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SEARCH FOR ECONOMIC BREAKTHROUGH

AGRICULTURE
BANKING
PHARMACEUTICALS
LEGAL SERVICES
TELECOMS/IT
TAXATION
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INTERVIEWS with: Oleksandr Danyliuk, Hugues Mingarelli, Steven Fisher, Daniel Bilak, Yulia Kovaliv

OPINIONS from: Francis Malige, Anders Aslund, Yakiv Smolii, Diane Francis


ADMIT IT,
YOU DESIRE
A SKYLINE RESIDENCE...

Kyiv Post Doing Business

Brian Bonner,
Kyiv Post
Chief Editor

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Ukraine is on the verge of an investment breakthrough that everyone has long hoped for, including the Kyiv Post. Our commercially and editorially independent newspaper, in business since 1995, would benefit tremendously from a more prosperous nation. But still, the breakthrough isn't happening yet. Despite all the positive changes that have taken place since the EuroMaidan Revolution drove corrupt President Viktor Yanukovych from power in 2014, investors are still not impressed. What matters to them is how Ukraine competes against other nations. On that score, the numbers and sentiment show that Ukraine still comes up short for investors seeking high profits and low risks.

Let's combine some of the positives & negatives here:

positives	negatives
Ukraine has a free-trade agreement with the European Union.	Ukraine still has not aligned its laws and standards to take full advantage this deal.
Ukrainians are highly educated, industrious workers with low wages.	Millions of these people are working abroad. Low wages for those who stay in Ukraine do not make them good customers.
Ukraine is free, has new anti-corruption institutions and visa-free travel with Europe.	The freedom is chaotic. The anti-corruption institutions aren't strong enough to establish rule of law or dislodge the oligarchy and corrupt institutions. Visa-free travel may accelerate the brain drain if the economy doesn't improve.
Ukraine's army and volunteers have heroically fought off the Russian military since 2014 and united the nation in finally leaving the Kremlin's orbit.	Russia's war deters Western integration and investment, saps resources and has dismembered the nation.

This is the state of modern Ukraine. Every rose has its thorns. The optimistic view is that the positives are here to stay while the negatives can be overcome with courage, talent, hard work and, for elected leaders, political will to defeat corrupt special interests. The battle is still on. The outcome is not yet certain.

Alyona Nevmerzhytska,
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We are delighted to present our third annual Kyiv Post Doing Business magazine. This project is our most important publication of the year and we have worked tirelessly to improve the magazine. We have opinions, interviews with key people and coverage of the following spheres of Ukraine's economy – Agriculture, Automotive, Banking, Energy, Infrastructure, Legal Services, Pharmaceuticals, Retail, Real Estate, Taxation, Telecoms/IT. We think it's a good mix to reflect the current state of Ukraine's economy. We distribute Doing Business through premium delivery points and international conferences both in Ukraine and abroad. We are very grateful to our partners – CITI, EY, Farmak, Kyivstar, METRO, S&P, Winner Construction, VKP and other advertisers for supporting the publication. I hope you enjoy this issue and please let us know if there are other topics you would like covered next year.

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Ukraine is on the verge of an economic breakthrough if it can battle corruption, establish rule of law and take full advantage of new trade agreements.

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A combine harvests canola on July 24 in Kyiv Oblast. (Oleg Petrasiuk)

What Ukraine needs to achieve breakthrough

FRANCIS MALIGE

I was recently in New York to speak to a wealthy investor who has made millions in eastern Europe and invests millions more for others.

Over dinner at his club, I duly enumerated all of the reasons why Ukraine is attractive: huge agricultural potential, world-class skills in information technology, and excellent manufacturing competitiveness, to name just a few.

His response was positive: "Investing in Ukraine is the right thing to do, for the world's sake."

I also explained that over the past three years the country has successfully reformed its banking and energy sectors, achieved macroeconomic stability, implemented a transparent system of public procurement, and eliminated many permits and licencss.

I insisted that this has done much to fight corruption, by reducing the opportunities for graft.

Cutting the number of intermediaries between Gazprom and Naftogaz and aligning energy prices to market levels has prevented the evaporation of considerable cash flows. I quoted a senior executive of a large pharmaceutical company, who recently noted that tenders are now transparent and clean.

While dessert was served, the investor commented: "What I really need to find is an investment that does not require me to spend half my time in Ukraine, and that does not entail outsized risks for the return I can get. Above all, I need to know that my property rights will be protected. There are pretty good returns, too, in countries that are much less risky, so I need to choose wisely."

Global investors do indeed have a choice.

International Monetary Fund projects public debt to drop below 70 percent of GDP by 2021

But does it matter that they choose Ukraine?

It does, because the country needs investment: not only the money, but also the productivity, technology and management practices that real investors bring.

Unfortunately Ukraine has not been the first choice often enough.

Last year, Georgia received five times more money than Ukraine as a percentage of gross domestic product, and a comparable amount in dollars — $1.6 billion compared with $2.2 billion for Ukraine.

Needs to catch up

The current pace of growth in Ukraine remains between 2 and 3 percent. Catching up with Georgia will require sustained periods of growth in the 5 to 10 percent range and foreign investment is the key to that surge.

If it sounds unfair, in light of the country's achievements, it is.

The problem is that Ukraine has not made enough progress in areas that I would call "hurdle factors," namely, those factors — such as the rule of law, respect for property rights, currency controls — which are so important that if a country does not get them right, investors will not even look at all the wonderful things that the country has to offer.

To take a metaphor, a beautiful house can be filled with art and furniture, have wonderful views, a garden designed by a famous landscaper, and great architecture, but if it does not have running water or electricity, very few buyers will turn up to even look at it.

So, what is needed to break out of this situation?

Ex-Bank Mikhailivsky clients on July 6 seek reimbursement by the state of their lost deposits in the failed bank. (UNIAN)

End catch-and-release

First, it is important to enforce consequences. The prosecution of the powerful is often referred to as "sports fishing": you catch the big fish, photograph it, identify it… then release it. This approach must end. The country's leadership was courageous and wise to create an anti-corruption prosecutor rather than to wait for the general prosecutor's office to reform itself. Ukraine now needs more of the same wisdom. The establishment of an anti-corruption court is overdue. The liability of the shareholders of failed banks must be enforced to the fullest extent. Financial crime units must be reformed and disarmed. There is no need for a tax inspector to carry anything more lethal than a laptop. But they must be really good at using that particular weapon.

Protect achievements

Second, it is important to protect the achievements of the past few years. These include: strict bank supervision as a precondition to the resumption of lending; and the continuation and expansion of improvements in Naftogaz, a bellwether that is often the opening topic of foreign investors when I raise the subject of Ukraine.

88% of 99

member respondents to a 2016 American Chamber of Commerce in Ukraine survey say they directly faced corruption while doing business

Right reforms

Third, critical reforms are planned for 2017: land reform, pension reform, state enterprise reform, and privatisation. It is essential to get these reforms right. State enterprises are among the largest remaining sources of graft. Land reform, if done correctly, could unlock massive funding for agriculture. Privatisation is a great way to put the country on investors' radar screens.

End bottlenecks

Lastly, some of the major bottlenecks to investment must be remedied. Fees and bureaucracy make it twice as costly and many times more complicated to unload a ship in Odesa as in Constanta or Rotterdam. We need better port management. The government and the European Bank of Reconstruction and Development are finalizing a concession law in this regard. Every rail transport operator I speak to has an interest in Ukraine; all of them ask when the traction segment of the rail market will be opened up. This matters because logistics is one of the largest barriers to growth in agriculture and exports. Ukrzalyznytsia must be reformed, following in the footsteps of Naftogaz.

These reforms are necessary. They can drive significant investment and put the country at the centre of investor interest. They are consistent with the commitments of the country and they can be achieved.

The EBRD, the largest investor in Ukraine, is engaged in many of these important initiatives, and we will work with investors and the government to make them successful. It is time to make the world see beyond "Ukraine fatigue."

Francis Malige is the managing director for Eastern Europe and the Caucasus for the European Bank of Reconstruction and Development. He has been based in Kyiv since his appointment in 2014 and is responsible for leading the bank's operations and policy initiatives in Ukraine, Belarus, Moldova, Armenia, Azerbaijan and Georgia. A French national, Malige joined the EBRD in February 2010 as a director in the financial institutions team. Before joining the EBRD, he was managing director for corporate development at BNP Paribas, focusing on bank acquisitions. Malige is a graduate of ESCP Europe, a French business school. In addition to his native French, he is fluent in German, Italian and English.

Ukraine ready for economic liftoff soon

A worker walks near a drilling rig owned by Ukraine's largest state-owned gas producer company, Ukrgazvydobuvannya, on May 3 in Poltava oblast. (Kostyantyn Chernichkin)

ANDERS ASLUND

Ukraine is at the beginning of its economic recovery. It has gone through a severe economic crisis but undertaken the necessary adjustments. After two years of severe output contraction in 2014–15, the economy saw a hesitant recover of 2.3 percent last year. The standard forecasts suggest growth will continue at 2–3 percent a year. That is unlikely — a higher growth rate seems more probable.

While Ukraine's recovery remains fragile, the preconditions look pretty good, especially the macroeconomic fundamentals. Two key conditions are the budget deficit and the current account deficit, which Ukraine has reduced to about 3 percent of gross domestic product.

Inflation has fallen to 12 percent and is set to decline further. With $17.6 billion in international currency reserves, Ukraine can cover four months of imports, which is sufficient. The hryvnia exchange rate is highly competitive and has stabilized, being more likely to rise than to fall.

Ukraine ranks 131st among nations in Transparency International's Corruptions Perception Index

Better than normal

Two big risks have gone away. Naftogaz's extraordinary victory against Gazprom in the Stockholm arbitration on May 31 saved the country the risk of a Russian claim of $40 billion or more. Ukraine might even get substantial compensation for Gazprom overpricing. The nationalization of PrivatBank last December eliminated the risk of financial chaos. Ukraine's current debt is 83 percent of GDP, less than anticipated, and it will decline with the likely appreciation of the hryvnia and growing GDP.

Ukraine has not only returned to normal but improved. The fiscal burden on the Ukrainian economy has eased. Public expenditures have been slashed heroically from 53 percent of GDP in 2014 to 40 percent of GDP, mainly cutting corrupt subsidies to energy traders and state enterprises, which has leveled the playing field. The ProZorro electronic procurement system has accomplished the same. The reduction of the payroll tax from 45 percent to 22 percent was a great improvement. Ukraine's banking sector has been cleaned out, and is ready for a sound expansion. The arrest of much of the former leadership of the State Fiscal Service can lead to a cleansing of the tax collection and customs. The notorious value-added tax refunds for exports are supposed to be automatic now. Ukraine has come out with a much more liberal →94

AGRICULTURE

SECTION PARTNER

Workers stand near the grain terminal of Ukrainian grain firm Nibulon on Oct. 10, 2015, in Ukraine's southern city of Mykolayiv on the Black Sea coast. (Ukrinform)

Grain exports surge as metals, chemicals suffer slowdown

BY NATALIYA TRACH
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As Russia's war rages on against Ukraine's eastern industrial Donbas region, steel and chemical exports continue to take a hit.

But as these big commodity exports whither, the country's agricultural exports, and especially grain, are showing renewed spurts of growth.

Ukraine's grain exports increased to 40.2 million tons in the 2015–2016 marketing year, which runs from July to June next year, up from 32.3 million tons in the 2013–14 marketing year.

Better still, Ukraine's grain industry has the potential to boost exports to 60 million tons within the next three to four years — if the country's transport logistics are improved.

Big exporters

Ukraine is one of the world's top 10 largest grain producers, and is also a leading maize exporter. Last year the country produced a total of 66.1 million tons of grain, and grain producers earned $6.1 billion from exporting 40.2 million tons of grain.

To become successful in Ukraine you need to outsmart the system

Nataliia Osadcha

Co-founder
of the S&P Agency, PhD.

Ukraine is a unique country both gegrap hically and economically, which is only at the stage of its economic development. The process of privatization of state enterprises is not completed, there is no free sale of agricultural land, the state economy has only started to form, the market is not structured, and players are constantly changing. Therefore all these factors make Ukraine attractive for investors.

At the same time the unstable political situation, the presence of a military conflict, constantly changing legislation, the lack of transparency in the judiciary, corruption and the absence of the rule of law create very high risks for foreign investors of loss of their investments and/or assets in Ukraine. At the same time, high rates of profit and return of investments make a difficult choice for foreign business: to risk and earn or to forget about Ukraine until it meets the generally accepted international norms of doing business.

In our opinion, there is a perfect time to enter the developing market of Ukraine. Anyone who uses this opportunity competently can get a good market share, access to cheap resources and qualified personnel, highly liquid asset and/or business.

At the same time, the "aggressive" environment that has developed in our country should not be underestimated. Raiding is a widespread phenomenon. It costs much less to "wring out" high-yielding business in Ukraine than to create it from scratch and develop it.

Is it possible to fight against raiding, illegal seizures of business or corporate conflicts in Ukraine?

We are perfectly convinced that it is possible but financial and time costs during the conflict will be quite large, the outcome is difficult to predict, and the risk of losing assets is huge. "To win the war without engaging the battle", and to exclude the possibility of future raider seizure and/or corporate conflict even at the stage of preparing for investments- that is another approach to business we offer.

"Rescuing" business in Ukraine from corporate raiding and corporate conflicts for more than 10 years, we have developed expertise that allows us to accurately "forecast" the probability of loss of assets, as well as to "see" how it will happen for a particular business and when.

Usually foreign investor is not able to calculate the specific "business environment" in Ukraine. He has no proper experience in dealing with Ukrainian government agencies and does not have prebuilt protection for his business. In addition, he makes "unforgivable mistakes" during the course of his business activity and gives an opportunity to opponents (an opponent is often a state or/and its bodies) to use and develop these errors in a serious problems. Further, it becomes more and more difficult to prove one's rightness as the conflict develops. The risk of loss of assets or loss of business grows with cosmic speed.

Our experience gives us a reason to convince the business that it is possible and necessary to minimize investment risks at the "zero" stage. First, we study the terms of investment, the legal basis of ownership, and the corporate structure of the enterprise, which is supposed to be created (for example in partnership with the Ukrainian side). We issue a forecast of the probability of property loss and/or the onset of a corporate conflict, the approximate time frame for such losses and a list of existing "holes" in business protection, based on the received information and our expertise. We always give our recommendations and step-by-step action plan for preventing risks of our clients if there is an opportunity to minimize them. And we honestly recommend them not to invest in this particular project and on such terms if it is impossible.

Such calculation and minimization of risks at the investment stage significantly reduces the probability of "problems" that arise after the entrance to the Ukrainian market when the business is already created, operating and bringing a stable income. The symptomatology of such problems is quite diverse ranging from conflicts with partners (if there are any) to large conflicts with state bodies.

Symptoms of serious "problems" of foreign companies are often manifested in the form of criminal cases that are opened against the company or/and its officials. There are some examples from our practice: criminal cases on the fact of causing damage to the state (if the business somehow entered into economic relations with state entities); criminal cases on the abuse of authority by state officials (is the business acquired assets from state property) or criminal cases of unauthorized seizure of land (despite the fact that the company had a lease contract).

As an example, there is a case of Risoil S.A., Swiss company that produced a grain terminal in the Black Sea port, and made a lot of noise in press and international investment community. Honestly, it was one of the most difficult cases in our practice. In order to avoid the technological disaster and prevent the landslide, the investor began construction of a retaining wall that had to preserve not only his property, but also the state enterprise. The process of such construction work slightly outstripped the issuance of documents of land leasing, which was in the process of removing the company since 2014.

According to calculations of Risoil S.A. such inaccuracy could entail exclusively administrative fine, but it turned out differently in real life. This circumstance became the basis for the initiation of a serious criminal case, which created problems not only for the economic activities of the company, but also for its top officials and company`s owners. The investigation was conducted by the Prosecutor General Office of Ukraine; cascades of searches were also conducted, both in the company itself and in counterparties. There were seized a huge number of documents that were not related to the company itself, and also interrogations and examinations were conducted etc.

It took one year of painstaking work , more than hundred motions of PGU and more than 60 appeals to the court, official assistance to diplomatic missions, international organizations and media in order to bring the conflict back to legal plane and settle it in favor of the company. Believe us that a year is a very fast and serious result for this kind of complex conflicts, because often they can last from five to seven years, completely paralyzing the work of business.

Usually it becomes increasingly difficult for the investor to prove his rightness when the confrontation with the state authorities is already in a rather serious stage of exacerbation. Both sides have at their disposal evidence proving violations of opponents, and it is fairly predictable to say, whom the court will believe. Therefore, the calculation of their risks is the necessity of today's realities. Counting it, you deprive your opponents of even the slightest opportunity to create a problem for your business. Unfortunately, today we have to "save" business more often than to work for minimization of risks at the start. However, it is common for a person and business to learn from his mistakes. One of the existing options is to be always one step ahead of opponents, not giving them even the slightest opportunity to approach business. And we help our clients to realize it and to outsmart the system.

"Thanks to a consistently high grain harvest, our country over the last five years has almost tripled its grain exports — from 14 million tons in 2011 to 40.2 million tons in 2016," says Yuriy Lupenko, director of the National Scientific Center Institute of Agrarian Economics in Kyiv.

In Ukraine, 37,400 companies are currently involved in grain production. The country's main grain exporters are domestic companies Nibulon, Kernel, the State Food & Grain Corporation of Ukraine and multinational grain producers Louis Dreyfus, Bunge and Cargill. These "big six" grain exporters account for about 30 percent of the country's grain exports.

In 2016, Ukrainian agricultural exports accounted for 12 percent of the country's gross domestic product of $93.26 billion. About 39.6 percent of Ukraine's agricultural exports were grain, and last year's $6.1 billion in earnings from grain exports accounted for 17 percent of the country's total export revenues of $36.4 billion.

During the last marketing year, Ukraine exported 40.2 million tons of grain, up from 37.4 million tons in 2014–2015, according to figures from the Economy Ministry.

And grain exports are expected to keep rising. In the first quarter, the country's grain exports were worth $4.6 billion, up by 38 percent year-on-year.

Nataliya Shpyhotska, a senior analyst at Dragon Capital, Ukraine's leading investment bank, expects 10 percent growth in grain exports when the 2016–2017 marketing year is over in June.

New markets

In early 2014, following Russia's annexation of Crimea and the start of its war against the Donbas, Ukraine's steel and coal exports suffered, leaving agriculture as the country's foremost exporting sector.

In the 2015–2016 marketing year, the main importers of Ukrainian grain products were African, Asian and European Union countries. Egypt remained the top export destination for Ukrainian grain last year, taking 4.98 million tons, a rise of 275,000 tons on the previous year. Altogether, the country imported 12.4 percent of Ukraine's total grain exports.

Spyhotska of Dragon Capital says that, in the 2015–2016 marketing year, Egypt was also the largest importer of Ukrainian wheat, taking a 16 percent share, while Thailand and Indonesia were second and third, with 13 percent and 10 percent shares respectively.

The largest importers of Ukrainian maize last year were Spain, accounting for 17 percent of Ukraine's total exports, China (15 percent), Egypt (13 percent), Italy (10 percent) and the Netherlands (8 percent).

Ukraine's largest barley importers were Saudi Arabia with a 53 percent share, China (16 percent) and Libya (10 percent).

Moroccan grain imports may increase this year because of a bad harvest there. This year its grain imports may be between five and 5.5 million tons, of which Ukraine should supply about 10 percent — Ukraine usually exports to Morocco nearly 500,000 tons of wheat annually.

Experts also believe that Asian countries could be a good target for Ukrainian grain exporters.

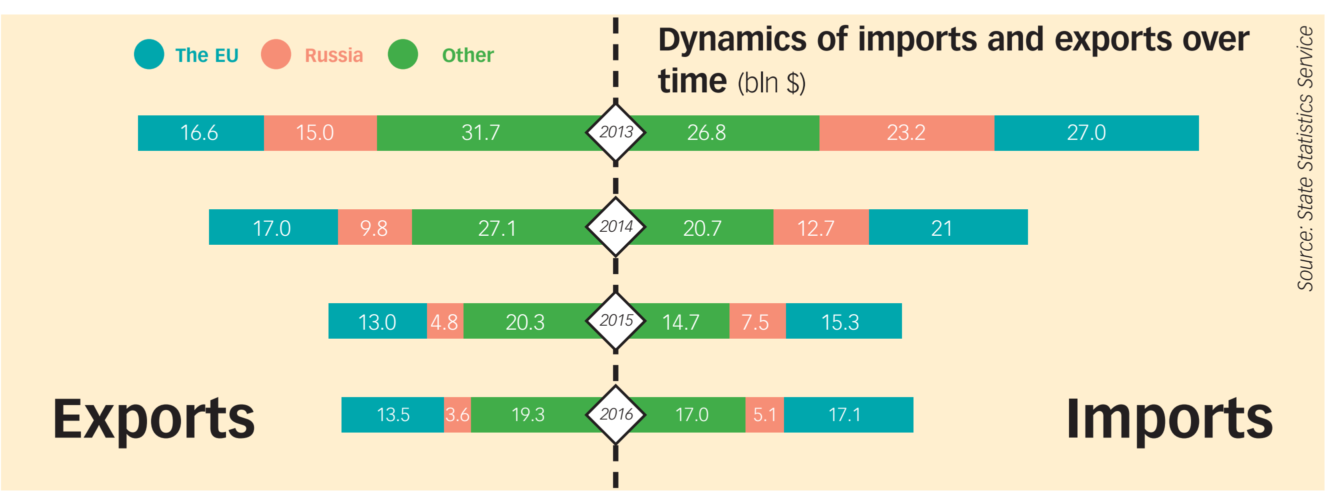
In 2016, Ukraine increased its grain exports to Indonesia by 1,140 tons on the year, to 2.1 million tons, while to India they totaled 2 million tons last year against just 5,700 tons in 2015. Exports to Iran rose by 1.27 million tons to 1.94 million tons, and those to Bangladesh were up by 1 million tons, to 1.93 million tons.

In 2016, Ukraine slightly reduced its grain exports to Saudi Arabia, the United Arab Emirates and Kuwait, but experts believe these remain promising markets for Ukrainian grain products, as Ukraine could fully satisfy the demand for grain in these countries.

Meanwhile, the Chinese and Japanese markets have been weaker.

Ukrainian exports to China decreased in 2016 to 2.98 million tons, which is 21,000 tons less than in 2015. Last year Ukrainian grain deliveries to Japan nearly halved, to 233,000 tons in 2016 compared with the previous year.

However, in 2016, Ukraine supplied



Ukraine's imports and exports have contracted sharply since Russia launched its war against the nation in February 2014. But starting in 2016, the trend clearly shows a shift toward the European Union and away from Russia, which remains Ukraine's single largest trading partner — but not for long.

South Korea with about a quarter of its wheat needs — mainly fodder grain, and growing demand in South Korea could mean it imports more from Ukraine in future years.

In fact, Ukraine is just starting to blaze a trail into the Asian grain markets. Provided it promotes its exports, and there are favorable market conditions, Ukraine has the potential to export to Asian nearly $10 billion worth of grain annually, experts say.

EU market

With its relative proximity to major markets in the Middle East, North Africa and Europe, Ukraine is well-placed to make competitive grain exports to these markets, due to lower transport costs.

Moreover, since the introduction on Jan. 1, 2016 of Ukraine's free trade agreement with the European Union, a portion of its grain exports to the union can be made duty free. Under its quota, Ukraine can export to the EU 1.6 million tons of grain in 2016, and the quotas will increase to 2 million tons over the next five years.

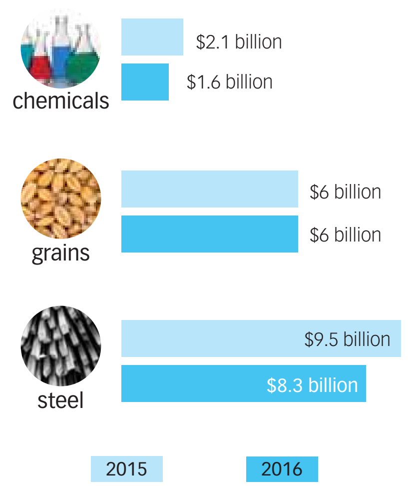
In 2016, Ukraine exported to the EU grain worth $1.3 billion — 6.7 million tons of corn and 1.3 million tons of wheat.

After the quotas stipulated in the free trade agreement with the EU are exhausted, exports of certain goods are conducted under the common rules of trade with the EU.

Last year, Ukraine early exhausted its quotas for wheat, maize and barley grains duty-free exports to the EU.

In 2016, Ukraine exported under quote 400,000 tons of corn, 6,300 tons of barley

Ukraine's exports in 2015



Source: State Statistic Service of Ukraine

While Ukraine's exports of chemicals and steel have slowed, agricultural exports are expected to keep rising.

groats, 950,000 tons of soft wheat, 250,000 tons of barley, and 4,000 tons of oats.

Ukraine has repeatedly raised the question of increasing its EU grain export quotas. In May, some progress was made when the relevant committee of the European parliament voted in favor of an expansion of the duty-free exports for Ukraine, but the decision did not apply to wheat.

"Tomatoes, wheat and urea (raw material for fertilizers) should not enjoy quota preferences further to those outlined in the Deep and Comprehensive Free Trade Area (DCFTA)," a report on the European Parliament news website reads.

In 2017, Ukraine is allowed to export to the EU450,000 tons of corn and corn meal, 6,500 tons of barley groats and flour, 960,000 tons of soft wheat and wheat flour, 270,000 tons of barley and barley flour, and 4,000 tons of oats.

Shpyhotska of Dragon Capital says the EU's reluctance to increase quotas for wheat and barley is due to the competition EU producers are facing on the international markets.

"Ukraine competes with the EU on the international market, which is why EU wants to protect European (wheat and barley) producers (by not increasing quotas for Ukrainian products)," she said.

"But certainly, the expansion of quotas would contribute to an increase in exports, and it's reasonable to work for that," Lupenko added.

Problems and prospects

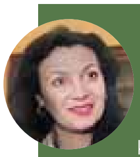
Still, to increase its grain exports over the next few years Ukraine will not only have to compete on the international markets, but also improve its infrastructure — currently the main obstacle to increasing grain exports, analysts say.

"The main problem just now is infrastructure," says Mykola Gorbachov, president of the Ukrainian Grain Association, adding that producers and exporters have problems delivering grain to seaports because of railway infrastructure. There is a shortage of grain cargo wagons and locomotives, wagons are worn out, and there are shortages of diesel fuel and spare parts.

