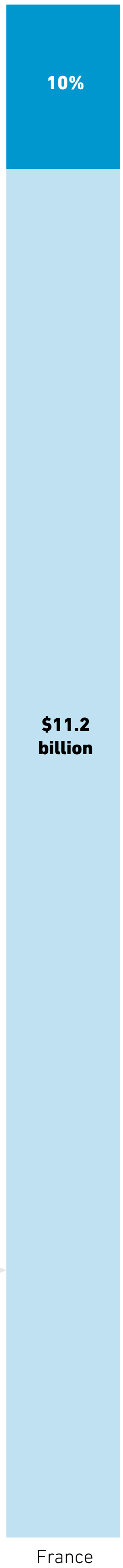
"Anything that happens in historical centers of any Ukrainian city is being dealt with by the Ministry of Culture... just like in Soviet times, every decision is made at the center"

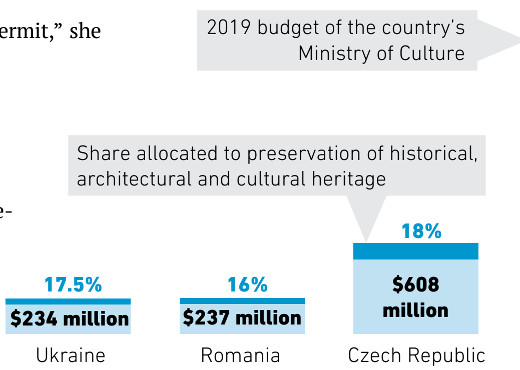
In the Czech capital, "you are not allowed to place air conditioning outside, on the walls or in the yard... it is totally forbidden," Rutland said.

But, according to Biegel, this is not only a legal issue, it is also an education problem.

In a previous Kyiv Post interview, Beletskiy said: "The problem is that not only (business people) don't see the value of historic architecture, neither do regular citizens."

Many other European nations spend much more on historical preservation than Ukraine





The Ukrainian Ministry of Culture's budget mirrors that of its counterpart in Romania – a country that is less than half of Ukraine's size and has 23 million fewer people. Despite that, Ukraine spends only slightly more on historical preservation.

Business Associations

Business Association	Year founded	Number of members	CEO	Contact info
U.S.-Ukraine Business Council	1995	245	Morgan Williams	www.usubc.org 4-A Baseyna St. Mandarin Plaza, 8th floor Kyiv, 01004, Ukraine Tel: +38 050 358 2681 e-mail: ldudnyk@usubc.org mwilliams@usubc.org
European Business Association	1999	985	Anna Derevyanko	www.eba.com.ua Head Office 1-A Andriyivsky Uzviz, 1st floor Kyiv, 04070, Ukraine Tel: +38 044 496 06 01 Fax: +38 044 496 06 02 e-mail: office@eba.com.ua
American Chamber of Commerce	1992	600+	Andy Hunder	www.chamber.ua Horizon Park Business Center 12 Amosova St., 15th Floor Kyiv, 03038, Ukraine Tel: +38 044 490 58 00 Fax: +38 044 490 58 01 e-mail: chamber@chamber.ua
Ukrainian-Austrian Association	2017	30	Alfred F. Praus	ukrainian-austrian-association.com 1-3 Kyrylivska, 04080 Kyiv e-mail: info@ukrainian-austrian-association.com
The International Chamber of Commerce	1998	96	Volodymyr Schelkunov	www.iccua.org 19-B Reytarska St. Kyiv, 01030, Ukraine Tel: +380 44 234 42 73 e-mail: office@iccua.org
Ukrainian Chamber of Commerce & Industry	1992	8,000+	Gennadiy Chyzhykov	www.ucci.org.ua 33 Velyka Zhytomyrska St. Kyiv, 01601, Ukraine Tel: +380 44 584 28 24 e-mail: ucci@ucci.org.ua

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Camera di Commercio Italiana per l'Ucraina ("CCIPU")	2006	800	Maurizio Carnevale	www.ccipu.org 52 Dehtiarivska St. Kyiv, 04112, Ukraine Tel: +38 044 225 33 25 e-mail: info.ua@ccipu.org
British Ukrainian Chamber of Commerce ("BUCC")	1997	200	Bate C. Toms	www.bucc.com.ua 18/1 Prorizna St., Suite 7 Kyiv, 01001 Ukraine Tel: +38 044 490 60 00 e-mail: buccukraine@bucc.com.ua
Canada-Ukraine Chamber of Commerce	1992	121	Zenon Potichny	www.cucc.ca 6 Muzeyny Ln. Kyiv, 01001, Ukraine Tel: +380 44 495 85 51 Fax: +380 44 495 85 45 e-mail: ukraine@cucc.ca
Polish-Ukrainian Chamber of Commerce	1992	200	Jacek Piechota, Oleksandr Shlapak	www.pol-ukr.com 4/10 Khoryva St. Kyiv, 04071, Ukraine Tel: + 380 44 221 48 78 +380 44 221 48 98; e-mail: kyiv@pol-ukr.com e-mail: info.ukraine@pol-ukr.com
Danish Business Association	2010	55	Lars Vestbjerg	www.dba-ukraine.com Tel: +380 67 674 68 66 e-mail: lars@vestbjerg.com 48A Gorodnytska St. Lviv, 79019, Ukraine
Deutsch-Ukrainische Industrie-und Handelskammer	2015	155	Alexander Markus	www.ukraine.ahk.de +38 044 377 52 44, 044 377 52 00 e-mail: info@ukraine.ahk.de wul. Puschkinska 34, 01004 Kiew, Ukraine
French Chamber of Commerce	1994	123	Jean-Paul Piotrowski	www.ccifu.com.ua 10 Lypynskoho St., off. 10 Kyiv, 01030, Ukraine Tel: +38 044 235 36 64 e-mail: ccifu@ccifu.com.ua
Norwegian Ukrainian Chamber of Commerce	2008	119	Kjartan Pedersen	www.nucc.no P.O. Box 634 Sentrum Oslo, 0166, Norway Tel: +47 98410602 Tel: +38 067 406 28 74 e-mail: post@nucc.no