The shortage of cargo wagons in Ukraine is estimated at 4,000–5,000 rail cars. Their number is falling, despite the fact that the share of railway transportation in grain exports is 65 percent. "Ukrzaliznytsia refuses to produce new wagons, and this prevents production growth and therefore export growth," says Gorbachov.

But experts say that if the problem with rail infrastructure is resolved, grain exports could rise by 20 million tons.

"Assuming that the logistics problem is resolved, then within the next three to four years Ukraine could export up to 60 million tons of grain (against 40.2 million tons today)," Gorbachov says.



Klympush-Tsintsadze: Ukraine catching up in bringing standards in line with EU trade pact

Ukrainian Vice Prime Minister for European and Euro-Atlantic Integration Ivanna Klympush-Tsintsadze said in May that Ukrainian was behind in implementing the Deep and Comprehensive Free Trade Area as part of the nation's association agreement with the European Union. At the time, she said Ukraine had pass only 26 of expected 130 acts of the EU law into its legislation. But she told the Kyiv Post on June 12 that the nation has made progress. "Now the numbers are better," she said. "We have passed quite a few important pieces of legislation and secondary legislation as well."

Lisopylka brewery owner Vasyl Mikulin serves a glass of his Varvar Golden Ale in Kyiv on June 1. Mikulin hopes that his brew could become a calling card for Ukrainian beer abroad. (Kostyantyn Chernichkin)

Ukraine's craft beer industry sees suds, blue skies ahead

BY JOSH KOVENSKY
KOVENSKY@KYIVPOST.COM

The Kyiv Beer League's Yuri Semenov sees a great future for Ukrainian craft beer.

"Ukraine has big potential for development, because Ukraine is 30th in the world in beer consumption," he told the Kyiv Post.

Semenov lobbies the government on behalf of Ukraine's craft beer industry and trains interested Ukrainians in how to brew their own types of beer.

In recent years, dozens of microbreweries have sprouted up around Ukraine.

The industry has attracted young people interested in starting small businesses and, thanks to growing interest, they've met with success: more than 10 breweries have opened in the past three years, while many more others make their own on an industrial scale by contracting to use the equipment of established breweries.

Growing a culture

Craft beer currently occupies around half of 1 percent of the market share of beer in Ukraine, according to the Kyiv Beer League. But for a country that drinks, on average, only 61 liters of beer per person per year (according to a 2013 report by the Kirin market research firm), the potential is big if the new products can tempt Ukrainians away from harder drinks.

Vasyl Mikulin, a soft-spoken millionaire developer from Donetsk who made his money in the coal industry, founded one of Ukraine's first craft breweries in December 2008.

Using a building in central Donetsk that had been left vacant due to the financial crisis, Mikulin founded the Yuzovskaya Brewery, a brewery-restaurant modeled on similar concepts in Germany.

Yuzovskaya was ahead of the trend, but Mikulin was forced to abandon the place in 2014 after Russian-backed forces captured Donetsk. He moved to Kyiv, relying on a surge of investment to found the Lisopylka brewery in Darnytsia. Lisopylka produces Varvar, one of Ukraine's most widespread craft beer brands.

"It's supposed to be a garage-style project," Mikulin said of Varvar, adding that the brewery didn't have the initial capacity to match demand on the market and that the brewery had to import new, higher-capacity equipment. "We spent the entire last year on expansion," he said.

In the Carpathian town of Kvasy, Aleksandr Shatalov founded the Tsypa brewery in 2015.

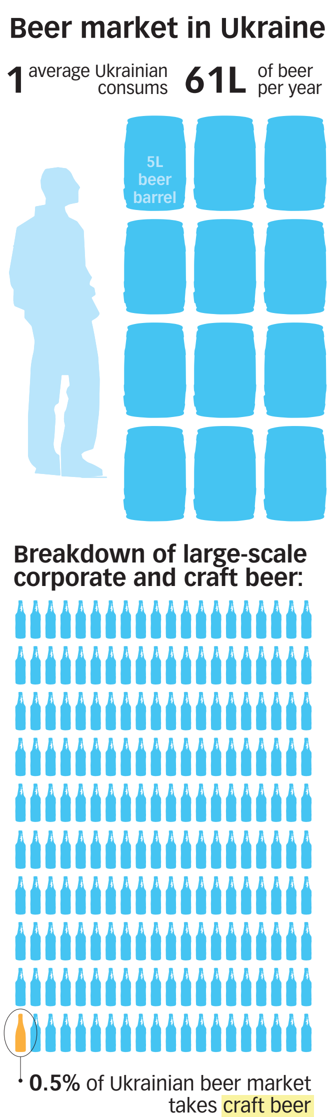
"When we started, we were only selling beer in our restaurant," Shatalov said. "But people in other cities — Kharkiv, Kyiv, Lviv — started to ask for kegs, so we decided to work together and join the craft movement in Ukraine."

Taking notice

Though craft beer's place is small, there are indications that some of the bigger suppliers are starting to take note of the trend.

They face a burgeoning cottage craft industry: Mikulin opened the first dedicated bar for Varvar — called Varvar Bar — in central Kyiv on May 29, while Tsypa is opening a branch in Mykolaiv in June.

Vitaly Grushetsky founded a dedicated craft beer delivery service called Kran in July 2016. The company partly focuses on supplying big cities with beer from small, village breweries that would normally be inaccessible to urban consumers.



By Kyiv Post. Sources: Kiev Beer League, Kirin.

"Small breweries can't always maintain their stock, so we help by delivering their product," Grushetsky said. "We launched this project, in part, to help develop craft beer in Ukraine."

Robert Doms, a Lviv brewery owned by Carlsberg, launched a new line of APA in April — the first major Ukrainian brewer to step into the world of craft.

"It's a signal about the market that they're using words associated with craft," Semenov said.

Ukrainian taste

As the market continues to develop, many of the country's craft beer producers are beginning to look at selling their product outside of Ukraine.

Pravda, the Lviv brewery known for its Obama and Trump beer lines, sells their product abroad and recently received medals at a Belgian beer festival. Mikulin said that Varvar is available outside of Ukraine in a joint project in Vienna, and that the company is looking at exporting it.

5 places to drink craft beer in Kyiv

Lisopylka
1A Starosilska
0444901990
www.lisopylka.com

Taphouse by Collider
16 Yaroslaviv Val
0989094196
www.Collider-brewery.com/taphouse-by-collider/

CRAFT vs. PUB
37/20 Nyzhnyi Val
0502721434

Mokhnatiy Khmil'
126 Velyka Vasylkivska
0983038383
www.tsypa.com.ua/zad-ladi/mohnatij-hmil.html

Old Bar
20 Velyka Vasylkivska
0688506060

Semenov said that Ukraine's political and trade association agreement with the European Union would "mean that there will be more opportunities for small producers to export."

"Export licenses here are very cheap, which is an advantage," he added.

The varieties of craft beer that have grown popular abroad tend to be marked by a specific style. America popularized pale ales, while Belgium is known for thick ales.

So, Ukrainian craft brewers are now racing to determine a formula for a Ukrainian craft brewer that would work as a "calling card" for the country's beer industry, as Semenov put it. Many, including Semenov and Shatalov, pointed to a sweet, strongly alcoholic version of golden ale as an international brand for Ukrainian beer.

Dmitry Nekrasov, the chief brewer for Mikulin's Varvar beer, developed the version of Golden Ale that could be a candidate for Ukraine-brand beer.

"In principle, it could be possible to use this Golden Ale from Yuzovskaya as a separate style," Mikulin said.

Ukrainian craft brewers are continuing to enter the market.

"We're going through an early stage in which people are still getting good at making their own craft beers," said Grushetsky.

Semenov, the Kyiv Beer League head, is optimistic about the trend's business potential.

"There's definitely a future to this, we just need to keep watching what people brew," he said.


Passersby walk near the National Bank of Ukraine building in Kyiv on July 9, 2016. (Volodymyr Petrov)

How Ukraine is rebuilding trust in its banking system

YAKIV SMOLII

In May, I was delighted to open a conference on the role of central banks in fostering economic growth. The topic is a live one for us in Ukraine, for our event partners — the National Bank of Poland — and beyond.

As part of the National Bank of Ukraine team who came into office in 2014 after the pro-democracy revolution in Ukraine, I've gained first-hand experience of our country's difficult road to economic stabilisation. Our journey has undoubtedly given all at the NBU an insight on balancing the twin challenges of stability and growth.

When Valeria Gontareva took office as governor and our team came into the central bank, we faced a perfect storm of geopolitical, macroeconomic and currency challenges. We had to spearhead numerous dramatic and far-reaching reforms just to stabilise our nation's financial system.

We have gone a long way towards breaking down Ukraine's tradition of oligarchy, which was doing so much harm to our economy; Gontareva began a clean-up process that included the takeover of one of our biggest commercial lenders, PrivatBank. Restoring faith in Ukraine's currency and financial system was also key to economic recovery. To achieve that, we quickly identified low and stable inflation as the right anchor and inflation targeting as the right policy.

Inflation targeting has led to positive results in other countries and we have seen it work the same in Ukraine. In 2016, the National Bank successfully reached its first inflation target — and economic growth started coming back. Crucially, trust in our financial system has returned; earlier this year, Ukraine received its fourth tranche of funding from the International Monetary Fund, which is testament to the confidence of the international community in our economy and the work of the NBU.

Here at the NBU, we intend to continue along this upward trajectory — and our team will do so by looking at the very role that a central bank plays in economic development.

Clearly, financial stability is core to the work of central banks, particularly after the 2008 financial crisis. Banking crises and a lack of financial stability is something Ukraine, sadly, has too much experience of. It was clear to us early on that Ukraine's banking system of old was a danger to the country. Regulation was needed to curb excessive risk-taking by banks to safeguard the financial system and the wider economy, but we also understood that excessive regulation can harm growth. Striking the right balance in this sort of situation requires careful analysis and continued review.

The links of central banks to the state also have to be considered in the context of promoting financial stability and growth. It is a reality that politicians can be focused on shorter-term priorities linked to election cycles, rather than long-term objectives. Today, international organisations such as the IMF and the World Bank strongly support the independence of central banks, and the NBU is but one example that follows their lead worldwide.

4 big International Monetary Fund priorities for Ukraine:

- establish independent anti-corruption court
- reduce pension deficit
- privatize state-owned enterprises
- develop agricultural land market

"To achieve faster, sustainable growth, needed to lift incomes and enable Ukraine to catch up with its regional peers, structural reforms to improve the business environment and attract investment need to be accelerated. A start needs to be made with privatization and developing a market for agricultural land. Corruption needs to be tackled decisively. Despite the creation of new anti-corruption institutions, concrete results have yet to be achieved."

– David Lipton, IMF first deputy managing director

No panacea

Yet, even with the power to regulate whole financial systems while retaining independence from government, why in 2017 are so many economies with modern central banks yet to achieve the development they desire?

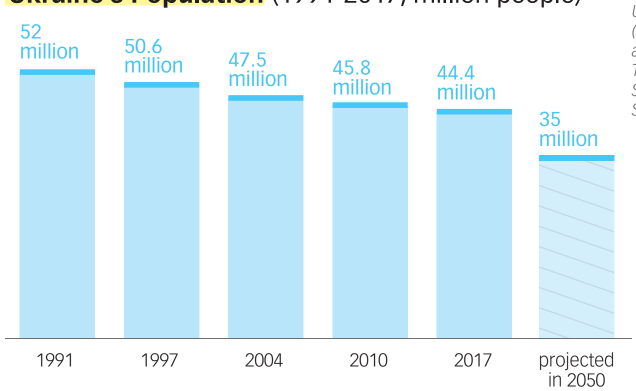
Unfortunately, the answer is that no central bank is an economic panacea. The potential for a country's development is only realised when all economic forces are invested in growth. Simply put, a central bank alone cannot and should not be the driver of change. It can lay the regulatory framework, but a favourable climate for investment and innovation is a product of a nationwide commitment.

Going forward, we aim to follow the example set by Ms Gontareva and view the role of the NBU as one of many actors in Ukraine, working towards a better future for all. The impressive results that the NBU has realised over the past three years are a fantastic start, but the successful collaboration with the IMF and maintaining the trust of our foreign partner's in Ukraine's future is a challenge we all — state and private sector — must work together to tackle.

We must still commit to implementing international best practice governance standards across the banking sector, and we must still force out the oligarchic practices that are damaging Ukraine's potential for growth. With the most successful Ukraine-IMF collaboration in its history now underway and growth picking up, we have successfully created the foundations for recovery. It is the role of not just the central bank, but all of us, to realise a stable, secure and quickly developing economy for Ukrainians for generations to come.

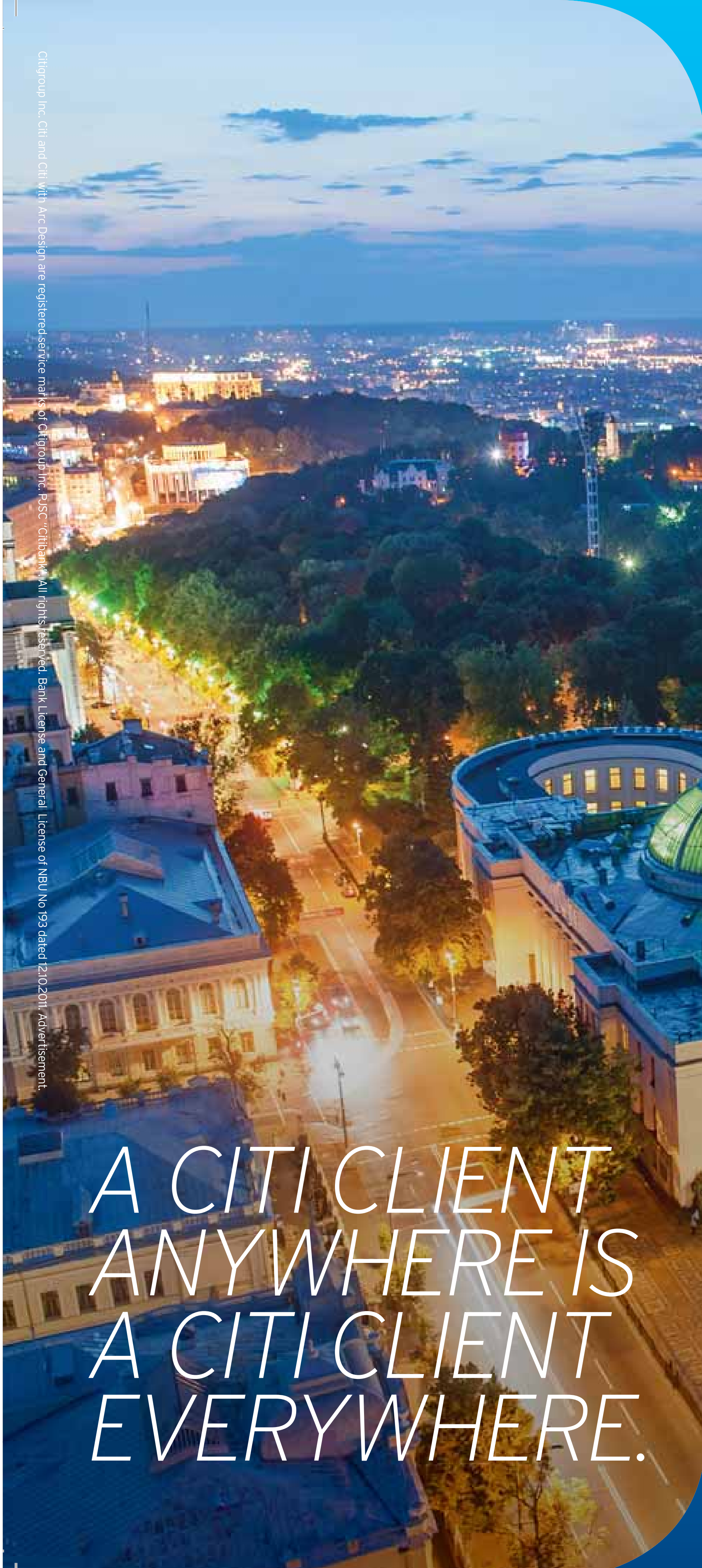
Yakiv Smolii is the acting governor of the National Bank of Ukraine.

Ukraine's Population (1991-2017, million people)



Source: World Bank, United Nations (2017 figure UN estimate as of June 6, 2017), The Institute for Social Studies under the National Science Academy

Ukraine's population is shrinking, projected to fall to 35 million people by 2050 – 17 million less than in 1991 – unless current trends are reversed.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A CITI CLIENT
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Citibank's Fisher: Land market could spark lending boom

Citibank-Ukraine Chief Steven Fisher discusses the country's banking sector on June 7. Fisher said that allowing land purchases could restart lending. (Oleg Petrasiuk)

BY JOSH KOVENSKY
KOVENSKY@KYIVPOST.COM

For nearly a quarter of a century, owning banks in Ukraine meant being able to steal billions of dollars from depositors with impunity.

But ever since the National Bank of Ukraine undertook a cleanup of the banking sector that saw the regulator yank 88 out of 190 banks off the market, there's a real chance that the party is over.

Banks are flush with liquidity, at about Hr 19.8 billion ($756.9 million) system-wide. But the larger lenders remain timid about opening new lines of credit, given the lack of law enforcement institutions that would allow them to enforce a loan agreement.

Steven Fisher, CEO of Citibank Ukraine and member of the board of directors of the American Chamber of Commerce in Ukraine, said that a key to faster recovery could be the long-awaited creation of an agricultural land market, a step that remains controversial among lawmakers.

"If there's land reform and farmland ownership could be reinstituted, that could result ultimately in a significant re-expansion of lending to the agricultural sector," said Fisher said. "We need to do this to break out of this 2 to 3 percent GDP growth range, which frankly for Ukraine, is not enough."

Fisher added that "matching investments" in logistics and infrastructure would have to happen simultaneously for Ukraine to achieve its agricultural potential.

"Will this be matched by investment in the rail sector? By matching investments in dredging and expanding ports? In river transportation?" he asked. "Billions and billions of dollars are needed to invest in Ukraine's transportation infrastructure in order to support a significant growth of exports from where we are now."

But the country still lacks an independent judiciary that can effectively decide loan disputes, as well as law enforcement that could prevent and prosecute mass embezzlement. And though the government has promised initiatives, Fisher said that failure on this would likely stop international lenders from continuing to support the country.

"If you don't do these things, you're not going to get the money you need to break out of the 2 to 3 percent range," he said.

Gontareva's tenure ends

In May, National Bank of Ukraine Governor ValerIa Gontareva resigned after three years as head of the central bank. Gontareva's departure came five months after the nationalization of PrivatBank, with the outgoing banker announcing during her resignation speech that "reforms are complete."

If so, it came at a huge cost: $20 billion in taxpayer losses, including money paid out to cover insured deposits, recapitalization loans from the central bank that were never repaid, and uninsured deposits in the banks that simply disappeared when banks went under.

The biggest single loss came from the biggest bank — PrivatBank — which alone could cost taxpayers $5.6 billion. Much of the losses in the banking sector, with assets estimated at a combined $50 billion or so, came because of fraud or insider lending, Gontareva said.

But, according to Fisher and many other observers, reforms are not complete.

"They eliminated virtually all of the criminal banks, the money laundering banks, the weak banks, which was not an easy job at all, but they did it," Fisher said, noting approvingly that 40 banks now hold around 92 percent of the assets in the financial sector.

"But for the whole country, there's a lot more that needs to be done. A lot was done, but a hell of a lot still needs to be done," he said.

The government has not yet named a successor to Gontareva, but has rather opted to keep her chief deputy, Yakiv Smolii, as acting governor since May. However, Ukrainian law stipulates that an acting governor can only remain in place for two months before being replaced by a permanent choice.

A favorite candidate among Western business and international lenders is Raiffeisen-Aval's Volodymyr Lavrenchuk, who told the Kyiv Post in April that he would be open to the job. The Presidential Administration floated his potential appointment before declining to name anyone to the position.

"Governance and NBU supervision are very key to continuing (reforms)," Fisher said, adding that he favors a technocrat over a politician for the job.

After leaving 102 banks on the market, the NBU now faces the last stage of its cleanup, in which dozens of small banks are expected to close.

"With these small banks, there's a governance challenge. They have to be transparent," Fisher said. "No bank can be putting the system at risk by creating more consumer losses."

PrivatBank

It's six months since the Ukrainian government took over PrivatBank, overseen by the Ministry of Finance. Now the nation's three largest banks are state-owned, including UkrExImBank and Oschadbank, meaning that 53 percent of the banking sector belongs to the government.

At the time of the bank's nationalization, the government promised to make public by April an EY audit of the last two years of the bank's existence.

The audit is complete — Gontareva cited figures from it before her resignation — but it has not yet been made public. An NBU spokeswoman said that legally, the responsibility for publishing the audit lies with the bank's new management — the Ministry of Finance — and that the central bank "hopes the bank will satisfy the legal requirement of publishing the audit by the end of May."

It's now June, and no audit has been released.

"It's better to do the job right, and if it's delayed another month, then fine," Fisher said. "But you don't want to have a situation where something as sensitive and strategic as that goes wrong."

Fisher wasn't bothered that it took so long for Ukraine's government to nationalize PrivatBank, even though the extent of insider lending and non-performing loans were known on the market and within the central bank itself for more than a year before the state takeover.

"For anything of that scale and impact, you have to manage it very carefully," he said. "Just think about the human aspect of it — who is gonna manage this bank? You don't want to do it incorrectly and foment a run on the banks and a challenge to system reliability."

Restarting lending

With the systemic threat that PrivatBank posed somewhat neutralized, the banking system appears ready to start inching its way towards the risk of extending loans again.

"If you've got foreign direct investment coming in — then, who's investing? They're all my customers," Fisher said. "Every bank has a very vested interest in coming in and supporting this."

Fisher went on to praise the NBU's policy of lowering interest rates, saying that they could help attract FDI to the country. As of writing, the rate was 12.5 percent, after a May 25 cut. The NBU started the year with a 14 percent rate.

"When people wake up and realize that interest rates are lower, credit quality is higher, you'll see an increase in lending to support the investment activity," he said.

Fisher added that issues surrounding "rule of law and protection of creditors' rights under law" are still a cause "a lot of concern" among the banking community.

But, overall, the message from the head of Citibank, one of Ukraine's most profitable banks, was positive:

"We're here to stay," he said.

International lenders look to build hryvnia bond market

BY JOSH KOVENSKY
KOVENSKY@KYIVPOST.COM

Two major international lenders see 2017 as the time to start building a hryvnia capital market.

The European Bank for Reconstruction and Development is planning to conduct a hryvnia bond issue in Ukraine, according to its regional director Francis Malige.

"We're working on seeing if we have enough interested clients so that we can actually go ahead and issue on the market," he said.

At the same time, the World Bank's International Finance Corporation issued its first-ever hryvnia denominated loan on June 7, to Auchan Retail's Ukraine division, saying that hryvnia financing is "vital to modernize the economy and to support growth."

The moves come as many in Ukraine's banking sector seek ways to spark lending that could also develop the country's small-to-medium sized business sector, which continues to face stagnation amid a drought of accessible financing.

"There's a lot of companies in this country that basically sell domestically, and they shouldn't be borrowing dollars because they do not have a natural FX (foreign-exchange) protection or hedge," said Steven Fisher, the head of Citibank Ukraine. "They should be issuing, and the sad thing is... there's not a lot going on. This is an area that critically needs to be developed."

Gauging demand

The EBRD's plan would see it borrow hryvnia on the Ukrainian market in order to finance more loans in the currency.

The first issuance would likely be relatively small — in the order of 20 to 30 million euros. That would allow the EBRD to gauge demand, without "drying up" what's already a small market.

A man works near an electronic currency exchange board in Kyiv on May 26. (Volodymyr Petrov)

"This is well overdue," Malige said, adding that the EBRD issued its first ever Georgian lari-denominated Eurobond in April.

The International Finance Corporation, a World Bank-owned international lender, called the Auchan loan a "landmark transaction," according to IFC regional head for Ukraine and Belarus Jason Pellmar. In a statement, Pellmar said the organization is "now ready to roll out customized, local currency products to Ukrainian clients in various sectors and to extend the maturities of hryvnia financing."

Fisher said that demand for these kinds of instruments would be more likely to come from companies selling their products within Ukraine.

"The strongest borrowers in this country are usually exporters, and they don't need hryvnias that much — they prefer to borrow dollars," Fisher said. "If you're an exporter with a natural currency hedge, you'll instinctively want to borrow dollars."

Parliament passed a law in July 2013 that paved the way for international lenders to borrow money in hryvnia.

Global map

The plan has been kicking around Ukraine's financial sector for more than 10 years, but has never managed to gain traction.

Fisher said that the EBRD's triple A credit rating presented it with a conundrum: the bank would want to issue the bonds at an interest rate reflective of their high rating.

"Local investors may not be interested in that, because they're seeing that, 'I have my hryvnia, I'm happy investing hryvnias into Ukrainian government paper, so why should I accept a lower yield than that? Triple A or no triple A.'"

Malige said that the bank intends to start small and short, with a limited value to the issuance for only one year in the first round, before moving on to longer term debt instruments.

"It's another way we help our countries to put themselves on the global map," he added.

Filya Zhebrovska , the CEO of Ukraine's leading pharmaceuticals producer Farmak, speaks to the Kyiv Post in her Kyiv office on June 6. Zhebrovska thinks the newly introduced compensation program for prescription drugs is a move in the right direction. (Kostyantyn Chernichkin)

Pharmaceuticals sector rises as health care reform looms

BY RAHIM RAHEMTULLA AND MARIA ROMANENKO
R.RAHEMTULLA1@GMAIL.COM
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The pharmaceuticals sector didn't escape the general economic slump that hit Ukraine in 2014–2015, but the industry now appears to be turning a corner.

Valued at its peak in 2013 at over $4 billion, its worth — like the rest of the economy — has tumbled by half.

But analysts say it is on the rise once again, with far-reaching proposed health-care reforms potentially making the market much more attractive for investment.

Acting Health Minister Ulana Suprun is seeking to end once and for all Ukraine's creaking old Soviet-style healthcare system, often described as one of the worst in Europe.

The country's poor healthcare system has taken its toll on average life expectan-

A century of guarding people's health and well-being

For more than a century, Farmak has been working for the health and welfare of people. During this time, the Company has grown from a chemical and pharmaceutical plant that specialized in production of pharmaceutical substances and radiographic contrast media, into the leading manufacturer of fiished medicinal products* in Ukraine.

Based on the chosen business strategy of innovative technology platform, investments in production and staff, in 2010 Farmak became an absolute sales leader of the domestic pharmaceutical industry* and has retained this position for the last 7 years in a row.

Farmak's product portfolio comprises of a wide range of medicinal products of different therapeutic groups. The Company focuses on the following groups: anti-cold, neurological, endocrinological, cardiac, gastrointestinal, orthopedic, ophthalmological and rheumatologic drugs.

Overall, Farmak's product portfolio lists over 350 nomenclature positions: medicinal products of different therapeutic areas and dosage forms. Each year the Company develops and brings to market up to 20 new products.

Farmak exports its products to the CIS countries and the European Union. 199 nomenclature positions are sold on the CIS market. The TOP 10 sales in the CIS are Picolax, Calcium Gluconate, Amizon, Dialipon, Diazolin, Korvalol, Reumoxicam, Eucazolin, Naphthyzin, and Hydrocortisone.

11 medicinal products manufactured by Farmak are marketed in EU countries (amongst, Poland, Slovakia and Germany). Since 2012, the program for launching of medicinal products in the European market has been better implemented due to the acquisition of a Polish marketing company.

In order to expand its sales territories, Farmak intends, in partnership, to bring its strategic products to the US market. In 2016, Farmak became a member of the Drug, Chemical & Associated Technologies Association (DCAT) and the International Society for Pharmacoeconomics and Outcomes Research (ISPOR).

Farmak pays a considerable amount of attention to ensuring product quality throughout the life cycle by complying with current requirements of Good Pharmacy Practice. The Company has in place a pharmaceutical quality system in accordance with GMP (Good Manufacturing Practice) and ICHQ10 (Pharmaceutical Quality System), as well as a quality management system in accordance with ISO 9001 (Quality Management System), ISO 13485 (Quality Management System for Medical Devices) and ISO 22000 (Food Safety Management Systems).

With the expansion of its production of finished medicinal products and active pharmaceutical ingredients (APIs), Farmak has launched a separate substance production facility in Shostka.

For many years, Farmak has developed partner relations with a number of international companies from various fields. Thus, since 1999, Farmak has been collaborating with the world leader in the development and production of insulin (farmasulins) - the American transnational corporation Lilly. In 2013, a new laboratory developing liquid medicinal products was opened in Kharkiv. In 2015, Farmak put into operation a new laboratory R&D complex, allowing the Company to improve significantly organization of new drugs research and development.

Farmak JSC gives priority to environmental protection. Maintenance of ecological balance is a key component of the Company's responsible business. Its business strategy aims to ensure the efficient use of natural resources, environmental protection and environmental safety.

To this day, the Company has implemented the effective environmental management system. Each year, the Company develops and approves the environmental program, which is a roadmap for the year. The program defines deadlines, resources, and personnel responsible for implementation of the measures concerned.

Farmak supports the aspirations of its specialists for professional growth and development, as well as experience and best practices sharing among experts in various structural divisions. The Company established the School of Young Scientist in 2010 to provide a platform for exchange of experience and knowledge among the Company's divisions, staff training and development in various areas, ranging from the market analysis, selection of active molecules, development of dosage forms, clinical trials to registration of medicinal products and pharmacovigilance.

Farmak also provides professional development for healthcare specialists. Several years in a row the Company conducts an educational program for doctors providing magnetic resonance imaging - Farmak's MRI School (one of the few programs of this type in the post-Soviet states).

Farmak JSC is actively involved in solving social challenges in Ukraine.

The Company is a member of the Development of Corporate Social Responsibility Center. Farmak's Foster Grandchildren social project aimed to support lonely elderly people was recognized as one of the best at the international exhibition CPhIWorldwide 2016. The Foster Grandchildren project won a number of awards at international competitions, in particular, the international festival WOW DONE AWARDS (Ukraine), White Square" (Belarus), KIAF (Ukraine), Ad BlackSea 2016 (Georgia), ADC*UA AWARDS (Ukraine).

For the last 2.5 years, Farmak's employees and Charity Foundation have provided the Ukrainian army with the assistance to the amount of about 4.5 million UAH. Farmak's Charity Foundation is supported by Farmak Company. The Company has been providing active assistance to our defenders since March 2014 with procuring the necessary military ammunition, uniforms, shoes, kits of medicines needed in the field, etc. It has also contributed to acquiring the high-tech equipment to improve the material and technical base of our troops. The medicinal assistance is provided on a regular basis. The funds raised by Farmak's employees from the "Working one day for the army" campaign were intended for purchasing the portable cabins for border guards.

Farmak JSC in numbers

- Farmak had a 6,5% share of the national pharmaceutical market in 2016*
- The share of Farmak JSC sales among domestic manufacturers is 16.8%.
- The company exports 24.6% of the products it manufactures to 20 countries around the globe**
- 2,500 highly skilled professionals work for Farmak JSC.**
- National GMP Inspection approved 19 manufacturing sites for GMP compliance, with 10 manufacturing sites holding certificates of GMP compliance.
- 131 products are in the pipeline (where 72 products with new INNs)

* — according to the "Proxima Research" analytical agency
** — internal Farmak JSC data
See more on Farmak web site www.farmak.ua

Farmak

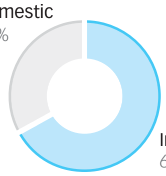
Top 10 companies on Ukraine's pharmaceuticals market

Position in 2016	Corporation	Growth since 2015 in hryvnia
1	Farmak	15%
2 ▲	Arterium	19%
3 ▲	Sanofi	0%
4 ▲	Darnytsia	15%
5 ▼	Menarini Group	-7%
6 ▼	GlaxoSmithKline	-11%
7 ▲	Zdorovye	-2%
8 ▲	Bayer Healthcare	-1%
9 ▼	Novartis	-3%
10	Takeda	-1%

Farmak, first founded in 1925, has led Ukraine's pharmaceuticals market for several years. The company says it supports the reforms currently taking place in Ukraine's public health sector which seek to overhaul the outdated Soviet-era system.

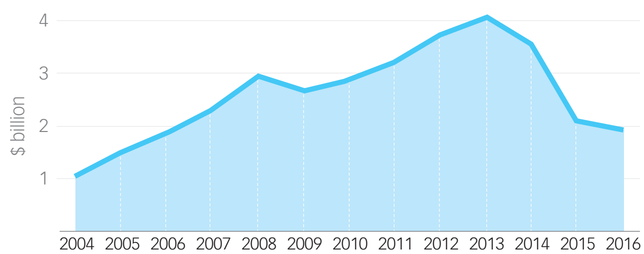
Breakdown of foreign and Ukrainain pharmaceutical companies

Although domestic companies sell more medicines in terms of number of packs, the value of their sales is smaller than those of foreign companies operating on the Ukrainian market.



Pharmaceutical market in Ukraine, in $ billion:

The value of Ukraine's pharmaceuticals market peaked in 2013 before falling in line with the general economic downturn in the country in 2014-2015. Analysts say the market is now recovering and that a new government program to reimburse pharmacies for purchases of medicines could drive future growth.



By Stella Shabliovska, Kyiv Post

Source: SMD (Support in Market Development)

cy at birth, which is only 71 years in Ukraine — 10 years less than in the European Union.

There are a lot of reasons why Ukrainians tend to lead short, unhealthy lives. Ukraine has never focused on preventative health care, or adopted policies that would remove preventable diseases — such as higher taxes on tobacco and alcohol. Additionally, poor environmental regulations likely contribute to the spread of disease and illness.

On the treatment side, the system is a mess — limited financial resources are allocated to hospitals based on numbers of beds, irrespective of the quality or quantity of treatment. Also, while the constitution guarantees free medical care to Ukrainians, this never happens in practice: effectively, all healthcare is paid for in the form of "voluntary contributions" by patients.

But the changes now planned envision the creation of a nation health service similar to the one now operating in the United Kingdom.

Under the scheme, more market-orientated principles would be introduced, meaning doctors and clinics that perform well will receive greater financial rewards, while patients will be able to choose where and by whom they are treated.

Big changes

One major part of the new initiative already operating is a system under which patients with a doctor's prescription receive medicines for free from pharmacies, with the pharmacies then being reimbursed for the cost of the medicines by the government.

The arrangement has been operational since April 1, with 157 products for treating cardiovascular diseases, type two diabetes and asthma currently available under the scheme.

Since the system has only been in place for a short time, it is too early to judge if it has been a success, say experts at Support in Market Development, a market research firm for the pharmaceuticals industry.

But they told the Kyiv Post that a previous project based on the same principles that ran in 2012 went well, and it is hoped that by introducing a similar system across the country, big changes in public health will soon start to appear.

"This reform will be a driver for the market," said Irina Gorlova, the CEO at Support in Market Development. "People will visit the doctor more often. The money they will save by receiving products through prescriptions will be spent on buying other products. Pharmacies reported that when they participated in the previous pilot project, sales of other, parallel products increased."

Far from ideal

For drug producers, greater government involvement in the market also presents an opportunity to diversify revenue streams.

Until now, the manufacturers' business has largely been dependent on the income levels of the general population because, although Ukrainians are constitutionally guaranteed free health care, in practice more than 80 percent of the purchases of medicines are made by patients themselves.

With patients now receiving drugs free-of-charge, manufacturers can look to join the government reimbursement program to boost sales. But doing so will mean their products will need to make it on the list of "essential medicines" drawn up by the Health Ministry.

Forbes says Ukraine has
6
billionaires.

They are: Rinat Akhmetov, Gennadiy Bogolyubov, Yuriy Kostyuk, Kostyantyn Zhevago, Ihor Kolomoisky and Victor Pinchuk.

Ukrainian healthcare: dawn of a new market

Tetyana Gavrysh

Managing partner of ILF (INYURPOLIS Law Firm), Coordinator of the Kharkiv expert group on implementation of medical reform

Anton Zinchuk

ILF associated partner

Olena Khytrova

Head of Medicine and Pharmacy Practice at ILF

Ukraine's healthcare reform is one of the few that might be carried out by the end of 2017. The current health system is based on laws adopted in the early 1990s, with a Soviet approach to the organization and funding of medical care which isn't viable in a market economy. 90% of Ukrainian hospitals are state and municipal ones, with 80% of their budget spent on maintaining infrastructure and paying miserly wages to the staff, rather than on treating patients and purchasing modern equipment.

On June 8, the Ukrainian Parliament adopted in the first reading draft law No. 6327 "On State Financial Guarantees for the Provision of Medical Services and Medication". This draft law as well as draft law No. 6329 "On Amendments to the Budget Code of Ukraine" are expected to be approved by July 20. The new legislation will radically change the healthcare and pharmacy market.

New funding principles

The government so far has been funding hospitals through the administrative-command method, allocating subvention of more than USD 2 billion. Subvention is granted to public and municipal hospitals only, and the sum depends on infrastructure rather than the number of patients. The reform assumes that instead of paying for infrastructure maintenance, the state will purchase a package of certain medical services and drugs for patients. Depending on the level of medical care, payment will be provided either for each patient that chooses a certain healthcare provider, or for each treated case. Drugs will be paid for separately. Procurement will be carried out through direct contracts between the authorized state body (payer) and the hospital. Private clinics will be able to apply for contracts with the state along with public and municipal hospitals. The number and scope of medical services and drugs to be procured will be determined annually in the state budget law. In addition, co-payment of certain types of medical services by patients will be introduced. The conditions and amounts of such co-payments will also be established by law.

Introduction of official co-payment for medical services will contribute to the development of the private health insurance market. Out of 310 insurance companies operating in Ukraine, no more than 45 provide health insurance. It is unlikely that they will be able to satisfy the demand, which is bound to spike. This will result in new international players entering Ukraine's insurance market.

New organization of services

Even now in each region of Ukraine hospital districts are formed, the purpose of which is to create a single medical space for patients. This means that all hospitals within a district will be treated as a pool. Each of the pool's hospitals will provide its patients with the necessary minimum of medical services, while specialized medical services will be redistributed between hospitals to avoid duplication of resources and grant patients access to them within a reasonable time frame. Suggestions regarding the types of specialized medical services as well as their redistribution within the pool will be prepared by hospital councils, which will include representatives of hospitals and their owners. This approach to medical care will encourage hospitals to cooperate in order to build effective patient routes and prevent parallel expenses on the development of medical services with limited demand.

New treatment methods

Ukraine has about 3000 medical protocols. However, most of them were adopted back in the 90s, and some are leftovers of the Soviet era. Only about 10% of the protocols are based on the principles of evidence-based medicine and have been tested in the field.

In April 2017, doctors got the right to use new evidence-based protocols developed by professional medical associations of countries with advanced healthcare (Australia, USA, Canada, EU countries). Aside from providing new efficient treatment methods, the new protocols also present a challenge to clinic administrators (top managers). New treatment procedures will directly affect hospital operation, from the number, location and equipment of premises to responsibilities of each employee at every stage of treatment.

All those changes will serve to promote and reshape the medical services market in Ukraine. For instance, the reform of Turkish healthcare, including its funding, spurred the development of the private healthcare market, and from 2006 to 2010 the number of private hospitals there increased by 86%.

Competition or survival

New environment will bring for Ukrainian public and municipal hospitals new challenges in managing infrastructure, personnel and finances. How to monitor the hospital's activities, how to hire foreign doctors, how to legally optimize the structure of the staff, how to improve the hospital's energy efficiency, how to sell medical services to the state and to insurance companies, how to adapt to the new clinical protocols, how to battle corruption? It's but a small part of managerial and legal issues that clinic administrators will have to deal with after the reform. To keep a hospital competitive under the new conditions, its owners - communities - will require a new breed of managers. Other countries often use foreigners for this role. For example, in Kazakhstan, in order to increase the efficiency of the state multi-purpose clinic "Okhmadet", the reins were handed over to the European group of companies VAMED, which specializes in management of healthcare facilities.

Investment

The current healthcare system is unable to satisfy the existing demand for medical services, especially in terms of quality service and comfortable infrastructure. This demand, coupled with the fact that private operators will be able to receive payment for patients from the state budget and due to unoccupied spaces becoming available in public and municipal hospitals, will serve to attract new investors to Ukraine's healthcare market. For example, in Turkey, foreign direct investment in healthcare went up from USD 8.6 to 12.5 billion a year from 2008 to 2012 after a similar reform. Among the investors were international healthcare holdings (Integrated Healthcare Holdings, Euromedic International), as well as global investment funds (ADM Capital, etc.).

To open a multi-purpose or specialized clinic, the investor will be able to rent or manage unused hospital buildings and facilities, where many generations of Ukrainian patients are already accustomed to go. Ukraine's public-private partnership legislation is quite flexible and allows shaping contracts between private investors and the public partner (state or territorial community) to the mutual satisfaction of both parties. Thus, in case of lease, the investor can count on a long-term business relationship (up to 50 years) and the pre-emptive right to purchase the leased object, if the state or community decides to sell it.

The reform is underway and potential investors from Turkey, Sweden, Netherlands, Georgia and the United States are already considering the prospects of Ukraine's market. The government's expediency in making necessary changes and the strategy of communities for managing their assets will determine the market distribution between competing public and private players.

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Ukraine ranks 102nd among nations in the Reporters Without Borders freedom of the press index

Filya Zhebrovska, the CEO of Farmak, Ukraine's leading pharmaceuticals producer, says her company supports the reforms being undertaken by the ministry and is ready to take steps to fit in with the ministry's plans. She believes the compensation program is a move in the right direction to establish effective national health insurance, but would like the list of products defined as "essential" to change with time in order to reflect usage elsewhere in Europe.

"If we look at what medicines European countries use compared to what people in Ukraine buy, we see that in Ukraine we're in far from the ideal situation," she told the Kyiv Post.

"We'd like to bring in more modern drugs against venereal diseases, which today ought to be accessible to everyone. But the health ministry first has to provide the fundamental medicines. We agree with this because if we don't have this solid base, we won't be able to move forward."

Zhebrovska adds that if Ukraine can reduce out-of-pocket costs for patients and reach a point where the government is paying for 20 to 25 percent of medicines, that would represent great progress toward establishing a better universal healthcare system.

Tetiana Pechaieva, the CEO of Lekhim, a smaller Ukrainian pharmaceutical company, fully supports Suprun's reform plans too, but says that when it comes to launching them, there could have been better organization.

"If you do something like this, it has to work from day one. When such things are done retroactively or in a rush, there will always be certain consequences and misunderstandings, even in things as good as this. Instead, the Ministry of Health implements the reform, and we have to try to get the hang of it, while attempting to change things at the same time," she said.

Impact of war

Market players say that more time is needed to assess how all the changes now under way in public health will play out, and see whether they will ultimately make the pharmaceuticals market more attractive for investment.

"Everything is happening fast," said Gorlova, the CEO of Support in Market Development. "The previous government talked a lot, but didn't do that much. The government now isn't saying much, but is doing a lot. It's all very new, and there hasn't been enough advertisement."

Historically, Ukraine has been strong in pharmaceuticals manufacturing, with the country being the source of many of the medicines that were commonly used throughout the Soviet Union.

"We have one of the strongest pharmaceutical sectors among all of the post-Soviet countries," Pechaieva agrees.

Today, more than 100 firms still exist on the market, with many of them having worked to obtain certificates of Good Manufacturing Practice, widely seen internationally as the highest benchmark of quality.

But investment in achieving such standards has largely come from domestic sources, with the industry seeing few inflows of foreign capital.

"There are perhaps one or two companies, but in general I don't see any pharmaceutical companies which are likely to receive foreign investment," Zhebrovska told the Kyiv Post. "We're all developing through our own money."

Pechiaeva said Russia's war on Ukraine is also having an impact on the sector's development.

"Today the problem is that we don't have a good vaccine production. We also have problems in the production of anti-tumor and anti-cancer drugs, which used to be produced in parts of Donbas that are now occupied by Russia."

Keeping balance

Farmak CEO Zhebrovska said investor interest from abroad in Ukrainian pharmaceuticals would likely increase when problems with the general investment climate in the country — such as its weak judicial system — are resolved.

Meanwhile, efforts to transform public health care will continue, with the government having drawn up reform plans that will run until 2020. Analysts say the success of the project depends to a great extent on how well the government can strike a balance between the goals of public health and the goals of the pharmaceutical industry.

"For pharmaceutical companies, this is a business," said Olga Shelest of Support in Market Development. "For the government this is not just a business — this is the business of keeping people alive and healthy. At the end of the day, they are the workforce, and the workforce has to be retained."

Ukraine ranks 84th among nations in the United Nations Development Program Human Development Index

A doctor checks a patient for Hepatitis C in Zaporizhzhya. As much as 10 percent of the Ukrainian population could be infected with the disease. (UNIAN)

Company sues Ukraine in bid to corner hepatitis C drug market

BY JOSH KOVENSKY
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Multinational pharmaceutical firm Gilead Sciences has found a way to make money in Ukraine.

The company markets an anti-hepatitis C drug in Ukraine called Sofosbuvir. The drug has a 94 percent healing rate, a potential lifesaver for the country's infected millions.

But after a competing generic appeared on the market in 2015, Gilead orchestrated a multi-pronged pressure campaign against the Ukrainian government to enforce its monopoly.

The effort — which included tactics ranging from excluding Ukraine from receiving generic versions of the drug to filing an $820 million international arbitration lawsuit against the country — has achieved at least temporary success.

In January, the Ukrainian government and Gilead reached a peaceful settlement that saw Ukraine exclude generics from the market while setting a price of $250 per pack — meaning that for a full treatment course, the cost is $750.

For comparison, the total cost of Sofosbuvir treatment in Pakistan is $45, $153 in Egypt, and $324 in India, as per a

2016 World Health Organization report.

"Gilead has prevented — in the short term — the ability of getting multiple suppliers on the market that would compete aggressively to bring down costs," said Doctors Without Borders policy director Rohit Malpani, adding that the company "has sought to inflate and seek higher prices for Sofosbuvir around the world."

Ukraine has one of the highest hepatitis C infection rates in the world. While there is no accurate data because the government does not track infection rates, the percentage of populated infected with the disease ranges from 5 to 10 percent, depending on the estimate. That's a burden of up to 4.5 million people.

The state treatment program covered around 2,000 people from 2013 to 2016. Gilead did not respond to repeated requests for comment. Health Minister Ulana Suprun did not respond to a request for comment, while the ministry directed requests to Crown Agents.

Hepatitis C

Hepatitis C lies quietly in the body for years before a person begins to present symptoms, making it difficult and expensive to diagnose.

But when the symptoms come, a patient's condition can quickly worsen. The sickness bloats and scars the liver, exposing the infected person to cirrhosis or jaundice.

"Those people who have been infected have very limited access to diagnosis and treatment," said Natalia Kravchenko, a policy and advocacy officer at the Alliance for Public Health, a Kyiv nongovernmental organization that focuses on fighting epidemics. "Nearly $1,000 for the average Ukrainian to heal this disease is really problematic."

Gilead Sciences did not develop Sofosbuvir — rather, a New Jersey company called Pharmasset invented the drug in the mid-2000s.

The drug's development revolutionized hepatitis C treatment. A 2013 New Yorker article stated that the drug transformed "a hard-to-treat illness into an easily managed disease." With a 94 percent cure rate after a full treatment course, Sofosbuvir rapidly became sought after by the world's 150 million hepatitis C patients.

Olga Burgay, program manager for treatment at the Alliance for Public Health, discusses her non-governmental organization's fight against hepatitis C in Kyiv on June 8. Burgay said that $750 for a full course of Sofosbuvir was a relatively good price. (Volodymyr Petrov)

Gilead bought Pharmasset — including the intellectual property rights to Sofosbuvir — for $11 billion in 2011. That agreement gave Gilead the rights to market Sofosbuvir around the world.

Battle of the NGOs

In 2014, the Ukrainian government began to allow international development organizations to procure medicine on its behalf as part of an effort to rid the health sector of corruption.

The Ministry of Health would develop a list of registered drugs that needed to be bought. An international organization — either the UN Development Program, UNICEF, or British NGO Crown Agents — would then buy the drugs.

Tetiana Korotchenko, Crown Agents' Ukraine representative, said negotiating on pricing can lead to "economizing" that allows the government to "increase volume" and "buy more drugs."

Doctors Without Borders claims that Gilead had attempted to corner the Ukrainian Sofosbuvir market by excluding Ukraine from a list of countries in which generic versions of the drug could be distributed. In 2014, Indian factories received licenses from Gilead to produce the drug that excluded Ukraine as a country where it could be marketed.

But in 2015, a Ukrainian company was able to register a generic version of Sofosbuvir under the name Grateziano, produced by an Egyptian factory.

Gilead immediately sued to deregister the drug and patent its own, original version. But a civil society group called the All-Ukrainian Network of People Living with HIV managed to thwart both efforts through by filing countersuits against Gilead's claims.

Mykyta Trofymenko, the Network's intellectual property counsel who called Gilead's initial $1,350 Sofosbuvir treatment pricing "exorbitant" in an August 2016 open letter, that that they were able to win legal battles based on a direct patent of the drug.

"But they were able to eventually preserve their monopoly on the basis of exclusive clinical trial data," Trofymenko said.

From the perspective of pricing, it's not clear how much of an effect the legal battles had.

"The generic that was on the market

before last year and was being bought through government programs, its price for some reason stayed close to the price of the original version," Kravchenko said, adding that her group was first to negotiate a procurement deal with Gilead to buy the drug at $300 a pack.

In the end, an organization totally independent of the ongoing battle was able to make the biggest difference in dropping Sofosbuvir's price: the United Nations Development Program, which had been contracted to procure medicine on behalf of the Ministry of Health.

UNDP Ukraine Country Director Janthomas Hiemstra told the Kyiv Post that, according to normal operating procedure, it held a tender between Gilead and the Egyptian producer to supply the drug.

The UNDP was able to bring down the price by nearly half, from an initial offering of $450 per pack ($1,350 for the full course of treatment) to $250.

Bringing the muscle

Gilead appealed the court decisions against the generic version while moving to gain a patent.

In June 2016, the company moved to file an $820 million arbitration lawsuit against the Ukrainian government under a clause of the 1994 U.S.-Ukraine bilateral investment treaty, in a process known as investor-state dispute settlement.

Malpani said that Eli Lilly, another multinational pharmaceutical firm, filed a $383 million pharmaceutical patent claim against the government of Canada, which it lost in March. Ukraine, with a GDP 6 percent of Canada's, faced an arbitration suit more than twice the size.

"The company has been pushing the envelope as much as possible to get the highest return possible," Malpani said.

Ukraine and Gilead reached an out of court settlement in January, which was signed in February. Justice Minister Pavlo Petrenko called the deal a "civilized means of reaching understanding with a big foreign investor," blaming the entire issue on unnamed "corrupt schemes" from the Yanukovych era.

Though the agreement itself remains confidential, the Ministry of Health later deregistered the Egyptian generic, preventing its sale on the market.

The settlement also locks in Sofosbuvir's price at $250 per pack — $750 to heal — giving Ukraine the lowest Sofosbuvir price in Europe while removing the NGOs of their ability to bargain further down. The current patent on Sofosbuvir will expire in Ukraine in 2020.

United Nations Development Program Ukraine country director Janthomas Hiemstra discusses efforts to procure drugs at cheaper rates on behalf of the Ukrainian government. The UNDP conducted a tender for Sofosbuvir that saw the price go down from $400 to $250 a pack. (Oleg Petrasiuk)

Alliance for Public Health Policy Advocate Natalia Kravchenko discusses hepatitis C medication in Kyiv on June 8. Kravchenko said that access to hepatitis C treatment in Ukraine remains limited. (Volodymyr Petrov)

As things stand

Questions linger over how much Gilead earns off the drug relative. But Hiemstra said that issues surrounding international intellectual property were not straightforward.

"One country is not another, one company is not another," he said, adding that pharmaceutical companies need profits to reinvest in research and production.

Olga Burgay, program manager for treatment at the Alliance for Public Health, called the price "very accessible," adding that costs in diagnosing the illness were often more problematic for average Ukrainians.

Crown Agents will continue to purchase Sofosbuvir throughout this year, as per Ministry of Health directive. The non-state pharmacy price of the drug is $350 per pack, adding up to $1,050 for the whole treatment.

Malpani questioned the basis of Gilead's intellectual property claim, noting that the company did not develop Sofosbuvir in the first place.

"Gilead is seeking to earn as much as possible off of a drug that they didn't develop," said Malpani. "That's casino capitalism, not pharmaceutical research."