Business Association	Year founded	Number of members	CEO	Contact info
Ukrainian Agribusiness Club	2007	100+	Alex Lissitsa	www.ucab.ua/en 146 Zhylianska St., 3rd floor Kyiv, 01032, Ukraine Tel: +380 44 236 20 97 Fax: +380 44 236 20 79 e-mail: info@ucab.ua
Association of International Economic Cooperation	2014	N/A	Yuriy Kogut	www.euassistance.org 03115, 121-B Peremohy Ave., off. 224 Tel: +38 044 454 07 90 e-mail: contact@euassistance.org e-mail: office@sidcon.com.ua
European Economic Chamber of Trade, Commerce and Industry	2010	25	Stanislav Grygorskyi	www.eeig.com.ua 14-A Dilova St. Kyiv, 03150, Ukraine Tel: +38 (044) 200-10-40 e-mail: info@eeig.com.ua
Chinese Commerce Association	2015	68	Wei Xing	www.cca.com.ua 10 Stritenska St. Kyiv, 01025, Ukraine Tel: +38 073 154 07 72 e-mail: info@cca.com.ua
International Turkish Ukrainian Businessmen Association	2004	200+	Burak Pehlivan	www.tuid.org.ua 112-A Saksahanskoho St., off. 4 Kyiv, 01032, Ukraine Tel: +38 044 234 30 26 +38 044 235 28 49 e-mail: info@tuid.org.ua
Swedish Business Association	2017	14	Per Magnuson Bohdan Senchuk	www.sba.org.ua +38 067 249 20 43 Malopidvalna street 10 office 2 Email: info@sba.org.ua
Union of Industrialists and Businessmen of Turkey and Ukraine «TUSIB»	2012	50+	Zafer Osbay	www.tusib.org Ukraine, 03038, Kyiv 2d, Protasiv Yar str., of.4 Tel.: +38 044 200 28 21 Fax: +38 044 200 28 22 e-mail: office@tusib.org
Ukrainian Business Association	2015	65	Oleksii Chuiev Executive Director	www.uba.in.ua Tel.: +38 067 700 96 99 Tel.: +38 093 227 52 97 Kyiv, 25 Kioto St. info@uba.in.ua

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Commercial Councils Of Embassies				
Trade Department at the Danish Embassy in Kyiv	1992	N/a	Tetyana Kobchenko Lesya Logvinenko - Export advisors	www.ukraine.um.dk e-mail: tetkob@um.dk Tel: +38 044 200 12 68 Tel: +38 044 200 12 65 Ukraine, 01901, Kyiv 8 Gogolivska str. e-mail: leslog@um.dk
ADVANTAGE AUSTRIA Commercial Counselor's office of the Austrian Embassy	1993	N/a	Gabriele Haselsberger Commercial Counsellor	www.advantageaustria.org Posolstvo Avstrii - Torhovyi 3-5 Kruglouniversytetska St. Off. 31, 11th floor Kyiv, 01024, Ukraine Tel: +380 44 595 51 62 e-mail: kyiv@advantageaustria.org
Business France, merged UBIFRANCE and the Invest in France Agency	2015	n/a	Alexis Struve Director	www.businessfrance.fr www.youbuyfrance.com.ua The Embassy of France in Ukraine 39 Reitarska St., Kyiv, Ukraine Tel: +38 044 590 22 19
Ukrainian Business Support Agencies				
Kyiv Investment Agency	2014		Julia Tur	www.investinkyiv.org 11-A Tereschenkivska St. Kyiv, 01004, Ukraine Tel: +38 044 289 53 51 e-mail: welcome@investinkyiv.org
Business Ombudsman Council	2015		Algirdas Semeta	www.boi.org.ua Podil Plaza Business Centre 30 Spaska St., Kyiv, 04070, Ukraine Tel: +38 044 237 74 01 e-mail: info@boi.org.ua
UkraineInvest	2017		Daniel Bilak Director	www.ukraineinvest.com Ukraine Investment Promotion Office Cabinet of Ministers of Ukraine 12/2 Hrushevskoho St., off. 148 Kyiv, 01008, Ukraine Tel: +38 044 256 78 32 e-mail: info@ukraineinvest.com
Office of the National Investment Council	2016		Yuliya Kovaliv Head	Parus Business Centre 2 Mechnykova St. Kyiv, 01023, Ukraine Tel: +38 044 498 7775 e-mail: office@nicouncil.org.ua


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agency
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Including for 2018, which is ₴200 million
During 2018, as a result of successful business
cases, VAT amounts were returned to the current
business account in the amount of ₴50 million
During 2017-2018, illegally locked VAT
was returned to the current business
account in the amount of ₴370 million
26 criminal cases were closed
against corporate executives
on tax evasion totaling ₴1018 million
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