Maksym Nefyodov, first deputy economic minister in Ukraine, reacts during a session in parliament on March 23 after lawmakers voted to rescind regulations that had been hampering business activity. (UNIAN)

Ukraine expects a big bounce in Doing Business ranking

BY VERONIKA MELKOZEROVA
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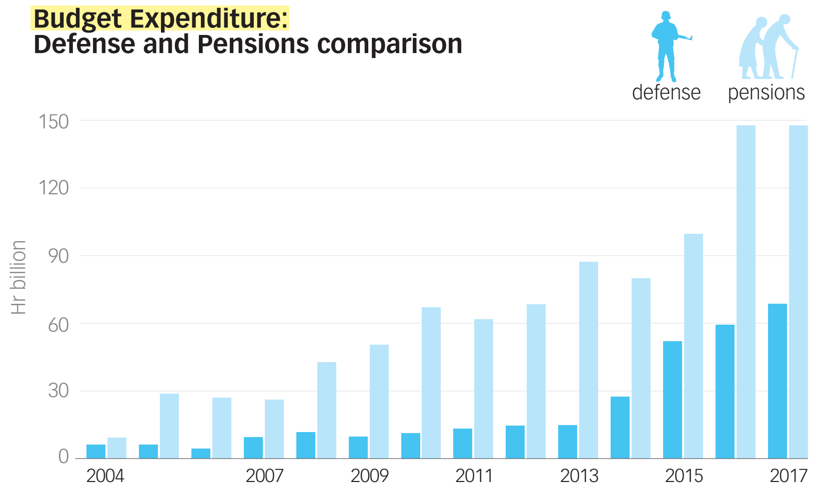
The Ukrainian government expects the nation to jump 10 positions in the World Bank's Doing Business Ranking in 2018, Maksym Nefyodov, first deputy minister of the economic development and trade of Ukraine, said during a press conference on May 30.

Nefyodov said Doing Business is not merely a ranking. Top 10 countries usually get 50 times more foreign direct investments than the last 10 states.

While it is now closer to the top 10 countries than the bottom 10 countries, Ukraine still has a big climb ahead of it.



Source: Center for Social and Economic Research (Ukraine, NGO)

Ukraine spends far more on pensions than defense, but both categories are climbing. Ukraine will spend 12 percent of its gross domestic product of $100 billion on pensions this year and 5 percent on national defense. The state budget is $40 billion annually.

Ukraine took 80th place among 190 countries in 2017, improving its 81st place showing in 2016. So even rising 10 positions in 2018, if it happens, won't do a lot to make Ukraine a hot investment destination.

But progress is taking place in several areas. In the starting business index, Ukraine has improved four places to 20th place. In minority investors protection, it stands at 70th place, up 31 slots. In contract enforcement, Ukraine has moved into 81st place, up 12 places.

"The Doing Business ranking is one of the basic waymarks for investors when they decide in which country to invest money. This year we initiated an independent mission's visit in Ukraine that studied the government's reforms and their effect," Nefyodov said.

As of April 2017, cumulative foreign direct investment in Ukraine stood at $38.5 billion since 1991 nationhood, the State Statistic Service has reported. It's a paltry sum compared to most European nations.

Russia's ongoing war against Ukraine in the eastern Donbas, Ukraine's endemic corruption and its Soviet-style bureaucracy are cited as the main reasons why the business environment remains unhealthy for investors.

"World Bank experts didn't come to Ukraine last year, so we were a little underrated in last years' ranking. If the experts take all the changes into account, that would bring Ukraine up to 10 positions higher," Nefyodov added.

The World Bank mission finished its work in Ukraine on May 31 and Ukrainian officials hope the experts will appreciate their efforts in trying to improve the business climate in Ukraine.

Oleksiy Honcharuk, the head of the Better Regulation Delivery Office of Ukraine said during the press conference on May 30 that in 2016–2017 the government has done a lot to improve the investment climate and the easy the doing business process in Ukraine.

According to him, the main improvements were: the penalty for government officials who refuse to accept documents without stamps, simplification of the land plots ownership registration process, and much more.

Less bureaucracy

Ukraine's tangled, time- and money-consuming bureaucratic procedures have long been breeding grounds for corruption. Ukraine was a leader in the unflattering ranking of the most corrupt countries in the world for business in 2016 compiled by the international consulting agency Ernst&Young.

According to EY, 88 percent of the entrepreneurs who took part in its survey were confident that bribery and corruption are widely spread in Ukraine's business circles, while 37 respondents were ready to pay bribes for signing or prolonging contracts.

The Better Regulation Delivery Office of Ukraine report on doing business in Ukraine in 2018, reads that the process of registering a new business was made quicker in 2016.

Now an entrepreneur can register his or her business online in one day, instead of the three days that was needed before.

The government also canceled obligatory stamps on the documents. From July 19, an entrepreneur is not obliged to have an official stamp to be considered a "real businessperson" in Ukraine.

"The cancellation of the stamps has destroyed one more bureaucratic procedure, saved one more day and Hr 200 for a businessperson," said the report, published on May 30.

The unified social tax decreased to 22 percent (instead of 38 percent before).

Easier and more transparent

A good location is also important for a successful business. But when a person in Ukraine wants to start construction of a business center or a residential building, he firsts needs to find the owner of the land plot, then get the dozens of permits and undergo about six inspections by state agencies before building work can even start.

In 2016–2017, the government carried out the expert review and approval of a land plot unnecessary for notarization of a deal between partners. According to the ministry, that saves about ten 10 days and Hr 1,000 for business.

The notaries, who previously used to pay Hr 68 and wait for about 10 days to get a response from the land cadaster of Ukraine, in 2016 got free online access to the land ownership database.

"The information about the landowners is available online. Businesspeople are now obliged to disclose information about the deals that might involve a conflict of interest," read the ministry's report.

The government has created the special mechanism to help the entrepreneur legally challenge the actions of public register employees.

Construction permits

Ukraine is still at a low, 140th position in the getting construction permit ranking in the 2017 Doing Business ranking.

However, Lev Partskhaladze, the deputy minister of regional development, construction and housing and the utility sector of Ukraine told the Kyiv Post on June 2 that the government has made several major changes in the construction sector that will improve Ukraine's performance.

A new bill on improving the conditions of the construction business, which entered into force on May 12, will make getting construction permits easier in Ukraine.

It cancels the procedure for getting the technical requirements of an object from the State Emergency Service of Ukraine for a second time after the construction project has already been approved by it, Partskhaladze said.

To make construction easier, the government made some changes in the legislation. In 2017 the equity contribution a construction company has to contribute to the city budget is to be lessened from 10 percent to two percent.

The ProZorro online system of public procurement has allowed there to be a 1.8 percent decrease in cost for businesses on quality technical control work during construction.

The construction project creator and quality control engineer are obliged to have a higher education.

The time an entrepreneur needs to get the technical documentation was decreased by 11 days, while the procedure of property registration was simplified and decreased in time by six days.

International trade

Ukraine is slowly but steadily moving forward in the international markets. In May, the Netherlands finally ratified the European Union Association Agreement with Ukraine. The treaty came into force in 2016 and allowed Ukraine to export goods to the European Union without paying customs tax.

Ukraine's State Trade Representative Nataliya Mykolska has said on Facebook, that Ukraine's export to EU increased by 28 percent in four months of 2017.

On June 2, Canada's General Governor David Johnston signed the Free Trade Agreement with Ukraine and with that opened up another market for Ukrainian producers.

In August, Ukraine will get the right to trade with Canada and export 98 types of goods tax-free.

Moreover, Ukraine's Ministry of the Economic Development and Trade initiated changes to the list of dual-use items, decreasing their number, and as the result simplified the work of entrepreneurs. It is expected that this will improve Ukraine's international trade performance, reads the ministry report published on its official website.

Small business

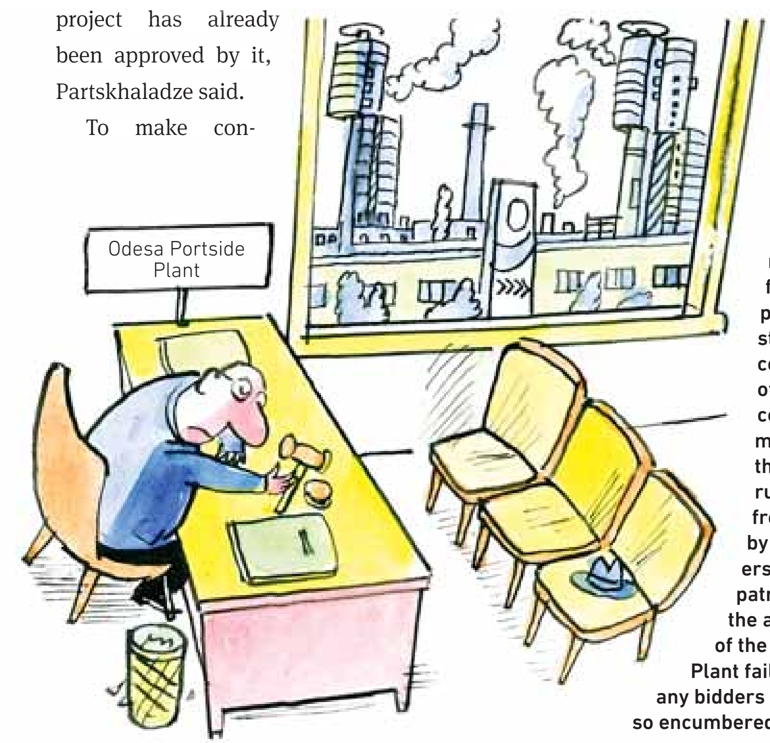
Oleksii Dorogan, the head of the rolling review of the Better Regulation Delivery Office of Ukraine, told the Kyiv Post on June 6 that the health of smaller businesses is the main indicator of a country's investment climate. "If they feel confident, that means everybody will feel the same, Dorogan said.

"But while big business usually has money for good lawyers and advisers, small businesses usually feel lost in the market," Dorogan added.

With the Economy Ministry, the Better Regulation Delivery Office has launched the ProPlatform, a free online resource, that would help new entrepreneurs to orient themselves in Ukraine's changing business environment.

"After passing a small test, the business person would get step-by-step guidance on how to start and do business in Ukraine," the expert explained.

"Progress in the (Doing Business) ranking can't be a goal in itself. It is more like a marker of reform success in the country, that will help to bring foreign investment to Ukraine," Honcharuk said during a press conference on May 30.



Ukraine hoped that the sale of the Odesa Portside Plant would create momentum for its drive to privatize 1,800 state-owned companies. Many of the companies cost the state money becaue they are badly run and fleeced from the inside by their managers and political patrons. However, the attempted sale of the Odesa Portside Plant failed to attract any bidders because it is so encumbered by debt.

Ex-People's Front party lawmaker Mykola Martynenko appears in Kyiv's Solomyansky Court on April 21 after his arrest on corruption charges that he denies. Martynenko is accused of embezzling $17 million during uranium ore sales to the state-owned Eastern Ore Dressing Plant. (Volodymyr Petrov)

When will gray economy in Ukraine get any lighter?

BY RAHIM RAHEMTULLA
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To do business today in Ukraine is to come into contact with the shadow economy.

Be it in the form of an employee asking to be paid in cash, a bureaucrat soliciting a bribe to issue a document or a partner looking for an off-the-books offshore payment, gray schemes abound.

Operating in an entirely legal manner is possible, but requires a strong ethical stance.

"It is by no means impossible to do business in Ukraine in a true and fair way," Volodymyr Chyzhikov, a senior manager at consultancy KPMG, told the Kyiv Post. "But you need to be ready to say no when officials or business partners ask you to do things that you don't want to do."

The majority of Chyzhikov's clients are multinationals who have strict policies never to pay bribes or engage in any other unofficial practices. They operate solely in the "white" economy, paying employees' salaries — as well as taxes and social payments — through all the proper channels.

"Almost every day we hear from the executives of international business here in Ukraine that they don't pay any bribes at all, as a matter of principle. They are even ready to close down their business here instead of paying," he said.

The consultant says he never has — and never will — propose that a company pay a bribe. He admits, however, that some have done so, against his advice.

In the black

Exactly how much economic activity in Ukraine takes places in the shadows is hotly debated. Depending on how it is calculated, current estimates put the figure at anything from 35 to 50 percent of gross domestic product — among the highest rates in Europe.

"The most widespread types of shadow activity in Ukraine are tax avoidance though undeclared income, unregistered sales of legitimate goods, and paying salaries in envelopes," according to Vasyl Povorozny, of the International Centre for Policy Studies.

Some transactions remain entirely outside official calculations. One source of such activity is what is traditionally termed "the black economy." This includes criminal enterprises such as the illegal sale of drugs and weapons, for which there are no reliable statistics.

Further such illicit flows of income come in the form of money moved offshore, including through schemes such as transfer pricing, which occurs when divisions of a company conduct transactions with each other, usually across borders.

According to think tank Global Financial Integrity, as of 2014 some $117 billion originating in Ukraine had accumulated in offshore accounts. The Tax Justice Network has put that figure at $167 billion.

Sergey Korablyn, an economics professor at Ukraine's National Academy of Sciences, has stated that Ukraine loses an estimated $11 billion to $12 billion per year because of money being moved to offshore accounts.

Under the table

The Minister for Social Policy Andriy Reva, meanwhile, has said that one-fourth of Ukrainian workers are wholly or partially hired on an unofficial basis.

The former head of the State Fiscal Service Roman Nasirov, who is himself implicated in a high-level corruption scheme, has estimated that of the 20 million people employed in Ukraine, just over half pay tax and make social payments.

According to his calculations, 30 to 40 percent of those who do pay tax declare that they earn the minimum wage — Hr 1,600 ($60) per month in 2016 — with the rest of their salaries almost certainly paid to them in cash under the table.

Experts say because so much activity in the informal sector also contains some legal elements, it is impossible to separate out the shadow economy and then add it to official data to arrive at a figure for the "real" size of the Ukrainian economy.

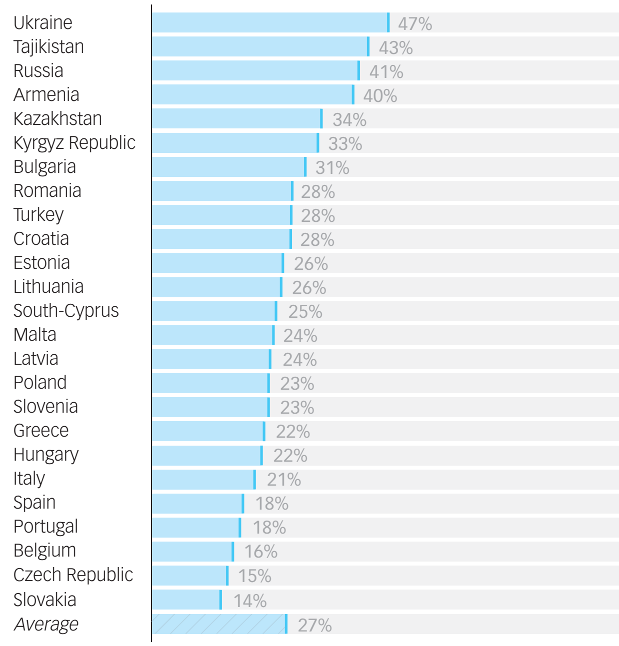
"It's quite difficult to distinguish, because if you receive the minimum wage or a little more than minimum, that is done so as not to attract the attention of the tax authorities," said Povorozny.

"So you are both in the shadow economy and outside of it."

To overcome this problem, gross domestic product — $90.94 billion in Ukraine in 2015, according to the World Bank — is calculated in such a way that, at least in theory, it captures all possible channels through which value in the economy is created, including shadow channels.

A comparison of the shadow economies of 18 European plus 6 Eastern countries in 2015, in % of official GDP

Ukraine's shadow economy, among the biggest in Europe, is usually estimated at between 35 and 50 percent of GDP. In the "black economy" meanwhile, between $117 and $167 billion originating in Ukraine is believed to have accumulated in offshore accounts.



By Stella Shabliovska, Kyiv Post *Source: Friedrich Schneider, Johannes Kepler University*

Cash economy

For many small and medium-sized businesses, hiding money offshore is a grander scheme than they require. Their shadow activities tend to take place at a smaller scale.

One Kyiv-based entrepreneur, who spoke on condition of anonymity, said at her start-up she routinely gives salaries to her staff in cash in order to avoid paying taxes, just like "99 percent" of businesses in Ukraine.

Officially, she is the only one employed at her company, with others completely off the books and some working as "private entrepreneurs" which means the tax on their wages is just five percent. She told the Kyiv Post her employees do not object to being paid unofficially and that the risks to her are low.

"I'm happy that our fiscal service at the moment isn't concentrating on small businesses," said the source. "The amount of money which goes through my company is not big, so it's not interesting for them."

But working according to such gray schemes does present dangers, the biggest one being that business owners who use them leave themselves open to being blackmailed or having to pay bribes.

"The fiscal service can use it against me, that's a risk," said the source. "I wouldn't know what to do if they came knocking on my door. I'd like to be more transparent in future and hire people officially, but it's really a lot of money."

Bureaucratic nightmare

Observers say much of the problem of undeclared economic activity lies in the many layers of bureaucracy that accompany transactions involving the state. A hangover from the Soviet era, the problem is two-fold: not only does it give officials ample opportunity to ask for side payments so that bureaucratic hurdles can be sidestepped, it also encourages businesses to simply avoid dealing with the state altogether.

KPMG consultant Chyzhikov puts it simply: "Bureaucracy leads to corruption." He said that since many big and mid-sized enterprises were founded in the early 1990s, when lawlessness was at its peak following the collapse of the Soviet Union, a mentality of operating beyond the reach of government has become ingrained in Ukrainian business culture.

Seeing the light

Efforts to break this habit are today being made by Ukraine's Business Ombudsman Council, which recently created a network to bring together companies who want to work transparently.

Ombudsman Algiras Semeta said that it is crucial entrepreneurs understand that by staying in the gray economy, they become part of the problem.

"Those who act in the shadows are much more prone to corrupt behavior, because they are always in a position of risk," he told the Kyiv Post. "They're creating opportunities for the demanding side to easily get a bribe or another corrupt payment."

According to Semeta, shrinking the shadow economy would also have the added benefit of stimulating competition, which could in turn attract foreign investment. For now, those who conduct their business according to the letter of the law are at a disadvantage.

"Foreign businesses who want to come here see that there is a high degree of shadow economy in the sectors where they intend to enter," he said. "That creates a completely uncompetitive environment for them.

"Usually, Western investors are bound to compliance and business integrity rules. That puts them in an unequal situation with those who act in the shadows."

Getting things clear

Although Semeta and his team concentrate their efforts on persuading business to quit the shadow economy, they are well aware that government has just as much, if not more, of a role to play. The Ombudsman said that more transparency and accountability from the state in its administration of the public finances is essential to solving the problem.

As an example of how things should be done, he points to Scandinavian countries, where public services are highly valued and taxes willingly paid.

"They have high tax rates but the culture of paying taxes is extremely good," said Semeta. "That happens because every euro or dollar spent in those countries is accounted for. People know where and how the state spends their money."

In Ukraine, by contrast, the issue is a lack of trust. Employers and employees say that they don't know what happens to the taxes they pay and often suspect they end up misspent.

"People have seen the results of the asset declarations (made by public officials in 2016) and the millions of dollars in cash that some MPs and ministers have," said Povorozny of the International Centre for Policy Studies. "They think, and partially it's true, that the source of this wealth is tax money."

Alexandra Azarkhina, an entrepreneur who runs her own public relations firm, echoes those sentiments. "You pay taxes and you don't feel like you did a good thing," she told the Kyiv Post. "Normally, I'd pay proudly, but in the end I wonder — where did that money go?"

This metal room located at the headquarters of Ukraine's Tax Service was built on the watch of former Minister for Revenues and Duties Oleksandr Klymenko. It's purpose - or how it was financed - is unclear. Entrepreneurs say such a lack of transparency over how public money is spent is one of the main reasons they seek to avoid paying tax. (Pavlo Podufalov)

Mutual understanding

For now, Ukraine is stuck in a vicious circle: low quality public services discourage people from paying taxes, meanwhile government complains it does not have enough money. Breaking that cycle, and creating a culture of paying taxes, will take more than just time. It also requires business to start seeing the state as something more than just a problem to be avoided.

"It's a matter of trust," said Povorozny. "If you don't trust official institutions, you invent informal ones."

Kyiv Post staff writer Denys Krasnikov contributed to this article.

TELECOMS/IT

SECTION PARTNER

Ukrainians have shown they are quick adapters to new technology. After waiting years for faster 3G internet, telecoms companies in Ukraine — a sector dominated by Kyivstar, Vodafone and lifecell — are investing heavily and hoping to bring even faster 4G service to the nation by next year. (Volodymyr Petrov)

Ukraine's carriers invest in mobile broadband, dream of 4G for 2018

BY DENYS KRASNIKOV
KRASNIKOV@KYIVPOST.COM

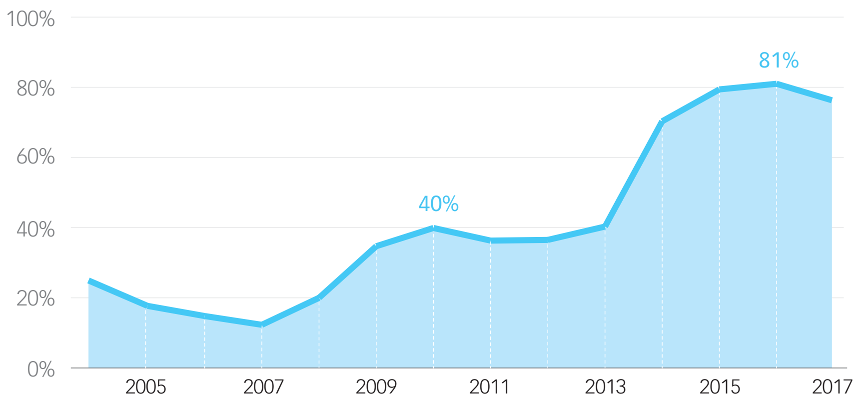
It's been two years since mobile operators started rolling out third-generation internet in Ukraine — years after most other European countries. And it's still the talk of the market.

Kyivstar, Vodafone Ukraine and lifecell, the top three Ukrainian cellphone operators, who service a total of 60 million active SIM cards in Ukraine, are continuing to pump millions into the rollout of 3G in Ukraine. So far, they have covered less than half of Ukraine's territory, and are primarily focusing on big cities for now.

Compared to the rest of Europe, 3G in Ukraine is more than a decade late: EU countries started to introduce mass market commercial 3G services back in March 2003. Ukrainian carriers only started in 2015.

But despite the lag on their 3G rollout, the big operators are already planning to launch the faster and higher capacity 4G standard. As countries with more developed cellphone markets are only just starting to introduce 4G, Ukraine will have a chance to catch up — if everything goes smoothly.

Ukrainian debt, % of GDP
(both internal and external)



Source: Center for Social and Economic Research (Ukraine, NGO)

Ukraine's public debt has risen in recent years and stands at 80 percent of the nation's gross domestic product. Ukraine must pay off $16 billion in debt in the next two years, an amount that will strain state finances.

A gain for all

On March 23, Chairman of the National Commission for the State Regulation of Communications and Informatization (NCCIR) Alexander Zhyvotovsky announced the start of preparations to hold a tender for 4G licenses.

If the government approves of the NCCIR's roadmap — deciding on the cost of licenses, accepting changes in radio frequency allocations (some frequencies are used by the military now) and a procedure for conversion — the tender is to take part in 2017, with the launch of 4G happening in 2018.

"The rollout of new technologies like 4G will be a gain for all," says Maxim Savchenko, Kyivstar's regulatory advisor. "The market will gain new opportunities, the government — more taxes raised by new services, and subscribers — broader possibilities for communication."

Savchenko also says the 4G rollout represents a chance for Ukraine to catch up with the rest of the world, at least in terms of cellphone services.

"The country must work a lot, and hard, to reduce the gap between it and Europe in the telecoms industry. This must be done, and it can be done, by implementing 4G in Ukraine (as soon as possible)," says Savchenko.

Today, about 70 percent of the data traffic of Ukrainian mobile operators is generated by 3G users, and 4G will boost this still further by making higher quality services available.

The average speed of 4G is at least three times faster than any modern 3G technology. That will allow users to exchange "data-heavy" content, stream high-definition television, and even watch 4K resolution video.

Market players say 4G will also open up possibilities for many cutting-edge technologies, such as the internet of things, machine-to-machine communications, mobile health (m-Health), smart city services, and allow more automation and data exchange in manufacturing technologies.

Big investment

However, the introduction of a new generation of cellphone services always demands massive investment. Kyivvstar, for example, spent $142 million on its 3G rollout, plus $100 million spent on licenses. Vodafone Ukraine and lifecell put in similar sums — $283 million and $238 million respectively.

"It is difficult to make any assumptions on how quickly we will return these investments, even looking ahead," Savchenko said. "The telecoms industry has never (seen) ... rapid investment returns, even in favorable conditions."

Ukrainian cellphone operators say the country's shaky economy and other domestic difficulties, including the turmoil generated by Russia's war in the Donbas, are making things that much more difficult.

And taking into account that the 3G network build-out is still sucking a lot of capital out of the operators, 4G could be too much of an additional burden to take on at the moment. According to Kyivstar's estimates, most of the expenditure is expected to be on licenses. Kyivstar's Savchenko says if the regulator cuts their cost, the operators will be able to reinvest the money saved into a faster 4G rollout.

Lifecell, the smallest of the three leading cellphone operators, sees other problems that might hold up 4G. According to Andrey Krylya, the director of corporate regulatory and jurisdictional relations at the company, limits on competition in the market are making it inefficient, which in turn will hamper the 4G rollout.

"The effective implementation of new technologies is possible only on an effective market, where there's competition," Krylya said.

According to him, two things have to be done to fix the situation.

First, mobile number portability has to be introduced, finally giving Ukrainians the ability to change mobile operators without losing their old phone number.

Second, all the market players should have equal rights, regardless their size, to eliminate current abuses of market power by the dominant players.

"Only then will the operators have a stimulus to develop and offer new quality products (like 4G)," Krylya says. "As for the urgency of rolling out 4G, the readiness of all the operators to start rolling them simultaneously has to be considered."

Krylya says Ukraine's 3G coverage is still far from 100 percent, and as soon


KYIVSTAR
BUSINESS
20
YEARS
WITH UKRAINE
Skype for Business
Exchange
Outlook
Word
Excel
PowerPoint
OneNote
OneDrive
Access

as the carriers start investing in 4G, 3G development will rapidly slow down. That, in turn, will widen the services gap between residents of big cities and rural areas.

He says operators should focus more on 3G, and stop thinking about developing 4G in Ukraine for now.

Moreover, the fact that Ukraine started to introduce 3G so late has its positive sides, according to Krylya. The quality of the network is sometimes better than 4G in some European countries, because when launching 3G the Ukrainian companies used the latest available equipment, he said.

Economic benefits

Lifecell now says it has the widest geographical 3G coverage in Ukraine — 20 percent of the country, with the goal of covering 100 percent.

And Krylya insists 4G is little different from 3G.

"It's faster, but that's it," he said. "Only 5G will bring new services."

Instead, Lifecell thinks Ukraine should simply skip 4G, wait until 5G is developed, and then implement that.

"5G is a new market with a myriad of opportunities and rich functionality. If we want a breakthrough in Ukraine and to take part in the development of new technologies, we need to understand that 5G will appear before it is economically feasible to launch 4G."

But Kyivstar's Savchuk does not think it's wise to skip 4G.

"We don't agree with this approach," he says.

5G might only start to enter commercial use by the end of 2020, he said. "The state of economy of Ukraine and its prospects doesn't give us much hope that we'll be among the early adopters."

Ericsson Senior Vice President and Head of the Europe & Latin America Market Area Arun Bansal also thinks skipping 4G is unwise. For him, it's a question of economics.

According to Bansal's estimates, every 10 percent increase in mobile broadband penetration in Ukraine can increase the country's GDP by 1.1 percent.

"Today you might feel in Ukraine that 3G is enough, but with the growth of video services, you'll need 4G, and when you go to multiple industries, you'll need 5G," he says.

But to get to 5G, Bansal says, 4G infrastructure will be needed first, and before that 3G. Once an operator has 3G or 4G infrastructure set up, it will be easier for them to build 5G on top of it.

The economic benefits of 5G could be enormous.

"5G will enable the economic growth of a country by helping other industries be more efficient," Bansal says. "Mobile operators will be able to earn $562 billion in additional revenues by 2026" and play a role in connecting billions of new devices.

"While 3G and 4G are technologies that basically connect people, for 5G, that's just one of the uses. 3G and 4G are for consumers, while 5G, due to its speed, can support different industries — connecting together cars, electricity grids, and factories."

Kyivstar CEO Peter Chernyshov speaks at the Kyiv Post CEO Breakfast on Feb. 12. (Volodymyr Petrov)

Ukrainian IT market keeps rising as if in a world apart

BY DENYS KRASNIKOV
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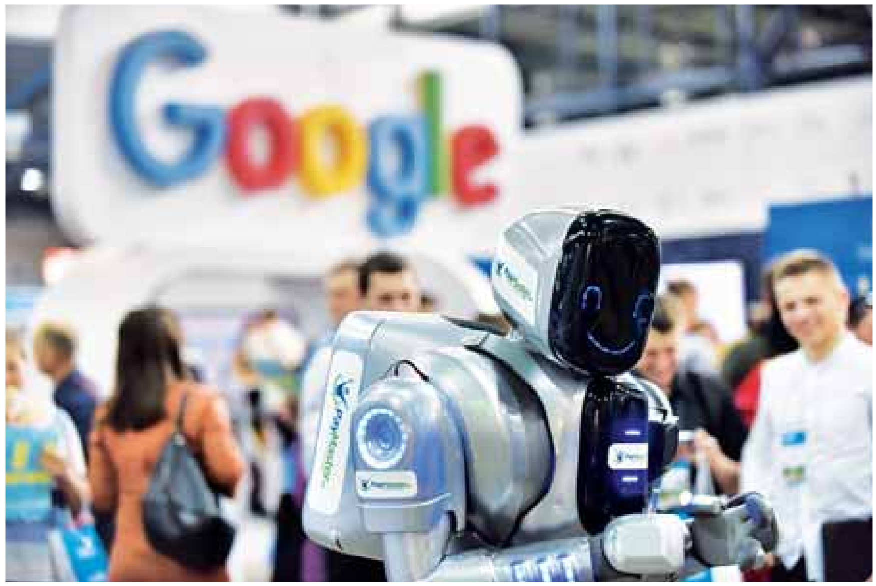

A robot (in fact, an exhibition participant dressed as one) entertains iForum guests in Kyiv on May 25. IForum is a business forum that's reckoned to be the largest one in Ukraine dedicated to the IT industry. (Oleg Petrasiuk)

Call it an economic virtual reality.

Over the last three years, while the rest of the Ukrainian economy struggled due to the turmoil generated by Russia's war in the Donbas, the information technology sector, as if in a world apart, has been continuing to power up.

Just last year, at least 86 investment agreements were struck between backers and Ukrainian tech companies — the highest number since Ukraine became independent in 1991.

Most of these investment agreements — 73 out of the 86 — were made with startups at the seed stage, meaning those that have prototype products and are just starting operations on a market. There was only one deal involving a tech company at the Series B, or post-development stage, while the agreement details of the other 12 deals remain undisclosed.

At the same time, the total amount invested in Ukrainian startups in 2016 ($88 million) was 33 percent less than in 2015, even though 22 more deals were closed. The average investment in deals dropped to $1 million.

According to Andrey Kolodyuk, a managing partner at venture firm AVentures Capital, the sector attracted less money in 2016 than in previous year because there were several one-off, large-growth stage deals back in 2015, including the acquisition of Odesa facial recognition app developer Looksery by U.S. messenger company Snap Inc. for a record $150 million.

Overregulation

Not all of the investment in the sector came from abroad: AVentures Capital, TA Ventures, TMT Investments and Digital Future are among the most active Ukrainian investment companies, according to online tech journal AIN.ua. In total, the country has five incubators and accelerators, one corporate fund, 17 venture capital funds and eight private equity funds.

Still, around 60 percent of all the deals closed were with foreign partners, while foreign capital accounted for 80 percent of the total investment volume in 2016 (not counting undisclosed agreements), according to Kolodyuk.

"(Such a share of foreign capital) is the best indicator that the business climate in Ukraine is improving," the investor says. "It's a signal to the whole world that it's possible and necessary to invest in Ukraine."

Denis Dovgopoliy, the managing partner of GrowthUP Group, a tech sector development company, agrees that Ukraine's IT sector is on the up, but cautions that compared to Europe and the United States, growth is modest.

"And we still have an overregulated economy," Dovgopoliy said.

"Thank goodness that the number of searches (at the offices of) IT companies has gone down," he went on, referring mainly to the period in late 2015 when Ukrainian law enforcement launched numerous surprise raids on tech companies, saying they were looking for "suspicious data."

The heavy-handed way law enforcement conducted those searches either partially paralyzed some tech companies or brought them to a complete halt. And while the companies were publically accused of spreading pirated content, tax evasion, hacking and even terrorism, none of the searches is known to have led to any criminal charges, or even a criminal investigation.

However, the searches did spark a damaging conflict between the managers of top Ukrainian tech firms on one side, and the Ukrainian Interior Ministry and the Security Service of Ukraine, known as the SBU, on the other. Some tech companies even moved their offices abroad as a result of the raids.

Legal bugs

Apart from harassment by law enforcement, the tech sector also has to deal with an out-of-date legal and regulatory environment — Dovgopoliy points out that Ukrainians still can't legally incorporate a company abroad, and that much of the Ukrainian legislation on companies dates back to the times of the Soviet Union.

"(The legislation) was revised (when adopted after independence), but in a minor way," he says.

A radical legal upgrade is needed, Dovgopoliy believes — the government should either completely rewrite all of the laws, or copy English company law, he says.

"Unless (the legislation) is in order, I don't believe there will be any (great) investments in our local market."

The figures bear him out — in almost all cases when investors put money into Ukrainian startups, they expect the tech firms to operate globally, focusing on markets much bigger than the Ukrainian one. That's true for all of the big names: Sixa, Mobalitycs, Concepter, Kwambio, Petcube, People.ai, Allset and many others.

"The local market's dead," Dovgopoliy said, adding that Ukrainian startups tend to target the vast and non-fragmented market of the United States. "I don't know a single serious startup that would be a (purely) Ukrainian company."

And while Ukraine is a great place to hire talent, it's at a disadvantage compared to other tech hotbeds in the region, such as Estonia, because of its poor international image and reputation for pervasive corruption, which tends to scare off potential investors, Dovgopoliy said.

"Regarding the pool of talent and the cost of labor, Ukraine is a good place to develop a tech company," he says. "(But the negative image) puts people off. That's why most startups try to conceal their Ukrainian roots."

Ukraine attracted only $3 billion in foreign direct investment in 2015 and $4 billion in 2016. Poland, by contrast, attracted $14 billion in FDI in 2015 and $16 billion in 2016.

According to Dovgopoliy, this is unlikely to change within the next five years. Until then, Ukrainian companies will continue to base their development operations in Ukraine, while headquartering abroad.

Meanwhile, the talent pool in Ukraine keeps on growing. One of the leading Ukrainian freelancing platforms, Freelancehunt.com, had 165,000 registered users by the end of 2016 — three times more than it had in 2015.

Vladyslav Kryveshko, the founder and CEO of another popular freelance platform, Proffstore, thinks the amount of freelancers will continue to grow.

"Above all, this is because of the economic situation in our country," Kryveshko said. "Prices are going up, wages are not."

As a result, Kryveshko said, more Ukrainians have started to earn money on the side — by freelancing.

At the same time, top outsourcing firms are continuing to take advantage of Ukraine's skilled yet inexpensive IT workforce. As of the end of February, Ukraine's 50 biggest software outsourcers together employed almost 43,000 people, according to the report by software developer community DOU.ua.

The largest employer within the industry is EPAM, which has 4,600 staffers in five Ukrainian cities. The second and the third are SoftServe and Luxoft — with 4,491 and 3,700 workers respectively. All three are firms with global brand recognition.

Meanwhile, at the beginning of 2017 some 13 Ukrainian outsourcing companies won places on the International Association of Outsourcing Professionals (IAOP) annual list of top tech firms — the Global Outsourcing 100.

Those listed are either subsidiaries of international tech companies that have research and development, or R&D offices in Ukraine, or are purely local IT firms.

The ranking included EPAM, Luxoft, Ciklum, Intetics, TEAM International Services, and Softjourn, all of which have R&D centers in Ukraine. The six local Ukrainian firms are N-iX, SoftServe, Program-Ace, Eleks, Miratech, Softengi and Sigma Software.

According to PWC, the Ukrainian market of IT outsourcing has every chance of growing to be worth $5–7 billion in the near future.

However, AVenture Capital's Kolodyuk still thinks tech startups will be the main driver for future investment in Ukraine's IT sector. He reckons there are at present about 3,000 startups in Ukraine working in a range of areas and at various stages.

"We believe not only that the number of projects will grow, but that their quality will evolve as well, attracting more investors to do deals with our entrepreneurs," Kolodyuk said.

SECTION PARTNER

Roman Nasirov, chief of Ukraine's State Fiscal Service, sits during a hearing at the Kyiv Court of Appeal on March 13. Special anti-corruption prosecutors accused the official of embezzling $74 million in state funds by abusing his official powers. (Volodymyr Petrov)

Investors say tax rates are not biggest deterrent to business

BY OLENA SAVCHUK
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Among investor worries, Ukraine's current tax rates aren't at the top of the list. Ukraine started lowering tax rates in 2015, bringing them closer in line with those of other European states.

Instead, it's the administration of taxes, and the corruption that has gone along with it, that are bigger concerns.

Ukraine has been improving its ranking in indexes that track how many people pay their taxes over the past six years. One joint PwC and World Bank study gauges how easy it is for a standard medium-sized company to pay its taxes — since 2011, Ukraine has moved from 181st to 84th place among 190 economies, the biggest leap in recent years.

The tax burden on business was significantly reduced when, starting from 2016, the government halved the social contribution payment from an average 41 percent to 22 percent of a worker's official salary.

Despite pressures to lower taxes even further to stimulate economic activity, Ukraine's key creditor, the International Monetary Fund, warns against major tax cuts, which it says "would lead to substantial revenue losses."

Vladimir Kotenko, an EY Ukraine partner specializing in taxes, said that Ukraine's tax rates are relatively low compared to the rest of Europe.

"But the tax rates should be considered in the context of how much they hinder or promote business activities, or if they exert no influence at all," Kotenko said. Other impediments like political instability and the lack of rule of law are likely to be a greater deterrent to investors.

Fiscal climate

Nearly half of all complaints received by the Ukraine Business Ombudsman Council in 2016 involved disputes with tax authorities. Tax inspections, delays in obtaining value-added tax refunds, and criminal proceedings launched by the State Fiscal Service remained.

Characterized by the International Monetary Fund as overstaffed, inefficient and lacking accountability, the State Fiscal Service is notorious for its corruption, including the recent arrest of its former chief, Roman Nasirov, on charges of defrauding the state of $74 million. Nasirov denies the charges.

Other issues include contradictory, bureucratic and ambiguous tax legislation. The electronic tax reporting system does not work effectively, while fiscal authorities perform complex audits on businesses. The fiscal service also demands that businesspeople pay taxes in advance to meet quotas.

In April, improvement came with the launch of the automatic value added tax refunds. It's working already. According to Oleksandr Minin, a senior partner at tax consulting firm KM Partners, "the level of tension with the tax authorities has decreased."

Before, many firms had to wait months for a VAT refund, with businesses eventually paying bribes to get their money back.

The list of VAT refund requests can now be found on the Finance Ministry's website. Minin said the number of serious complaints has gone down. "It's not perfect, there are some drawbacks," he said. "But the attempt to build transparency generates trust."

The government is also preparing to reorganize the State Fiscal Service.

The institution was downsized by 20 percent, and the group's audit service was partly centralized at the oblast level. However, the government has yet to establish a new management structure.

But a recent poll conducted by the European Business Association suggests that the business community is inching towards positivity. The poll registered an average of 2.58 out of 5 on a scale of how satisfied people were with tax authorities. That's low, but it's the highest ever since the scale was first introduced in 2011.

Business expectations

To make Ukraine's tax system more business friendly, EBA experts call for introducing personal liability of tax auditors and inspectors for investigations that they conduct, and the introduction of a politically unbiased body for probing financial crimes.

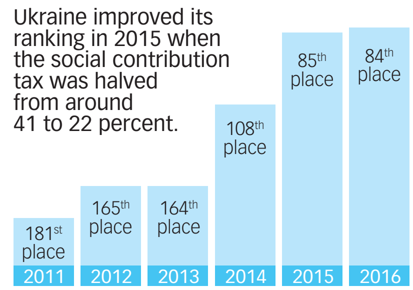
Kotenko, however, says that State Fiscal Service reform alone will not make Ukraine's tax system less of a disincentive to foreign investment.

Kotenko espouses a familiar tax adage: broaden the tax base. But in Ukraine's case, that needs to be done by deshadowing the economy, reducing government spending and greater progressivity income, sales and property taxes, based on the ability to pay.

The less government spends, he argued, the less taxes it needs, reducing the incentive for local officials to extort money to meet budget quotas.

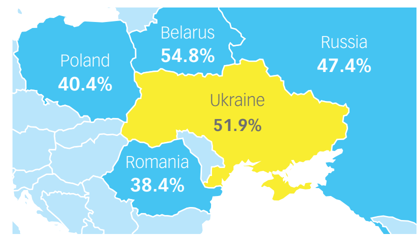
"Unless the state's financing needs fall, it's unlikely that the fiscal pressure will decrease," Kotenko said. "These two pipes are linked."

Ukraine's progress in Paying Taxes Index

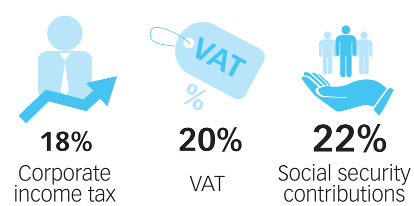


Ukraine vs neighbors in Paying Taxes Index

The average tax burden on business in Ukraine is 51.9 percent.



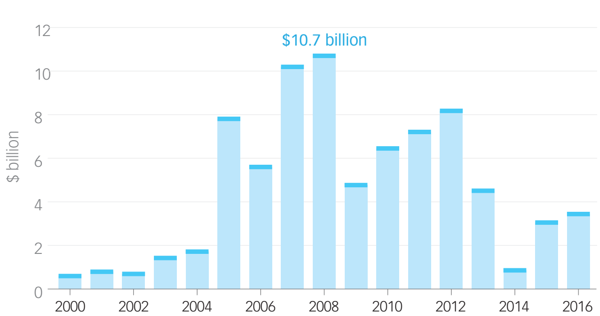
Key tax rates on business and individuals in Ukraine



By Stella Shabliovska, Kyiv Post
Sources: PwC, EY

Ukraine's tax rates have been lowered, but complaints remain about corruption.

Foreign direct investments in Ukraine, net flow



Sources: IMF, National Bank of Ukraine, UN Conference on Trade Development

Ukraine has never been able to attract large amounts of foreign direct investment to propel the economy, unlike many of its neighbors, such as Poland.

Daniel Bilak: Opportunities abound for foreign investors in Ukraine

BY BERMET TALANT
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Daniel Bilak, director of InvestUkraine, speaks to the Kyiv Post at his office on June 1. (Kostyantyn Chernichkin)

Deep inside the massive Soviet-era building of the Cabinet of Ministers of Ukraine, there is a small Western-style open-plan workspace. A glass wall separates it from the surrounding world of huge offices with secretaries and waiting halls.

This is the realm of Daniel Bilak, a Canadian lawyer who was among the first Westerners to move to Ukraine in its early days of independence.

Today, Bilak serves as the chief investment adviser to Prime Minister Volodymyr Groysman, whose office is six floors up.

In October, Bilak took a one-year sabbatical from his job as a partner at the Ukraine office of CMS Cameron McKenna law firm to lead UkraineInvest, a government-backed initiative aimed at promoting Ukraine among foreign investors.

The role isn't entirely new to Bilak. During Leonid Kuchma's presidency (1994-2005), Bilak advised him, the prime minister and the minister of justice.

Focus on regions

Currently, Russia remains one of the main investors in Ukraine's economy, along with tax havens Cyprus and the British Virgin Islands. Bilak wants that to change.

So his agency, UkraineInvest, targets investors from the Americas, Europe, Asia, and the Middle East.

"We want investors that understand the rule of law, because they bring not only investment but also the culture of doing business and management," Bilak says.

He says it's a common misconception that Western and Asian investors don't want to work in Ukraine. There are, in fact, many of them, and over the years they have formed industrial clusters in various regions.

For instance, western and central Ukraine is the heartland of foreign automotive businesses in Ukraine. Over 20 German, French, Japanese, American, Polish, and Swiss companies manufacture car parts at plants in nine oblasts. Together, they employ 43,000 people and have invested over $500 million, says Bilak.

Another cluster is located in southern Ukraine — in Mykolaiv, Kherson and Odesa oblasts. This part of the country is the territory of major agricultural holdings and logistics businesses.

Furniture and wood-making businesses, mostly Italian manufacturers, are clustered in Zhytomyr Oblast.

Bilak isn't just interested in attracting new money to Ukraine. He also wants investors who are already here to expand.

"Our goal at UkraineInvest is to encourage existing companies to increase investment," Bilak says. "The more happy investors we have on the market, the easier it will be to attract new ones."

UkraineInvest has identified its strategic sectors as agriculture, energy, infrastructure and manufacturing, as well as innovation and technology, which can be combined with the other four.

To better address the needs of investors in western Ukraine, the agency opened a branch in Ivano-Frankivsk in June. The office will manage seven oblasts Bilak says he plans to open two more offices — in Dnipro and Vinnytsya — this year.

The system

Recently, Bilak has been criticized for excessively praising half-baked reforms that Ukraine rushed through under pressure from the European Union and the International Monetary Fund.

He was accused of ignoring the fact that no high-profile corrupt officials had been punished, stolen assets hadn't been recovered and none of reforms that he touted as achievements — land, police, pension, health, education, privatization — had been fully implemented.

In fact, the problematic areas that businesses complain about the most, according to the Business Ombudsman, are still tax, customs and law enforcement. These, and the court system, have yet to reform.

But Bilak gets no argument that Ukraine has made more progress in the three years since the EuroMaidan Revolution, which ousted the corrupt regime of President Viktor Yanukovych on Feb. 22, 2014, than in the preceding 23 years since the collapse of the Soviet Union.

"The key reforms that are being rolled out now would be a significant undertaking in any developed country, let alone Ukraine with its lack of institutional capacity," Bilak says.

Ukraine, simply put, still organizes its governance, judiciary and other institutions from its Soviet heritage. Shaking off the Soviet legacy requires time and patience.

"Three years ago we started deconstructing Soviet-era institutions and changing how they work to build democratic ones. There's no manual on how to do it," he says. "To those who want to see fast changes, I say that it doesn't happen that way. It's a parallel progression, not a linear one."

Image issues

Despite Russia's war against Ukraine, Bilak says investors are more concerned about political uncertainty and corruption.

"Ukraine is a huge country. When we say it's corrupt, does it mean every government agency or oblast are corrupt?" Bilak asks rhetorically.

His job now is to explain the real situation in Ukraine to foreign businesspeople, he says.

"I want them to have a very realistic look at what risks and opportunities this country has got, and then make an informed decision, not be skewed by uninformed journalists and Russian trolls," Bilak says.

In March, UkraineInvest hosted the first Japanese business delegation from 21 Japanese companies, including Marubeni Corporation, the top Japanese importer of Ukrainian grain, automotive giant Mitsubishi, and electronics manufacturer Panasonic.

"I like it when investors come to Ukraine," Bilak says. "It blows away some of the negative images and preconceptions about the country."

But he adds that foreign direct investment takes time. The gestation period of a large project can be up to two years, and each requires a negotiation process and a feasibility study.

"I don't like the word 'potential.' I've been hearing it for 26 years," Bilak says. "Opportunities, however, is fair game, because that's what we do have here."

Ukrainian Finance Minister Oleksandr Danyliuk speaks during a Cabinet of Ministers meeting on March 29. (Wladyslaw Musiienko)

Life of finance minister: Plug fiscal black holes

BY BRIAN BONNER
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Plenty of people mourned the departure of Natalie Jaresko last year as Ukraine's finance minister after she lost out to Volodymyr Groysman as prime minister.

But Oleksandr Danyliuk's performance in more than a year as Jaresko's successor has won praise and helped some people forget — even as many others remain dismayed by the halting pace of reforms under President Petro Poroshenko and Groysman.

"He has surprised me positively and turned out to be the reform anchor in a government that has been less committed to reform than the previous government and he has managed to keep the state finances in good order," said Anders Aslund, the Swedish economist and senior fellow at the Atlantic Council.

But being the finance minister of Ukraine involves trying to plug a lot of holes in the leaky ship of state.

The size of Ukraine's official economy

is highly unimpressive for a European nation of 44 million people. It will come in at less than $100 billion a year. If the state budget takes up 40 percent of gross domestic product, that's only $40 billion — about the size of the budget of the state of Maryland, with 6 million people, or half the size of New York City's municipal budget.

Of course, Ukraine's economy is much larger than is officially reported.

If estimates are correct that half of the economy remains in the shadows, then Ukraine's GDP doubles to $200 billion. Such an economy, if taxed adequately, could also double Ukraine's state budget — providing better investment in public services and sectors starved of money.

But such bounty is not happening yet in Ukraine.

Few know the hard fiscal realities better than Danyliuk, whose supporters say he has provided continuity and more in many key areas of budgeting, accountability and transparency to build on Jaresko's 15-month tenure.

Danyliuk sat down for an extensive interview with the Kyiv Post in late May to explain the ins and outs of Ukraine's financial situation and his reform goals.

Fixing VAT refunds

On the positive side of the ledger, Danyliuk said he's plugged one big hole for corruption — the fraudulent chicanery involving value-added tax refunds that likely cost the state budget countless billions of hryvnias per year while making insiders rich at the expense of taxpayers.

It worked this way: Workers at the State Fiscal Service — the agency that oversees taxation and customs services — decided who got VAT refunds and who didn't. Under President Viktor Yanukovych's time, companies said they were forced to pay bribes to get their refunds, sometimes as high as 20 percent of the amount of the refund.

Under Poroshenko's time, the problems continued, with suspended State Fiscal Service chief Roman Nasirov now fighting criminal charges of charges of orchestrating a multimillion-dollar tax fraud.

Danyliuk decided to make the entire VAT process online and transparent — so the public would know who is getting VAT refunds, when and why, and who isn't getting the refunds. Although the Finance Ministry oversees the State Fiscal Service, it did not even have access to the VAT databases until recently.

Before the VAT process went online, easing huge backlogs of unpaid refunds to companies and reducing the possibility for abusive and abritrary rulings, Danyliuk said he received a lot of complaints.

Now he doesn't.

"I used to receive so many calls: Help us, from companies as well as embassies. Now silence. Why is that? It's working. Now I can switch to other things. I don't miss it at all. It was the wrong thing to do for minister of finance to intervene in such things. We're policymakers. We need to change policies."

Customs 'black hole'

But if Danyliuk and the nation found success in shutting off the financial corruption involving VAT refunds, much work remains to be done in other areas.

When asked to name the biggest fiscal "black hole" in Ukraine, Danyliuk didn't hestitate to respond that it could be found in customs services, part of the same notorious State Fiscal Service.

"There is a black hole in customs. I know what to do and we're going to work on it," Danyliuk said. "There's just incredibly so much vested interests there. It requires a lot of attention. That's the next thing we're going to focus on. We need to fix the victory with VAT — make sure it's irreversible. We need to cement our success in one area and move to others."

The problem in customs, again, is one of an unaccountable state bureaucracy.

Too many offices at state customs checkpoints have tremendous powers to extort bribes and arbitrarily set tariffs while, even worse, untaxed smuggling flourishes in and out of the nation. The widespread suspicion is that the illegal smuggling — which again robs the state budget while making smugglers rich — is being done with the connivance, if not at the direction, of powerful customs officials, law enforcment officials and their powerful political patrons.

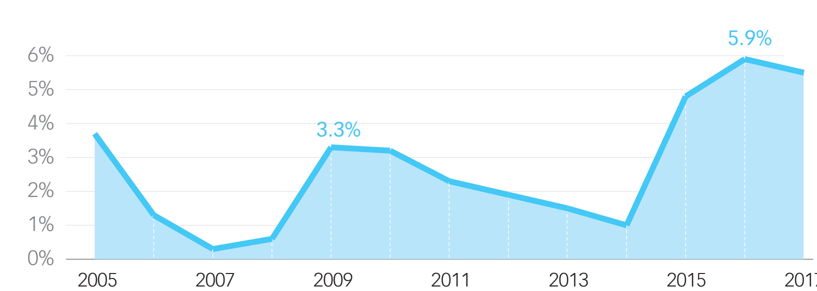
Four IMF priorities

But Danyliuk's early summer is booked with devising state budget plans for the next three years and ensuring that parliament passes legislation in four key areas critical to keeping credit flowing from the International Monetary Fund.

The IMF has lent Ukraine about half of the $17.5 billion envisioned in a program that expires on Jan. 1, 2019. But to get further installments of the loans, Ukraine needs to make four big changes:

- Overhaul its pension system, which now eats up at least 12 percent of the

Pension Fund Deficit, % of GDP



Source: Center for Social and Economic Research (Ukraine, NGO)

Ukraine spends 12 percent of its gross domestic product on pensions, but only 6 percent is financed through payroll taxes while another 6 percent of GDP is transferred from the state budget of $40 billion. Many policymakers have concluded it is an unsustainable burden.

GDP and runs at a huge deficit;

- End a 26-year ban on the sales of agricultural land and create a liberal market that should boost the overall economy, especially agricultural production as farmers are able to use land as collateral;
- Start selling off most of the remaining 1,800 state owned enterprises, many of which are so corruptly managed that they create public losses and private profits for insiders; and
- Creation of an anti-corruption court. Ukraine's judiciary remains distrusted and politically subservient. Since the EuroMaidan Revolution that drove President Viktor Yanukovych from power on Feb. 22, 2014, the national's law enforcement system has not brought anybody to justice for major crimes including $40 billion in financial corruption, another $20 billion in bank fraud and the murders of more than 100 demonstrators durign the revolution, to name the most serious cases.

The prospects of parliament summoning the political will to approve all four changes before the July recess are questionable.

If Ukraine comes up short, then the ball is in the IMF's court. Tthe international lender could relax conditions, as it has done in the past, or take a hard line and halt credit to Ukraine. While losing out on IMF loans won't cause Ukraine's economy to collapse, the damage to investor confidence and the reform agenda could be severe.

Danyliuk thinks staying with the IMF program is important for Ukraine as a way to stimulate critical foreign private investment and stimulate reforms.

"The IMF provides support for our reforms efforts and is assisting us in building a sustainable and competitive economy," Danyliuk said. "Continuation of the program is also a positive indicator for the investors and the international community at large that we are on the right track and are keeping up with our reforms plan."

At the same time, he said, Ukraine should adopt these reforms regardless of the IMF because they are the right thing to do.

"I am a big supporter of having the Ukrainain government own the reform the agenda," he said. "We should lead. When we implement such a reform agenda, it's only to our benefit."

Reform budgets

Given Ukraine's precarious financial state, it's fair to say that nobody is satisfied with what they get from the state budget — from public employees to pensioners. The lack of resources is even more critical since Ukraine oversees a large public infrastructure — from railways to roads and ports — that, aging and lacking investment for decades, have damaged the nation's competitiveness.

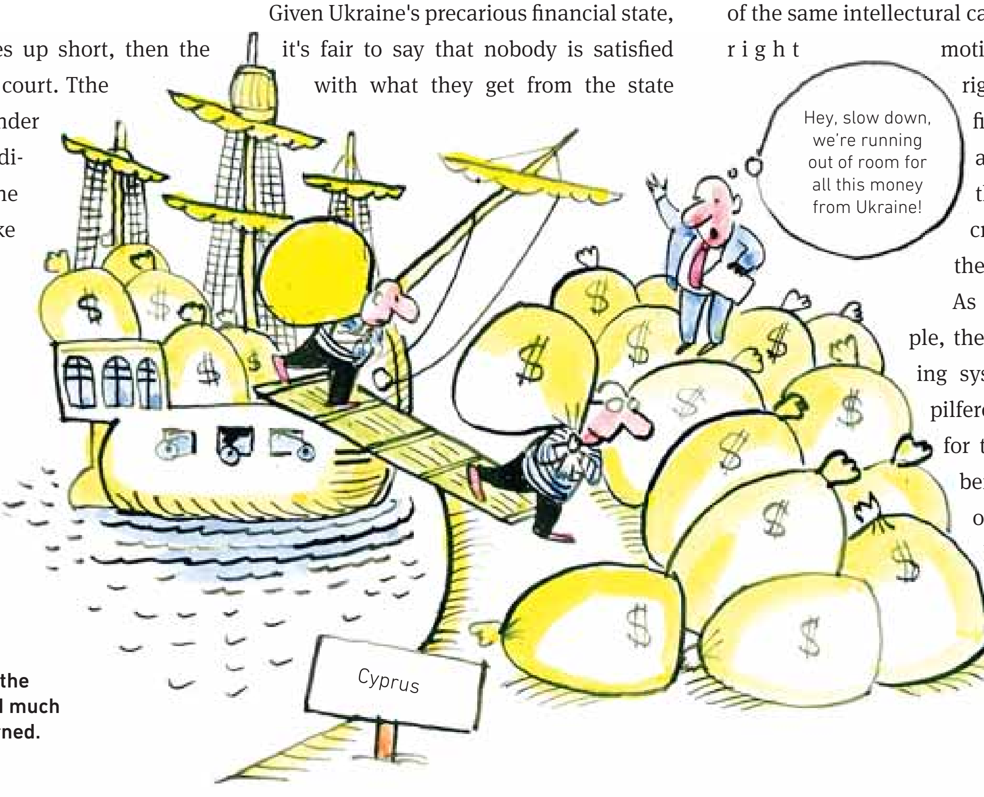
Danyliuk plays a key role in setting priorities for public spending. Given that he doesn't have a lot of money to spend, Danyliuk said he's trying to achieve to big goals with the budget: institute three-year planning and financially reward ministries that carry out essential reforms.

Investigating financial crime

Danyliuk is so busy that he has little time to concentrate on his priority project: Setting up a state Financial Investigation Service — an elite financial crimes squad — capable of solving the biggest and most serious financial crimes.

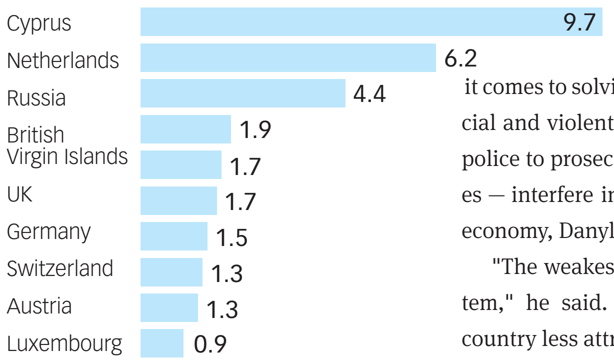
Ukraine's current law enforcement agencies have proven utterly incapable or uninterested in investigating or prosecuting financial crime. Often, Danyliuk said, the state agencies run up against the world's "top lawyers," providing a mismatch. "What we need is to have people of the same intellectual capacity with the right motivation and the right values to fight against and to prevent the most serious crimes against the state."

As just one example, the nation's banking system has been pilfered by insiders for the last decade before the house of cards collapsed — with $20 billion in losses to taxpayers. That's half of the entire an-



Ukraine's foreign direct investment figures pretty much say it all: Most of what little returns to Ukraine comes from Cyprus, a notorious tax haven. Estimates have ranged as high as $10 billion — more than 10 percent of the nation's economy — being spirited out of the country, untaxed and much of it suspiciously earned.

Cumulative investment in Ukraine since statehood has come from the following countries,
as of April 2017, in billion dollars



Source: State Statistics Service of Ukraine

Foreign investment in Ukraine has come mainly from Cyprus – not because the small island state has been a generous supporter of the development of the Ukrainian economy, but because funds spirited out of Ukraine have been plowed back into the economy by Ukrainians in the guise of foreign investments.

nual state budget.

While such authorities as ex-National Bank of Ukraine governor Valeria Gontareva said that most of the losses were easily proved bank fraud, no one has been convicted and trifling sums have been recovered by the state.

Additionally, no serious dent has been made in complex financial offshore and transfer pricing schemes that loot billions of dollars from the nation, by most estimates, along with other unpunished economic crimes like capital markets fraud, tax evasion, embezzleent and money laundering.

Danyliuk said such a "transparent and independent" Financial Investigation Service would be an elite squad focusing on "the most serious economic crimes agaisnt the public interest, unlike the current situation when the National Police, the Security Service of Urkaine, the Tax Police and the General Prosecutor's office investigate such crimes."

He envisions the new service as as staffed with people "who have not previously worked in the uniformed agencies and who have relevant financial and analytical background," Danyliuk said.

'Unacceptable' enforcement

As incapable as law enforcement is when it comes to solving the most serious financial and violent crimes, its agents — from police to prosecutors and ultimately judges — interfere in too many aspects of the economy, Danyliuk said.

"The weakest spot is the judiciary system," he said. "That's what makes the country less attractive for investors."

"Ukraine's law enforcement system is outdated. The country has moved to develop free market and pursue liberal values, but the law enforcement remained unreformed and repressive," Danyliuk said. "Neither the size — they are too big — nor the functions —repressive — of the existing law-enforcement agencies are adequate for the current situation. In particular, various law enforcement agencies continue exerting pressure on business. This comes in the form of excessive inspections, ungrounded criminal cases against businesses, searches, confiscation of equipment, extortion and etc. It is unacceptable in a free economy."

Ukraine's repressively antiquated law enforcers also hinder the economy.

"Law enforcement agencies also have influence over the decisions on economic matters made by other state bodies," Danyliuk said. "For example, privatization stumbles in part because officials responsible for the process are afraid to sell. Why? Because if they sell a state company and a prosecutor decides that the price is too low, the officials may be subject to prosecution. In a free economy, the market sets the prices not the prosecutor's office or some other state institution."

'State is losing money'

"In the situation which we have now, the state is losing money," Danyliuk said. "State-owned enterprises are managed inefficiently and they are depreciating in value, hence, becoming less attractive for potential investors."

Creation of the Financial Investigation Service is part of the solution that will require "comprehensive reform of the law enforcement system," Danyliuk said. "In particular, there should be fewer formal reasons for the law enforcement to be involved in economic processes, such as privatization, for example."

The only way out

Given the state's poor capacity, both in finance and management, Danyliuk said that stimulating private investment is "the future of Ukraine." He recently completed talks with international financial institutions in Washington, D.C., in which "one of the main themes was: How do we direct the support of such institutions to support the private sector."

The state's role is to create attractive conditions for the private sector to flourish. While some progress has been made, the numbers don't show it — Ukraine's cumulative stock of foreign direct investment is a weak $40 billion since national independence in 1991, while it attracted only $4.4 billion last year, mainly from Russia, its top export and import partner as well.

"When we spoke with the World Bank, the European Bank for Reconstruction and Development and the European Investment Bank, we asked them to work closely with private sector, with municipalities, not just with the central government," Danyliuk said. "This is a new thing."

A look at Ukraine's tax rates

Corporate tax – **18%**
Personal income tax – **18%**
Payroll tax – **22%**
Value-added tax – **20%** (**7%** for drugs, health care products)
Tax rate for dividends, royalties, interest and investment income – **18%**.

Ukrainian Finance Minister Oleksandr Danyliuk listens at a Kyiv Post CEO dinner on May 23. (Oleg Petrasiuk)

Danyliuk also has made inroads with top officials of U.S. President Donald J. Trump's administration, including a spring meeting with Commerce Secretary Wilbur Ross, during which the discussion focused "primarily on ow we can bring American companies to Ukraine, American money to Ukraine" to "exploit the potential of our market."

Trump is looking at converting more financial aid to Ukraine — estimated at $360 million next year — from grants to loans on the philosophy that much of government-to-government aid is not used effectively. But of all forms of aid, helping Ukraine's military is the most important right now, Danyliuk said. "This is what our country needs at this stage," he said.

Self-sufficient economy

If the major reforms go forward in pensions, land, state-owned enterprises, law enforcement and health, Ukraine should be able to wean itself off international loans in 2019.

"By then we need to become economically self-sufficient," Danyliuk said.

People will not be satisfied for long with 2–3 percent annual growth rates. Ukraine, in fact, needs 6–8 percent annual growth rates in the next several years to catch up to its 2013 GDP high of $180 billion.

It's entirely possible, even realistic, with the right changes, Danyliuk said.

"Look at our productivity levels. They are so low. Even by getting to the average productivity levels in Europe, our result will be stunning," he said. "We need new technologies to exploit our competitive advantages that make us more productive."

Ukraine's GDP in 2017 will be about $100 billion; government will spend about $40 billion.

Before becoming finance minister, Danyliuk was an investor in the private sector.

As such, "my personal view" is that "Ukraine is not there yet" in terms of being an attractive place that offers "high returns and less risk" that all investors prize. While Ukraine remains "on the radar" of investors for many reasons, he said, it still hasn't made the transition yet to market economy. "At the moment, it's not obvious (to investors) why you come to Ukraine," he said.

Looking for breakthrough

Unhealthy distortions, inequalities and monopolies remain in Ukraine's transition from Soviet to market economy, he said, stunting growth and investment.

"The fact that we privatized companies doesn't mean we became a market-driven economy," Danyliuk said. The transition requires effective regulation to create market conditions, an area where Ukraine continues to come up short, he said.

"We are freeing up sphere by spere to be attractive to private money," the finance minister said. "But in home spheres the job is not done yet — the energy sector and health care are not yet completed."

In the electricity and natural gas sectors, there's "always a regional monopoly that owns distribution networks," Danyliuk said, including the outsized role played by exiled billionaire oligarch Dmytro Firtash, now fighting U.S. corruption charges from Austria.

"Naftgoz is a monopoly, from the market point of view, state or not state; it is a monopoly," he said. Ukraine will become a market economy only when competitive conditions in place. Without them, any others interested in investing in the sector "will have a struggle."

PrivatBank and others

With the state takeover this year of the nation's largest private bank, PrivatBank, whose collapse could cost the taxpayers $5.6 billion or more, the state — specifically the Finance Ministry — is now the largest banker in the nation, when combined with state-owned Oschadbank and UkrExImbank.

Danyliuk went from direct to dodgy in answering questions about PrivatBank, specifically when a recently completed audit will be released publicly.

"The audit is done. It's not approved. We're working with it," he said cryptically. "Eventually, the government as shareholders will need to put additional capital." When asked whether the amount is $5.6 billion, he said: "We're looking at such numbers."

He caunted not to "get so fixed on the audit. The fact we already put 116.8 billion hryvnias ($4.4 billion) in the bank. Isn't it sufficient already for the taxpayers to raise the question of what happened in this bank" There will be some adjustments as a result of the audit. The key thing is what already happened."

Recovery of the money and bank fraud charges, however, still haven't been filed against PrivatBank's former owner, billionaire oligarch Igor Kolomoisky, and none are expected given the sorry state of Ukraine's law enforcement agencies and inability to to successfully prosecute any big case.

No big tax changes in offing

Danyliuk said that there is no urgent need to make any other big tax rate changes, apart from the ones in recent years that cut income tax rates to 18 percent and payroll taxes to 22 percent.

In terms of stimulating investment, "reducing tax rates will not give you the result. Tax is important when you have no other barriers." The key focus is on transparent and better administration of taxes, including the ongoing tranformation of the State Fiscal Service.

'Team of reformers'

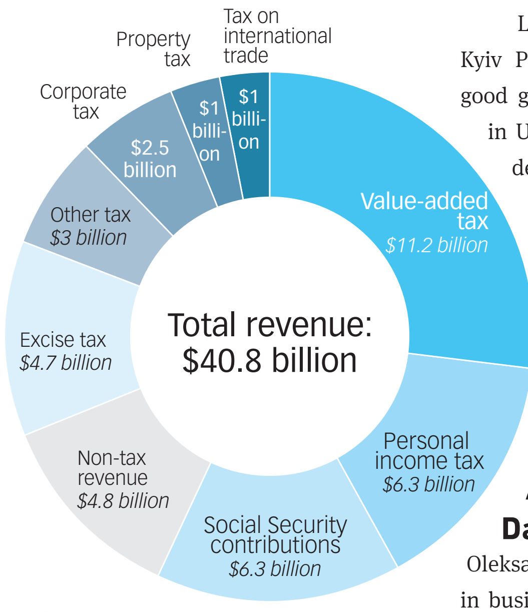
Danyliuk said the Ministry of Finance is "a catalyst for reforms" in the nation. "We have a team of reformers. We understand, in each area, what has to be done. We create condition for reforms to happen. One of the most effective tool for that is called the state budget," he said.

This will be the first year in which ministries will be asked to submit expenditure requests for "a real three-year horizon," accompanied by a detailed outline of reforms anticipated by 2020. "We will allocate accordingly," he said.

After the ministries submit their budgets, "then we will have a very pragmatic discussion" about priorities — especially reform priorities that need to be financed.

"Those for whom reform is a priority, they will get everything they need," Danyliuk said.

Ukraine's projected revenue in 2017



Editor's Note: Figures are rounded.
Source: International Monetary Fund.

Ukraine will get the largest share of its $40.8 billion in expected revenue in 2017 from value-added tax. Compared to Western nations, it gets very little from property taxes.

Good guys 'winning'

Looking at the big picture, the Kyiv Post asked Danyliuk whether the good guys or the bad guys are winning in Ukraine's quest to be a prosperous democracy.

"We are not building a new country. We're rebuilding the country," Danyliuk sid. "The guys are in battle. Of course, the good guys are winning, not as quickly as we wanted, with maybe more casualities. But winning."

About Oleksandr Danyliuk

Oleksandr Danyliuk has a master's degree in business administration from Indiana University. He worked in the private secfor several companies, including in McKinsey & Company's London and Moscow offices for three years. Between 2006 and 2010, Danyliuk chaired the Rurik Investment fund. Danyliuk worked as an economic adviser to Ukrainian Prime Minister Yuriy Yekhanurov and, in 2014, worked as President Petro Poroshenko's representative at the Cabinet of Ministers and later as deputy head of the Presidential Administration. In 2016, Danyliuk was appointed as minister of finance.

Head of the National Bank of Ukraine Valeriya Gontareva and Ukraine's Finance Minister Oleksandr Danyliuk arrive to the nationalization of Privat Bank press conference on Dec. 19, 2016, in the Ministry of Finance of Ukraine. (UNIAN)

A woman sits pensively as she watches local socialists celebrating May Day in Kyiv. The average monthly pension in Ukraine is $70 while most of the nation's 12 million pensioners get even less than that amount. (Volodymyr Petrov)

Ukraine spends 12% of GDP on pensions; this has to end

BY NATALIYA TRACH
TRACH@KYIVPOST.COM

Ukraine's pension system has long been a fiscal time bomb threatening the country.

And recently, the ticking got louder.

Today, the ratio of Ukrainian workers to pensioners is roughly 1:1, compared to typical ratios of at least 3:1 in Western economies. And in Ukraine the ratio is continuing to worsen due to low birth rates and migration.

As a result, in 2017 pensions will swallow up 35 percent of the country's $40-billion state budget, or 12 percent of gross domestic product, which is way above the European average of 8 percent.

More alarmingly, the pension burden has been increasing at an even higher pace than expected. Back in 2008, the World Bank estimated that the number of pensioners in Ukraine would reach parity with the number of workers in 2020. In fact, this happened in 2014.

At the same time, even this huge amount of budget spending is only enough to provide the population with a paltry average pension of $70 a month, pushing millions of retired Ukrainians into poverty.

The Ukrainian government, urged on by the International Monetary Fund, has been trying to find a way out of the pension crisis.

But all the possible solutions will prove painful.

Proposed changes

The Ukrainian government in May drafted a package of pension laws that aim to raise pensions and cut the burgeoning $5.7 billion deficit in Ukraine's pension fund.

While the average monthly pension in Ukraine is currently just $70, two thirds of the country's 12.3 million pensioners get even less than that, while some categories of pensioners, including military officers and judges, qualify for much more generous retirement payments.

Currently, retirement pensions are calculated as a share of the average wage that the pensioner used to make while in the workforce. But because of Ukraine's sky-high inflation, the average salaries of 10 or even five years ago are petty, and the pensions that were calculated from them are even smaller.

The government now proposes to peg pensions to the average wage, so that pensions automatically grow together with average salaries.

The parliament plans to adopt new pension laws before October. It would cause an immediate increase in pensions by a modest Hr 284 ($10) a month on average, while increasing annual expenditure on pensions by Hr 12 billion.

The increase in the minimum wage from the start of 2017 has already helped the pension fund collect additional revenues of Hr 7.9 billion from January-April, and it is expected to get Hr 4 billion more by October.

Age battle

Currently, the retirement age in Ukraine is fixed at 60 years for men and 58 years for women - some of the lowest in Europe. In the United Kingdom, for example, workers typically retire at the age of 65 to 67.

The International Monetary Fund, as one of the conditions for the approval of its $17.5 billion loan to Ukraine, has been demanding that the country raise the retirement age to 63 years in order to help cut the pensions burden.

But Ukraine isn't complying. Raising the retirement age would be a very unpopular move, and with the next presidential election being only two years away, politicians are reluctant to take it.

So the government came up with a compromise. The pension legislation that it proposed will not raise the retirement age, but instead raise the time spent in the workforce that is required to qualify for a pension: from the current 15 years to 25 years immediately, and gradually to 35 years in 2028.

If a person decides to push the retirement back and retire at 63 instead of 60, they will require 10 years of service less to qualify for a pension.

Ukraine's pension fund deficit is the second largest in Europe, estimated at 6 percent of GDP. The beneficiary-to-contributor ratio is 1:1 because of Ukraine's low retirement age (60 for men; 58 for women). Tax avoidance is also high, contributing to the deficit. Benefits are low for the 12 million pensioners with the average monthly payment being just $70.

The government's pension reform also improves conditions for people who have reached retirement age but are still employed. The draft law drops the current 15 percent cut in their pensions and cancels tax payments on large pensions.

Despite the fact that the government's pension reform doesn't meet all of the international donors' recommendations, both the IMF and the World Bank have publicly backed it.

But Hryhoriy Ovcharenko, the head of local assets management at investment bank Investment Capital Ukraine (ICU) believes that even though both of Ukraine's main international donors are avoiding criticizing the government's plans, it doesn't mean they are happy with its departure from their recommendations.

And the draft legislation was left unpublished weeks after it was presented by Prime Minister Volodymyr Groysman, probably due to the sensitivity of the issue among the population, Ovcharenko believes.

Why the hurry?

There are 11.9 million pensioners in Ukraine, which has a total population is 42 million people. Some 9 million have reached retirement age, while others receive other types of pensions.

All pensions are paid by the state. The funding for them comes from the "social tax" paid by the workforce, which is 22 percent of a worker's salary.

However, the government says that 25 percent of the working population of 16.3 million people fail to pay the tax.

Besides, the current pension system provides privileged pensions for some categories, including military, judges, and workers involved in hazardous activities. This creates a disparity between the 20 percent of retirees who receive the privileged, much higher pensions, and the rest.

One of the main goals of the government's pension reform plan is to reduce the pension fund deficit. According to Groysman, if the pension reform is carried out, the funding burden will from 6 percent of GDP to 3 percent over the long run.

Cosmetic change

All the same, experts doubt the current government pension reform will do much to fix Ukraine's pension system. Ovcharenko of ICU says that while it includes two contradictory goals – increase pensions and shrink pension fund's deficit - the pension reform draft can be nothing more than a "social initiative for the electorate."

In the short run, pensions will increase, but in the longer term they will start to shrink again, the analyst says.

Mariana Onufryk of Institute for Social and Economic Research called the government's plan a "cosmetic reform," as it adds minor changes to the existing pension system, which is outmoded and needs overhauling.

She supports the introduction of accumulation plans via non-government pension funds – a measure not mentioned in the current pension reform draft.

RETAIL

Passersby walk on Kyiv's central Khreshchatyk Street past clothing stores on May 30. (Volodymyr Petrov)

Fashion retail sector shows signs of recovery in Ukraine

BY BERMET TALANT
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During the 2014–2016 crisis, when the economy shrank by half and the currency lost two-thirds of its value, Ukrainians did not lose their urge to shop. But many in the nation lost their means.

That's why international fashion brands haven't been rushing to enter the market or increase their presence and why shoppers lack many famous brands to choose from. European and Turkish brands prevail, and most are selling via a franchise.

Russian fashion retailers, meanwhile, struggle for political and financial reasons. In 2016, Russian brands Kira Plastinina and Centro left the Ukrainian market.

Consumer spending

According to the 2016 Nielsen Global Consumer Confidence and Spending Report, consumer confidence in Ukraine has slightly improved. But it is still far from the level of most in Europe.

In 2016, 33 percent of Ukrainians reported not having disposable income after spending more than 60 percent of their monthly earnings on basic necessities, such as food, shelter and utilities.

In the first quarter of 2017, domestic re-

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tail sales in Ukraine were up 3 percent and amounted to $6.2 billion, according to the State Statistics Service.

However, in the clothing sector, sales were depressed; in May, retailers reported a 15 percent drop in sales, according to the Retailers Association of Ukraine.

So, like the rest of the economy, the retail clothing sector appears poised — or at least long overdue — for a rebound.

Risk or opportunity?

The expansion of the commercial real estate market, especially in Kyiv, opens new opportunities. There are about 50 malls in the capital today, according to Ukrainian Trade Guild. Together, they offer 1.2 million square meters of retail space.

However, experts say that the existing retail space isn't sufficient for many international brands. Any international retailer looks to open several stores at once in order to lower the costs of logistics and management.

At the moment, the vacancy in the retail property market is at around 10 percent. It is expected to go lower as Lavina Mall, the largest in the country with 127,000 square meters of leasable area, fills up after its opening at the end of 2016.

Popular shopping centers with established reputations and high traffic are, naturally, short on available space.

If 10 more malls commissioned in 2017–2018 are built, they will add 600,000 square meters of retail space. However, in the past the opening of the malls was often postponed, sometimes for years. In 2016, only three new malls opened.

Even with all the new retail space, the Ukrainian market remains too volatile for some international brands.

"When international brands consider a new market, they make assessments for five to 10 years. In Ukraine everything — legislation, economy, government — changes too often, and this volatility increases risks," Marina Chernenko, head of the Retailers Association of Ukraine, says.

Finally, Russia's war in eastern Ukraine has forced some brands to put expansion plans on hold. Some of the largest cities, which normally would be considered by any international retailer, such as Kharkiv, Dnipro and Zaporizhzhya, are close to the conflict zone.

Tetiana Khoma, senior retail agent at Kyiv office of Cushman & Wakefield consultancy firm, believes that new international retailers should take advantage of the instability now.

"It's the best time to enter Ukrainian market because now it's the tenants who set the rules. The economy is improving, and in one or two years it won't be as easy to negotiate favorable conditions with landlords," she says.

New entries

According to CBRE 2016 report "How Global Is the Business of Retail," Kyiv ranked 13th among 166 cities with 25 new brands that entered the market in the last year. In comparison, the leader, Hong

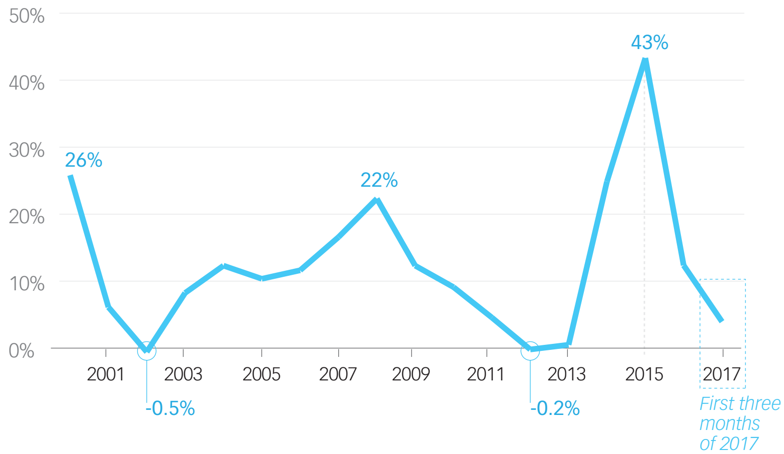
Major existing fashion retail groups operating in Ukraine

Source: Cushman & Wakefield Ukraine

Retail company	Brands in Ukraine	Form of presence
Inditex Group, Spain	Zara, Massimo Dutti, Bershka, Stradivarius, Oysho, Pull&Bear, UTERQUE	Direct presence
LPP Group, Poland	Reserved, Cropp Town, Mohito, Sinsay, house	Direct presence
Fashion Partners (MD Group)	Accessorize, DKNY Men, Etam lingerie, Gant, G-Star Raw, oodji, Pepe Jeans, BCBG, Tommy Hilfiger, Walker, Diesel, Fornarina, Calvin Klein	Franchisee
ARGO	ALDO, Benetton, Parfois, Promod, Orsay, Sisley, SuiteBlanco, ZIPPY, Desigual, Piazza Italia, Mango, OVS Kids, Only	Franchisee
MTI	Armani Jeans, Armani Exchange Atelier De Courcelles, Braska, Camper Clarks, Ecco, Geox, Intertop, Napapijri, Lee Wrangler, Marc O'Polo, Skechers, Pandora, Plato, Timberland, Urban United	Franchisee
ULTRA Group	Levi's, Lagerfeld, Baldinini, Guess	Franchisee
Melon Fashion Group, Russia	Love Republic, befree	Direct presence
Trans Ukraine Intersport	Karen Millen, Pimkie, Tally Weijl, Oasis, Warehouse	Franchisee
Marka Ukrayina	Marks&Spencer, GAP	Franchisee
Delta Sport	Nike	Franchisee
Osauhing Ellipse Group	Monton, Mosaic	Direct presence
KarKat Fashion Group	Pedro del Hierro, Springfield, Women's Secret	Franchisee
Eroğlu Holding, Turkey	Colin's, Loft	Direct presence
BNS Trade	Calvin Klein Jeans, Michael Kors, TopShop / Topman	Franchisee
Little House	Falke, Roeckl, Hanro, Steiff, Sanetta, Elsy	Franchisee
Calzedonia Group, Italy	Calzedonia, Intimissimi, Tezenis, Falconeri	Direct presence
Helen Marlen Group	Gucci, Burberry, Loro Piana, Salvatore Ferragamo	Franchisee

Ukraine's retail fashion sector appears to be in recovery, but there are still some major brands missing that Ukrainian shoppers would love to have.

Ukraine's Inflation, year-over-year



Source: StatBureau.org

Ukraine has suffered several bouts of double-digit inflation. But after peaking at 43 percent in 2015, amid a steep recession and two-thirds devaluation of the hryvnia, inflation appears to be under control and in single digits again.

Kong, saw 87 new brands.

So far it is hard to tell whether 2017 will bring more new brands, Tetiana Khoma of Cushman & Wakefield says.

In the first six months of 2017, a few new brands appeared on Ukrainian market such as Italian women's clothing, shoes, and bags brand Liu Jo, another Italian clothing brand Xetra and Swiss lingerie brand Hanro.

One of the confirmed entries for this year is sporting goods brand Decathlon from French retailer Auchan Group. The store will be located in the new Rive Gauche mall on Kyiv's left bank.

Some new franchises are on the way too.

Ultra Group introduces British clothing brand Superdry. ARGO brings Italian PINKO and Dutch Scotch & Soda. Inditex Group expands Stradivarius brand with a men's clothing line. Helen Marlen premieres Calvin Klein.

Turkish brands DeFacto and Koton are in the process of negotiation with two Kyiv malls without a particular date for entry. Flo and Collezione reportedly also consider entering.

Expansions

Existing retail chains constantly seek to expand their network of stores, too. Those announcements came from Inditex Group, LPP Group, New Yorker, LC Waikiki, Jimmy Key, and Arber. In addition to the physical store network, retailers develop their online sales in order to create omnichannel shopping experience for consumers.

ENERGY

Employees work at a drilling rig of gas company Ukrgazvydobuvannya in Poltava Oblast, on May 3. Experts are pinning hopes on Ukraine's new energy strategy for 2035, which they hope will bring a more balanced energy sector. (Konstyantyn Chernichkin)

An energy breakthrough might finally be on its way for Ukraine

BY MARIA ROMANENKO
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Any nation's economy is inextricably linked to its energy sector.

If that sector is clean, competitive and efficient, and if the nation has enough resources or investment to be energy independent, then that nation is likely to be doing well in other areas.

By these standards, Ukraine has been sickly. It wastes energy. It has allowed oligarchs to monopolize key sectors, stifling competition. Renewable energy sources have provided only a small percentage of the nation's needs, while Ukraine remains heavily reliant on nuclear power and, until recently, Russian natural gas.

It's changing for the better, however, and a vision of a brighter future is outlined in Energy Strategy 2035, a vision created by Razumkov Center, the National University of Strategic Research, Energy Ministry and others.

The Cabinet of Ministers is expected to sign off on the strategy by the end of June. But the plan should not be oversold, experts say.

"This is more of a generic policy vision that does not yet answer many questions. An action plan will follow," says Anna Shumeiko, a member of the Energy Ministry's expert committee.

The new strategy focuses on the goal of attracting new investment to become energy independent.

"Of course, as soon as imports are diversified and the markets liberalized, new players will appear in the market and, possibly, foreign investors too," says Gena Kobal, a CEO of Expro Consulting.

Anton Usov, a European Bank for Reconstruction and Development senior communications adviser says, "everything is changing now and the market needs more transparency. The old schemes that were aimed at enriching certain people will not work anymore. But if you do everything openly and transparently, you can achieve great results."

What needs to be done

The formula for success is easy enough on paper: energy efficiency, development of domestic resources, import diversification, more strategic reserves integration with the European Union and protection of critical energy infrastructure.

Here's a rundown by sector:

Natural gas

Although Ukraine has one of the largest natural gas transport networks in Europe, the gas sector remains one of the most problematic. Ukraine still consumes more gas than it produces. It must find investment to develop new gas deposits. Gas consumption remains too high and too wasteful. The start of individual home metering has helped people to conserve, but the inflexible central heating system remains a problem. Additionally, heavy chemical and steel users continue to waste gas as well. The document prioritizes conservation.

Oil

The oil sector needs to be diversified. Currently too much oil is imported. In 2013, Ukraine imported 78 percent of its oil supplies, a big rise from 13.5 percent in 2008. The new strategy seeks to reduce and diversity oil imports. In the past, the oil production sector has not achieved European standards. Moreover, Ukraine has failed to attract investment into its oil refineries.

"All Ukrainian oil-refining factories work with losses or very small profits and there is no transparency in the fuel market," according to the report.

Gennadiy Radchenko, an executive vice president of Ukraine's state-owned oil producer Ukrnafta, a firm long beholden to billionaire oligarch Ihor Kolomoisky, says he is not yet sure how the strategy might affect Ukrnafta and the oil sector in general.

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Recent legal developments in renewable energy sector

Ukraine has huge potential and capacity for growth in renewable energy sector. In view of the Government's efforts to attract foreign capital flow into the ecoNºmy, Ukraine continues to support the "green" energy sector.

Despite a number of positive steps and regulatory attempts to remove key obstacles for implementation of the renewables projects in summer of 2015, investors remain quite cautious in their assessments and forecasts of investment potential of the sector. One of the main reasons for that is that the "rules of the game" in the energy sector are Nºt yet fully set in stone and, thus, lack certainty.

Below, we briefly outline some key regulatory developments on the market in 2017. These changes were subject to intense discussions among the market players and will clearly have a substantial impact on the development of Ukrainian renewable energy sector.

"Green" tariff reduction for solar power plants

In early 2017, Ukraine reduced "green" tariff index for electricity that was produced by greenfield solar power plants with installed capacity over 10 MW commissioned up to 30 June 2015.

Although the rationale behind this was to decrease an unreasonably high tariff set for certain large solar power plants, the measure might have rather negative implications for the investment climate of Ukraine in general. In particular, the tariff cut might be viewed as a violation of Ukraine's "green" tariff obligations and existing guarantees to apply fair and equal treatment to foreign investors. Those guarantees are provided for by the Ukrainian national legislation, as well as by the Energy Charter Treaty ratified by the Ukrainian state.

New regulatory framework for electricity market

A very long awaited draft law on the electricity market was adopted by the Ukrainian Parliament in April 2017 and is due to be signed by the President of Ukraine. The draft law provides for a new model of liberalised electricity market. The newly established electricity market will be in compliance with the requirements of the relevant Directives and Regulations that constitute the European Union's Third Energy Package.

With respect to renewables, the draft law provides for the following key Nºvelties:

1. *New possibility for investors*

   The draft law allows investors to enter into electricity sale agreement with the guaranteed buyer (a state enterprise) prior to construction of the power plant and obtaining a "green" tariff.

   To use such possibility, the investor must provide a guaranteed buyer with (1) title document for the land plot designated for the construction of the power plant, (2) copy of the registered declaration or permit on commencement of construction works, and (3) copy of the executed agreement on connection to the grid.

2. *Financial liability of renewable energy producers*

   Those producers of renewable energy that are selling electricity at "green" tariff and are also members of balancing groups will be subject to financial liability for hourly imbalances (deviation from established value of electricity supply) on "day ahead" market.

   Such imbalances must be settled by the guaranteed buyer. The costs of such buyer are then subject to reimbursement by renewable energy producers under the rates provided for in the draft law.

Since the draft law only establishes a general framework of Ukrainian electricity market, its effective implementation will depend on the adoption of numerous secondary legislation.

Promotion of heat energy production from alternative energy sources

In April 2017, Ukraine made yet aNºther important step to promote the use of alternative energy sources. In particular, the new tariff for production of heat from alternative energy sources for the needs of population and organisations financed by the state and municipal budgets was introduced. It is set at the level of 90% of the existing tariff for heat that was produced from natural gas. Hopefully, this move will contribute to the decrease of the dependency on expensive imported natural gas in favour of alternative fuels.

The recent steps taken by the Ukrainian authorities show that there is a strong intention to improve the regulation of the Ukrainian renewable energy sector in compliance with the EU standards. We hope that Ukraine will continue pursuing this route and expect that some of the recent regulatory steps will substantially increase the investment potential of the sector.

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Coal

The coal industry has been an inefficient drain on Ukraine's $40 billion state budget, with more than 30 government-owned mines operating with losses or no profits.

"They constantly need state investing to survive," Shumeiko says, "which is a drain to the budget, of course."

The report calls for the state to close down all unprofitable state-owned mines by 2035.

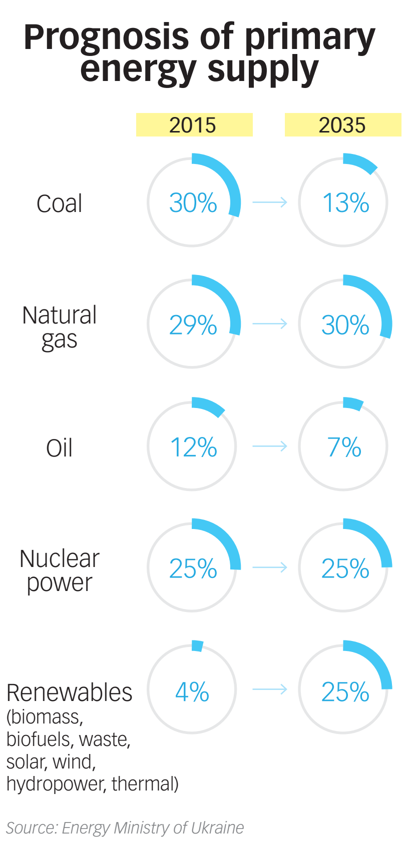
Nuclear energy

Ukraine needs to take five steps to improve its nuclear power sector: mine uranium ore; conversion, enrichment and fabrication of fuel; and processing and storing used fuel, the strategy says, with Ukraine now mining only 30 percent of its needs.

But Shumeiko says cutting ties with Russia is not yet possible. Although Ukraine has a lot of uranium ore, it cannot be enriched in Ukraine. The 1994 Budapest Memorandum, which forced Ukraine to destroy its nuclear weapons in return for security assurances, prohibits its factories from enriching uranium ore.

"So even if we do increase our uranium ore production, we still have virtually no choice other than to remain being directly dependent on Russia, where we currently enrich and store our uranium ore," Shumeiko says.

In general, however, many see the main problem as over-reliance on nuclear power, which supplies half of the nation's electricity. It's an inefficient source of power, if long-term storage of nuclear waste is factored in. And, as the 1986 Chornobyl nuclear power plant explosion showed, it can be dangerous source of power if not properly regulated.



Ukraine hopes to make a big leap by 2035 in reducing use of coal and increasing supply of renewable energy sources.

Renewables

Ukraine, as a member of the Paris Climate Change Agreement, is obliged to do all it can to ensure that global air temperatures do not rise more than by 2 degrees Celsius by 2050.

To reach this goal, participating countries have to gradually increase their renewable energy consumption until it becomes the dominant source by 2050. Renewable energy sources — such as wind, water and sun — accounted in 2015 for only 4 percent of Ukraine's energy supply, more than three times less than the average in European Union, but the number is projected to grow to 25 percent by 2035.

Shumeiko argues that Ukraine needs to aim higher and reach 80 percent by 2050. She also says that, although Ukraine gives preferential tariffs to green energy sources until 2030, not enough has been done to make renewable energy a priority.

Ukraine might also see a significant transformation into emission-free electric transportation in the next few decades, too, with the strategy saying electric cars might account for 37 percent of the supply.

Implementation

After the strategy comes the action plan. And that will take time, Shumeiko says.

However, some parts of the plan are coming to life on their own.

Ukrainian billionaire oligarch Rinat Akhmetov, who owns the DTEK energy holding, which used to be a key producer of coal energy, has already switched its focus to wind energy.

Ukraine also already started the process of integrating into the European Network of Transmission System Operators, or ENTSO-E, which aims at liberalizing the gas and electricity markets, according to the EU's Third Engery Package.

"Upon full integration, Ukraine should be able to export and import electricity within the European Union, something that is currently only possible through the Burshtyn Energy Island (in western Ukraine)," Shumeiko says. "This will increase competition in Ukraine's electricity market, while the very important electricity market law signed by Ukraine's President Petro Poroshenko on June 8, will, in theory, allow consumers to choose a company that they want to get their electricity supplies from — a practice similar to that of the United Kingdom."

Radchenko adds a note of caution, pointing out that previous strategies have not been brought to life.

"We need to approach this strategy so that it prospers instead of collapsing, because the 2020 strategy that Ukraine previously adopted has not been realized," he said.

Shumeiko agrees, but said the declarations are important.

"Some people joke that this strategy is not for execution but for reference, and there is a chance some players will just pick out their favorite parts, ignoring the rest," Shumeiko says. "But it declares our desire to change our energy sector and says that we are ready for new investors."

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A view of downtown Kyiv from the top of the Parus Business Center on June 2. (Oleg Petrasiuk)

Downward price pressure strong in every sector of real estate

BY OLGA RUDENKO
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The real estate market in Ukraine is either depressed or full of possibilities, depending on one's perspective.

For developers, the dramatic plunge of hryvnia since early 2014 means fewer buyers and tenants.

For buyers or renters, the crisis brings cheaper prices and bargaining leverage — if they survived the 2014–2015 recession with jobs and income intact.

Residential market prices probably took the biggest hit due to the hryvnia plunge and absence of affordable mortgages. Sales picked up in response.

Downward pressure was felt in hotel real estate, too, but in a different way: It hiked interest in economy hotels and even new ones are about to open.

Retail shows signs of recovering: the country's biggest shopping center Lavina Mall opened in December, and 10 more malls are commissioned for 2017–2018 in Kyiv only.

Office space is predictably taking a hit from the economic crisis, with nearly no new business centers opening. At the same time, coworking spaces are growing in numbers, filling up the need for cheaper offices.

Residential: Buyer's market

The prices in dollar equivalent have gone far down since 2014, bringing good investment opportunities to those who have cash to spare.

The average price of a square meter in residential properties in Kyiv went down from $1,700 in 2014 to just $1,070 at the beginning of 2017, according to the data collected by the real estate news website Domik.ua.

Prices kept falling throughout the winter, reaching $1,039 by the end of February, but went up a bit in spring.

The peak time was, of course, in 2008, when average prices were almost reaching $3,000 per square meter. After taking a huge plunge in 2009 due to the economic crisis, residential prices never went back up and remained stable until 2014.

In response, sales picked up: 17,555 apartments were bought in Kyiv in 2016, according to Ukrainian Trade Guild. This is more than in any year since 2007, the earliest year with data available.

For comparison, the pre-crisis year of 2013 saw only 14,951 deals in Kyiv.

It is the absence of affordable mortgages that additionally holds prices down. The interest rates on mortgages in Ukrainian banks vary from 19 to 26 percent a year, with down payments of 30–40 percent.

At the same time, the government has taken some crucial steps to help the construction industry.

A new law came into force in May that cancels some required construction permits. Also, the equity contribution that a developer must pay to the city budget went from 10 to just 2 percent from the cost of the construction.

Retail up, office down

Nothing reflects a stagnating economy like depression in the office sector.

Kyiv business centers offer a total of 1.7 million square meters of office space, according to Ukrainian Trade Guild. But some 22.5 percent of it is vacant, explaining why the new construction is decreasing.

In 2014, 99,460 square meters of office space were added to the market, but in 2016 the number fell by half — to just 43,100 square meters

Economic growth in Ukraine will be 2 percent in 2017, slightly lower than World Bank's projected global growth rate of 2.7 percent. The forecasts for Ukraine are 3 percent growth in 2018.

Moreover, all of those came from the new sections of five already operating business centers that were being finished, not from new properties.

The rates stood at $15-$28 per square meter for Class A office space and $8–16 per square meter for Class B in 2016, according to the Ukrainian Trade Guild, and they have been falling steadily since 2013.

Retail property, on the other hand, shows signs of recovering. The new Lavina Mall, the biggest shopping center in Ukraine, opened in December, and has been gaining tenants.

Even though new brands aren't rushing to enter Ukraine, some are increasing their presence, including sought-after brands like Zara and others belonging to Inditex Group, which has rented a chunk of Lavina Mall for its shops.

Also, 2016 saw rental rates in malls go up.

According to Yevhenia Loktionova, director of the Ukrainian Trade Guild, the malls, where rates are fixed in dollars, responded to the 2014–2015 devaluation by working out individual deals with tenants to temporarily keep the hryvnia rates increasings. In 2016, the rates went up in accordance with the actual hryvnia-to-dollar rate.

Hotels: Economy class is hot

The economic slump is about to fix a long overdue distortion in the Kyiv hotel scene: add the much-needed economy hotels to the market oversaturated with premium-class ones.

Ibis, a global economy hotel chain, is plotting a massive expansion in Kyiv.

The first Ibis hotel in Kyiv that opened in 2011 on Tarasa Shevchenka Boulevard near the city center proved to have much higher occupancy rates than average: 80 percent, while the average hotel occupancy rate in Kyiv stands at less than 50 percent, according to Ukrainian Trade Guild.

Now Ibis, acting as an operator partnering with a local investor, will open three more hotels in Kyiv within the next several years. The first one will open near the central railway station in late 2017.

Another international brand of economy-class hotels, Mercure, may enter the Kyiv market very soon.

According to Andriy Davidenko, the general manager of the first Ibis hotel in Kyiv, Accor Hotels, which is parent company for both Ibis and Mercure, reached an agreement to lend the Mercure brand to one of the existing hotels in Kyiv. The rebranding is expected to take place in 2017, according to Davidenko.

AUTOMOTIVE

A woman walks past cars on a Winner automotive dealer lot on June 6 in Kyiv. (Volodymyr Petrov)

Car sales rise 34% as more drivers hit road

BY BRIAN BONNER
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If any index tracks economic health, it seems to be new car sales. By that measure, Ukraine is clearly on the mend.

New car sales in Ukraine in January-May 2017 increased by 34 percent compared to the same period in 2016, to nearly 30,000 units, according to the AUTO-Consulting information and analytical group.

Toyota retained the first position in sales in May (market share of 13.6 percent), Renault ranked second with 11.7 percent, while Skoda was third with 49 percent, according to AUTO-consulting and Ukrautoprom Association.

The trend exceeds the expectations of Petro Rondiak, the general manager of Winner Group Ukraine, who told me in

March that he expects Winner to sell 7,324 cars this year — mainly Fords, but also Volvos, Jaguars, Land Rovers, Porsches and Bentleys. He could move 20,000 or more each year and is poised for expansion again.

Responding to the trends, Rondiak called the growth "steady and incremental. The market responds well to a stable exchange rate and an improving GDP. We see improvements not only in retail sales, but in corporate and commercial sales as the economy improves and vehicle parks age."

Rondiak said that Winner has revised is 2017 forecast for registrations upward, to 95,000 from 85,000. That is still, however, a far cry from the peak year of 2008, when 623,000 new passenger cars in Ukraine were sold.

I'm happy for all the car owners and dealers. Now with summer here, I wish that I had a car in Ukraine.

It's very strange for an American not to have a car. I got my first one on my 16th birthday. It was a Chevy Caprice station wagon hand-me-down from my parents, and I drove that one into the ground. I sold my last car in 2008, a Buick, also a hand-me-down from my parents, when I moved to Ukraine. In between were a succession of beauties and lemons, with my grandmother's American Motors Company Rebel and two red Mustangs as favorites.

It's hard to explain the automobile's hold on the American psyche, but judging from the car sales reports and routine traffic jams in Kyiv, more in Ukraine are being seduced by the lure.

It's not just that cars are associated with freedom, comfort and luxury in America. They are. But for many Americans, they are associated with the first sexual experience and with liberation from parents. Those of a certain age will appreciate. I grew up in a house with four brothers and no privacy. I've even used my car as a hotel room, sleeping overnight in it many times.

Cars are also a downright necessity in my vast homeland. You'd never get anywhere without one. Your choices would be to either walk for miles or, if in a big enough city, hope that there's rudimentary public transportation available. But neither option is a good one in most of America, so the car culture triumphs to the chagrin of those who would like to see more metros, buses, trains and light-rail transit. America has paid a big price for its habits, becoming dangerously dependent on Saudi dictators to fuel its economy. But now the situation is better.

Car manufacturing in Ukraine

Number of units

2006	**289,700**
2007	**403,200**
2008	**425,700**
2009	**69,300**
2010	**83,300**
2011	**104,600**
2012	**76,300**
2013	**50,400**
2014	**28,700**
2015	**8,300**
2016	**5,264**

The number of vehicles made in Ukraine has dropped significantly in the last decade.
Source: Ukrautoprom

In Ukraine, it's hard to understand why someone would really need a car. In Kyiv, most taxi drivers will take you from one end of the other for $5 or less. Walk a few blocks and wait a few minutes and you'll be able to catch the metro, a trolleybus or tram. Trains and planes will take you out of the country at frequent intervals. It's a great set-up. It seems the Soviet legacy in this area was a good one — and worth investing in still.

But still Ukrainians crave cars. They buy them. They drive them on Ukraine's bumpy roads. They park them on the sidewalks. The Premier Palace hotel next door doubles as a Mercedes Benz parking lot.

I'm not sure if Ukrainian-language musicians have penned odes to the automobile, but in America, so many love songs about cars and making love in cars have been written, there are too many to count.

Some were incredibly sad. Many teenagers lost their lives to accidents, drinking & driving and generally poor safety practices of decades gone by. So a teen tragedy genre grew, exemplified by:

"Last Kiss" (Pearl Jam) "I lifted her head, she looked at me and said, hold me darling just a little while, I held her close, I kissed her our last kiss. I found the love that I knew I would miss. But now she's gone, even though I hold her tight. I lost my love, my life that night."

But most are happy. Here's 6 of my favorites and the key refrains of their lyrics:

"Sleeping in my car" (Roxettes) — "Sleeping in my car — I will undress you, sleeping in my car — I will caress you, staying in the back seat of my car making love to you."

"American Pie" (Don McLean) — "Bye, bye Miss American Pie, drove my Chevy to the levee but the levee was dry, and them good ole' boys were drinking whiskey and rye, singin' this'll be the day that I die."

"Paradise by the Dashboard Light" (Meat Loaf) — "Though it's cold and lonely in the deep dark night, I can see paradise by the dashboard light. Ain't no doubt about it, we were doubly blessed because we were barely 17 and we were barely dressed."

"On the road again" (Johnny Cash, Willie Nelson) — "On the road again, just can't wait to get on the road again, the life I love is making music with my friends, And I can't wait to get on the road again."

"Mercedes-Benz (Janis Joplin) — "Oh Lord, won't you buy me a Mercedes Benz? My friends all drive Porsches, I must make amends. Worked hard all my lifetime, no help from my friends, so Lord, won't you buy me a Mercedes Benz?"

"Pink Cadillac" (Bruce Springsteen) — "I love you for your pink Cadillac, crushed velvet seats, riding in the back, oozing down the street, waving to the girls, feeling out of sight, spending all my money, on a Saturday night, honey I just wonder what you do there in back, of your pink Cadillac, pink Cadillac."

INFRASTRUCTURE

A barge sails up the Dnipro River in Kyiv on May 4, 2016. (Volodymyr Petrov)

Ukraine's infrastructure needs $30 billion, more transparency

BY VERONIKA MELKOZEROVA
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Ukraine ranks 80th among nations in the World Bank's Ease of Doing Business Index.

If time is money, Ukraine is losing a lot of both because its roads, railways, ports and airports are in need of modernization — at least $30 billion in investment by 2030.

If mediocrity is good enough, however, Ukraine's infrastructure fits the bill — ranking 80th among 160 countries in the World Bank's annual Logistics Performance Index ranking.

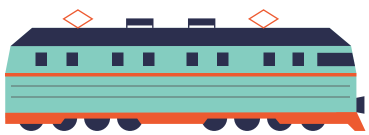
But average doesn't cut it internationally, in terms of safety, speed and efficiency. Of course, there's a plan in the works and Ukraine's Infrastructure Ministry is no different. This plan is called Ukraine's Transport Strategy 2030.

Problems abound, not least of which is the sense that those who benefit from non-transparent and oftentimes subsidized tariffs and faulty government regulation are coming out ahead.

"We have railways but not enough wagons. But business doesn't want to invest in that, so it has to blame Ukrzaliznitsya," Alexey Doroshenko, head of the Retail Suppliers Association of Ukraine, told the Kyiv Post. "As for roads, frequently their bad condition is not the government's fault, as many of them are being made stick to the norms, but destroyed within several months by overloaded cargo trucks.”

The government only started to control the weight of trucks on the road in 2015.

“As for the ports, in Ukraine, they are like states inside of a state," Doroshenko said. "There is a significant lack of influence and control of Ukrainian authorities in ports. It doesn’t create a healthy business environment.”



Railways

Ukrzalyznytsia, a state-owned railway monopolist, provides 50 percent of passenger and 82 percent of cargo transportation services in Ukraine. The current network, excluding Russian-controlled Crimea and Donbas, covers more than 41,515 kilometers.

Problems: The poor condition of the railways doesn't allow for high-speed travel. Ukrzalyznytsia doesn't supply enough wagons and locomotives. At transshipment stations, there is a long delay for cargo to be transported to seaports for export.

Anna Derevyanko, executive director of the European Business Association in Ukraine, said during the Infrastructure Forum in April that Ukrzalyznytsia fulfilled only 30 percent of traders' demands on cargo wagons and locomotives, forcing potential exporters to wait and pay for idle time.

“The quality of wagons and locomotives is also low. We want a transparent system of tariffs on cargo transportation and we are against the upcoming 22.5 percent increase,” Derevyanko added.

Alexander Kava, an infrastructure expert and former infrastructure minister adviser, told the Kyiv Post on May 29 that tariffs should be at least doubled.

“Ukraine has the lowest tariffs in Europe and frequently business uses those prices for their own benefit," Kava said. "For example, some traders use cargo wagons as storage on wheels.”

Irrational tariffs are a big reason for Ukrzalyznytsia’s poor service. "The government has to stop milking the enterprise. Due to low tariffs, it practically donates to agribusiness and metallurgy, and just doesn’t have money to renew the infrastructure,” Kava said.

With all that in mind, experts say Ukrzalyznytsia needs $10.5 billion in investment.

The Cabinet of Ministry took control of Ukrzalyznytsia in January, relieving the Infrastructure Ministry from management duties. Omelyan told RBC-Ukraine news website that the Cabinet took Ukrzalyznytsia away from him because of his conflict with Ukrzalyznytsia head Wojciech Balczun.

Omelyan said that Balczun, considered by Ukraine’s Prime Minister Volodymyr Groysman as a strong reformer, is failing. The conflict erupted during Balczun’s report to the Cabinet on Jan. 25.

After the Ukrzalyznytsia head reported that Ukrzalyznytsia finished with more than Hr 1 billion profit in 2016, Omelyan accused Balczun of manipulating the numbers. Omelyan said a 15 percent increase in cargo tariff, not reforms, was the reason for the profit. Groysman took Balczun's side.

Despite refusing to be interviewed, the Ukrzalyznytsia press service issued a statement complaining about low tariffs set by government: “Current tariffs do not cover spending. In 2017, the minimum wage was raised by 25 percent, the fuel tariff raised by 20 percent and the electricity tariff by 26 percent. Tariffs need to be indexed according to that.”

Infrastructure Minister Volodymyr Omelyan has been highly critical of Balczun’s team, blaming him for Ukraine getting bypassed in the Chinese "One Belt One Road" initiative or the South Silk Road, China's global multibillion-dollar campaign to improve global infrastructure and trade ties with the world's largest nation and second largest economy.

“I still believe Silk Road could become a perfect alternative for Ukrainian export transit to Asia, banned by Russia in 2016. We’ve already tackle all the technical issues with Georgia, Kazakhstan, and Azerbaijan,” Omelyan said.

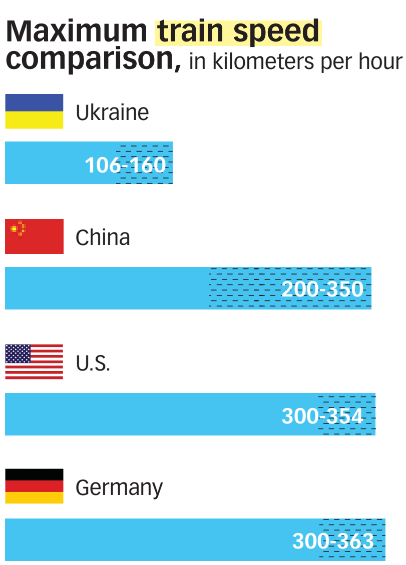
Since 2015, Silk Road high-speed trains have been delivering goods between China and Europe through Russia and Belarus, byspassing Ukraine.

Another big problem is featherbedding.

According to Deloitte audit and consulting firm, Ukrzalyznytsia had the largest number of employees among the top 500 companies of Eastern and Central Europe, with more than 270,000 people. Polish State Railways, by comparison, has just 79,000 people.

The Infrastructure Ministry tried to cut the staff by at least 10 percent in 2015, but backed off in the face of worker protests and threats to block the railways.

After Balczun became Ukrzalyznytsia’s head a year ago in June 2016, he told Novoye Vremya news magazine that, rather than dramatic reductions in staff,



By Kyiv Post.
Sources: Ukrzalyznytsia, EuRail, US High Speed Rail Association , chinahighlights.com

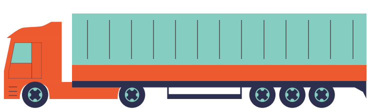
Ukraine is in the slow lane when it comes to speed of trains, giving passengers more time to view the scenery, but not helping the economy. The poor condition of railway tracks and trains is the reason.

he would save money by fighting corruption. That commitment has firmed up since then.

Alexandr Mushenok, deputy head of the Railworkers Association in Ukraine, told the Kyiv Post on June 2 the association even got an agreement from Balczun — in the form of a memorandum of understanding — that there would be no mass layoffs. Workers even got a 25 percent wage increase, Mushenok said.

“Even with the current (more than 270,000) staff Ukrainian railways need 50,000 more people who would serve the railways," Mushchenok said. "We can talk about cuts if there are technological innovations in the enterprise. The better wagons and locomotives, the fewer people need to operate them.”

Solution: Ukrzalyznytsia’s press service told the Kyiv Post that the enterprise has a strategy to repair wagons, railways and locomotives within five years — but not on the scale required. In 2017, the company will buy 12 new diesel locomotives for cargo transportation worth Hr. 1.5 billion, according to the press service, along with more than 3,000 cargo wagons.



Roads

Ukraine has more than 169,600 kilometers of public roads, with 51,700 kilometers state highways and 117,000 local roads. Ukraine ranks near the bottom in quality — 132nd place among 140 countries in the World Economic Forum Quality of Roads index 2016.

The government expects to spent Hr 35 billion for road reconstruction in 2017, still far short of the estimated Hr 800 billion needed.

Problems: According to an Infrastructure Ministry analysis, 90 percent of Ukrainian roads haven’t been repaired for more than 30 years. Businesses overload cargo trucks, causing extensive damage to the roads. In 2015, the Cabinet of Ministers of Ukraine established weight limits at 24 tons.

During a May 14 press conference, Ukrainian President Petro Poroshenko said he's seen improvement in road construction and repair in the last two years. Prime Minister Volodymyr Groysman wasn’t so positive when he told to 112 TV channel the third part of Ukrainian roads are being repaired poorly. Moreover, Groysman said he was going to file a claim in the National Anti-Corruption Bureau as about 7 percent of finances allocated for roads construction are being stolen by corrupt officials.

The Infrastructure Ministry has reported that in 2016 Ukravtodor repaired more than 1,000 kilometers of roads, and plans to repair 2,000–2,500 kilometers of roads in 2017.

Solution: The government is planning to put more than 120,000 kilometers of roads under local government responsibility as part of government decentralization reform. The State Roads Agency will remain responsible for the rest — nearly 50,000 kilometers of major highways. The government also plans to create a State Roads Fund in 2018 and hopes to attract investment.

Rivers

River transport brings cost advantages. The Infrastructure Ministry estimates that it costs $10 to transport a ton of cargo by railways, $16 by roads and only $8 by river. Ukraine has 1,562,600 kilometers of navigable waterways mostly on the Dnipro, Pivdenny Bug and Danube rivers. In 2016, Ukraine's river fleet counted 1,300 ships, with 440 cargo vessels. But, according to a 2015 World Bank survey, river transportation is insufficiently used in Ukraine.

Problems: Kava said Ukrainian rivers were frequently used to transport the cargo within Ukraine and abroad during the Soviet Union. But during Ukraine's independence there was no money to deepen the bottom of rivers to make way for travel with bigger and better barges and ships.

"It is indeed the cheapest way to transport goods, but river transportations have lots of nuances. It is convenient only for businesses located near the river. Others would have to pay for double cargo transshipment," said Kava. "Nowadays agrarians, sand and gravel producers have high demand on river transportation. Unfortunately, rivers can't be used year around, because logistic companies provide navigation only from six to nine months."

Solution: Infrastructure Ministry counted that, to repair sluices, terminals and other river infrastructure, Ukraine needs more than $2 billion in investment. Liberalization of the market would also help the industry. In December, Olexiy Vadaturskiy, the head of Ukraine's private Nibulon agricultural holding signed a $74 million deal with the European Investment Bank to finance reconstruction of the Nibulon dockyard in Mykolaiv Oblast and deepen the bottom of Pivdenny Bug River.

Ukrainian Danube Shipping Company plans to upgrade its fleet by 2031, Esmerk Ukraine News agency has reported. The company intends to buy 40 barges and modernize 21 tugs, costing $50 million. The company expects that foreign investors from China National Import and Export Corporation and Serbian HBIS GROUP Serbia Iron & Steel company and others will provide funding.

Railway workers prepare locomotive for a ride during the technical stop near Darnitsya railway station in Kyiv on May 30. (Kostyantyn Chernichkin)

Ports

Ukraine operates 18 seaports in the Black and the Azov seas, in general capable of handling 132 million tons of cargo transshipment a year. But, according to the Infrastructure Ministry in 2016, Ukraine's cargo transshipment in ports dropped by more than 9 percent compared to 2015 as the ports operated only at 56 percent of full capacity. Cargo transit also dropped by 35 percent. But in four months of 2017, Ukrainian ports have shown revival, with 4 million tons of cargo handling, which is two percent higher than in the same period of 2016.

Problems: According to the Infrastructure Ministry, port charges in Ukrainian ports are in general 2.5 times higher than in other regional ports. Denys Rusin, the head of the Asket Shipping company, told the Kyiv Post that in 2015 Odesa ports charged a $15 per ton cargo transshipment tariff and $13 in Mykolaiv. In 2016–2017, tariffs decreased by 30 percent, but were still 2–3 times higher than European tariffs ($5-$7 a ton) a ton, said Rusin.

The ministry said that Ukrainian ports need to bring down the prices up to 60 percent.

Ukrainian ports waters are too shallow to let heavy cargo ships to enter. While many world cargo companies use the Capesize-type cargo vessels, that can carry 100,000 tons and has sea gauge of 15 meters, only one Ukrainian port, Pivdenny, with 19 depth waters, can accept such heavy vessels.

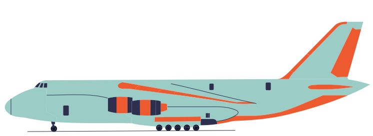
Solution: Omelyan said for 2017 the government plans several major improvements in Ukrainian ports worth more than

International transport corridors passing through Ukraine

By Stella Shabliovska, Kyiv Post.
Source: Ministry of Infrastructure of Ukraine

Hr 3 billion: new terminal construction in Odesa and Mykolaiv ports, channel dredging in Pivdenny and Chornomork ports, terminals reconstruction in Chornomorsk, Odesa and Mariupol ports. All the works will be under control of the state agency Sea Ports Association of Ukraine and The International Federation of Consulting Engineers.

"International port operators Hutchison Ports and DP World (P&O Ports) are going to enter Ukraine in 2017. And they won't just rent the state enterprises equipment, but also develop the ports' territories and process raw materials, export value-added products from Ukraine and bring more cargo vessels into the Ukrainian ports," Omelyan said.



Airlines

Ukraine has 23 airports, including four in Russian-occupied Crimea and Donbas. According to Ukraerorukh, Ukrainian airports carried more than 8.2 million passengers. In 2016, passenger traffic in Ukrainian airports increased by 31 percent against 6.2 million passengers in 2015.

However, due to low pass-through function of local Ukrainian airports, about 90 percent of passengers' and cargo traffic concentrated in seven airports: Boryspil International Airport, Airport Kyiv (Zhulyany), Odesa, Lviv, Kharkiv, Dnipro, Zaporizhzhia international airports. There are 20 airlines in Ukraine while another 28 international airlines also provide transit flights through Ukrainian territory.

Ukraerorukh has reported that in 2016, Ukrainian airlines made 79,500 flights, which is 17 percent more than in 2015 (66,300 flights).

Problems: Ukrainian International Airlines, owned by billionaire oligarch Igor Kolomoisky, has a stranglehold on the market — accounting for 50 percent of the passenger's flights in Ukraine.

Under the European Union-Ukraine Association agreement, Ukrainian government is obliged to liberalize the market by inviting international low-cost operators.

Omelyan said on May 25, that the high ticket's price is the main reason of Ukraine's avian transportation industry bad performance.

"In general, Ukrainian airlines serve 13 million passengers a year with population

Ukraine has five international transport and trade corridors with a total length of 5,000 kilometers passing through its territory.
Ukraine shares borders with Belarus, Russia, Poland, Slovakia, Hungary and Romania. It also has a direct connection with Black Sea countries Georgia and Turkey.
Pan-European transport corridors (Cretan 7 and Cretan 9) link Ukrainian ports in Odesa Oblast with Germany (Cretan 7) and connect Russia and Finland, Estonia, Latvia and Lithuania with Greece (Cretan 9).
Baltic Sea – Black Sea Transport Corridor offers a direct connection across the continent between the port cities of Gdansk in Poland and Odesa Oblast ports Chornomorsk and Pivdenny in Ukraine.
Black Sea Transport Circle connects all the Black Sea Region Countries by the land.
TRACECA Corridor or Trans-Caspian Corridor connects Ukraine with one of six trade routes of the Chinese "One Road One Belt" economic initiative, also dubbed the New Silk Route.

World Bank Logistics Performance Index 2016

Ranking	Country
1	Germany
2	Luxembourg
3	Sweden
4	The Netherlands
5	Singapore
80	Ukraine

Source: The World Bank

of 42 million people, while for example, Polish airlines serve 34 million a year with 36 million people," Omelyan said.

Airports and airlines income depends on a passenger.

Irish low-cost Ryanair in March announced it is going to enter the Ukrainian market in October. While the price for a one-way ticket to Stockholm on the Ukraine International Airlines website starts from 300 euros, while Ryanair offers from 22 to 34 euros on its official website.

Ukraine International Airlines lawyer Oleg Bondar has said that, according to the secret deal supposedly signed by Omelyan, Ryanair will get a significant discount and pay $7.50 per passenger airport tariff, while other companies will pay $13.

"For such a discount Ryanair is obliged to carry 150,000 passengers a year. What discount will Ukrainian Airlines, that carry 6 million passengers will get then?" Bondar asked Omelyan during the conference on May 25.

The minister denied any secret deals, saying in terms of liberalization, all the aircraft companies will get the same conditions and tariffs.

Andriy Guck, Ante law firm attorney in law and potential Ryanair lawyer in Ukraine told the Kyiv Post that there were talks about $7.5 per passenger for Ryanair, but no deals were signed yet.

"Ryanair agreed to pay for every flight, not in the end of the year. And 150,000 passengers a year means it has to carry 150 per flight to get the discount. If there are 149 people on board, Ryanair would pay $13 as everybody else," Guck said.

The expert said when such company as Ryanair enters the market, it won't change for the market, but the market has to change for it.

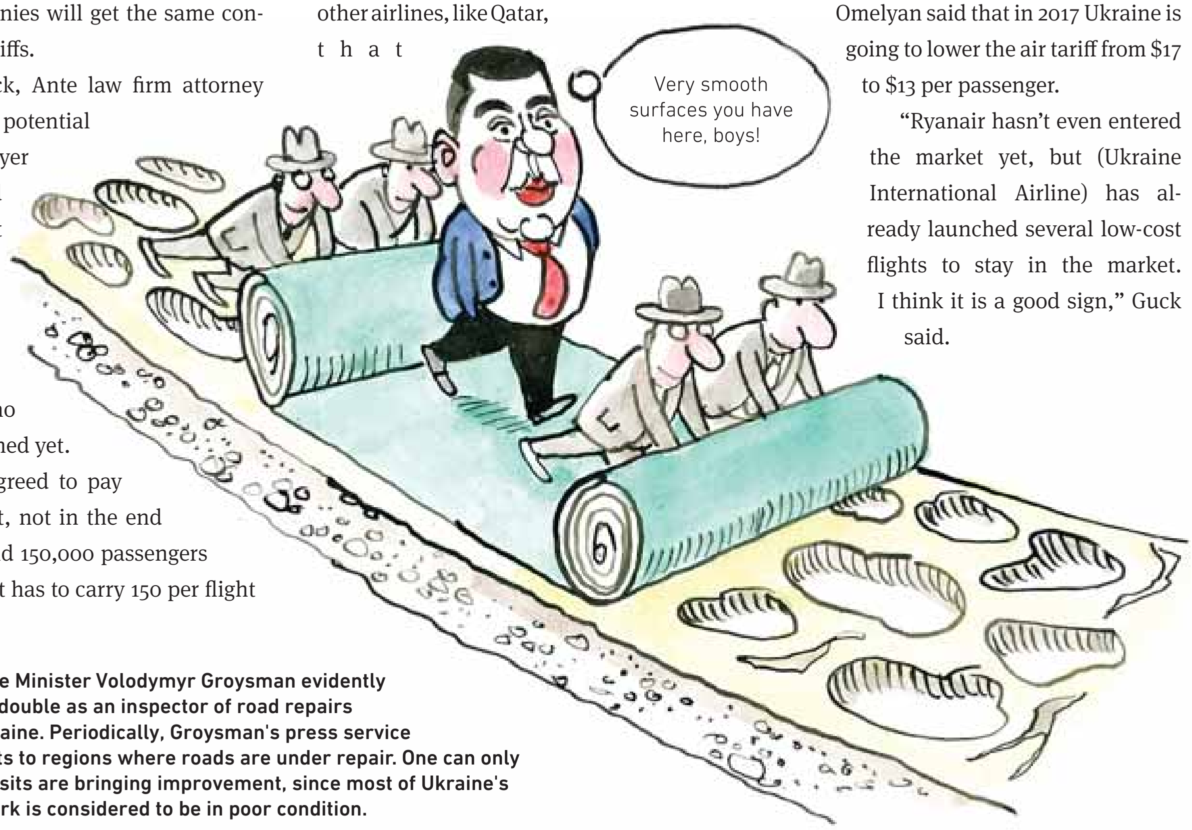
"It is an international brand. By entering Ukraine, Ryanair sends the signal to other airlines, like Qatar, that Ukraine is a safe market with benefits," Guck added.

Solution: In general Ukraine's air industry needs more than $8 billion in investment, reads Ukraine's Transport Strategy 2030. The government is going to liberalize and create the competitive market in Ukraine by offering equal conditions to Ukrainian and foreign airlines.

Omelyan said that in 2017 Ukraine is going to lower the air tariff from $17 to $13 per passenger.

"Ryanair hasn't even entered the market yet, but (Ukraine International Airline) has already launched several low-cost flights to stay in the market. I think it is a good sign," Guck said.

A man rides a bicycle on a bumpy road in Kyiv Oblast on June 3. (Oleg Petrasiuk)



Ukrainian Prime Minister Volodymyr Groysman evidently has decided to double as an inspector of road repairs throughout Ukraine. Periodically, Groysman's press service announces visits to regions where roads are under repair. One can only hope that his visits are bringing improvement, since most of Ukraine's roadway network is considered to be in poor condition.

Yulia Kovaliv: Success of existing firms will persuade new investors

A moored ship at Odesa Portside Plant on Aug. 29. (Volodymyr Petrov)

BY OLGA RUDENKO
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If potential investors had as much confidence in Ukraine as Yulia Kovaliv does, she would be out of a job.

At the end of 2016, Kovaliv left her previous job as deputy economy and trade minister to head the Office of the National Investment Council, a nongovernmental organization that partners with government to lure investors to Ukraine.

All Ukraine needs, she says, are several success stories: big foreign companies, like IKEA, entering the country and being satisfied.

"Then it will be like a snowball," Kovaliv says, "And it's crucial to start it rolling in the period of 2017–2018."

However, the current situation leaves little room for optimism.

In the past year, the Ukrainian government has failed to kick-start the privatization of 1,800-plus state enterprises or lift the long-standing ban on agricultural land sales. Cutting the deficit in the pension fund and restoring trust to the judicial system, including creation of an anti-corruption court, are also on the to-do list. Meanwhile, law enforcement agencies have raided the offices of high-profile information technology and investment firms on dubious grounds.

But Kovaliv argues that there were successes that outweighed these failures: electronic value-added tax refunds started in April, the long-anticipated visa-free travel regime with the European Union started on June 11 and the gas sector showed signs of healing thanks to the reorganization of Naftogaz and new tariff regulation.

That's not enough, but it is a promising foundation to build on, Kovaliv believes.

Outsiders to run state firms?

In 2016, when Kovaliv was still at the Economy Ministry, she said the privatization of giant state enterprises was the No. 1 priority.

However, it wasn't a priority for everyone. A year later, privatization is at exactly the same place: Giant state enterprises and monopolies that generate little to no profit and give endless opportunities to enrich insiders through corrupt schemes remain under state ownership.

New foreign business web portal InvestMonitor opens in Ukraine

InvestMonitor, a web portal that seeks feedback from foreign investors, has been launched. The InvestMonitor portal is currently available at: www.investmonitor.com.ua.

The website is aimed "at constant monitoring and identifying the areas of concern for foreign business in Ukraine, targeting specific systemic impediments to business operations, as well as improving investment environment for the new and potential investors who consider Ukraine as business location," the Ukrainian Ministry of Finance said on June 12.

The key objective of InvestMonitor is to develop a tool for assessing the investment environment in the regions of Ukraine on the basis of a questionnaire for investors, the ministry said in a statement. The results will be "transformed in and generate the Index of Investment Environment which forms the core of the project and serves as the practical tool to conduct analysis on key constraints or destructive factors foreign investors face in Ukraine," the ministry said.

The survey will be conducted until the end of June. The first voting results will be presented on July 1.

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olga.zykova@ukraineinvest.com
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Ukrainians have plenty of reasons to be wary of U.S. President Donald J. Trump, who has heaped praise on Ukraine's No. 1 enemy, Rusisan dictator Vladimir Putin. But thus far, backed by a strong pro-Ukrainian contingent in the U.S. Congress, American policy has not changed and support for economic sanctions against Russia remains in Washington, D.C.

The ambitious privatization plan stumbled at Odesa Portside Plant. It was put up for sale in 2016, yet attracted no bids due to mismanagement and interference from oligarchs.

"We shouldn't have chosen such a complicated object as a privatization symbol," Kovaliv admits now.

Today she has another priority project: concessions. Since the summer of 2016, Kovaliv has been in charge of an effort to develop new concession legislation to allow foreign companies to operate state-owned enterprises, pay to modernize them, and collect profit.

The rationale is that the concession model is the only way to quickly attract money to modernize crumbling enterprises in crucial areas like infrastructure, energy, and utility services.

$60 billion in energy needs

For example, to get Ukraine's energy sector in shape would require $50–60 billion in investment through 2035, according to the experts that put together the country's energy strategy, Kovaliv points out. That's the kind of money Ukraine just doesn't have.

The utilities sector is another problem.

"In a couple years our municipal utilities system will either fall apart or… well, it will just fall apart," Kovaliv says.

Concession deals could be saviors for these areas, she believes.

According to Kovaliv, two French companies, Veolia and Engie, are interested in entering the Ukrainian utility services sector through concessions, and are traveling the country looking at the sector. They are focusing on water and waste management, and electricity distribution.

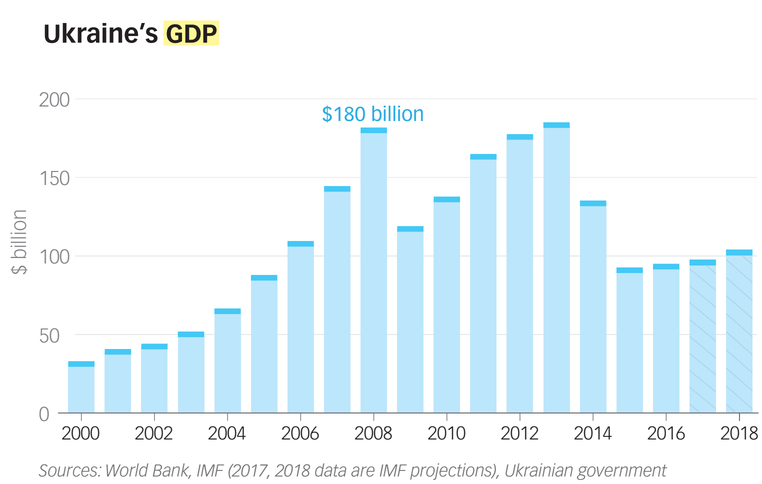
To enter though, they would need not only concession legislation, but also a change in tariff regulations. The current legislation, according to Kovaliv, works in such a way that when a utility company decreases its costs, the government then lowers the prices that they can charge consumers. This would have to change to attract investors, which means Ukraine faces another legislative hurdle.

The Black Sea ports will likely be among the first objects up for concession. International port operators Hutchison Ports and DP World are eyeing them, waiting for legal obstructions to be cleared. Hutchison Ports already operates a terminal in Chornomorsk commercial port.

Based on the similar deals in Europe, these two companies are expected to invest $1 billion within five years, according to Kovaliv.

The draft legislation on concession is being finalized now in a joint effort by Kovaliv's office, the Ministry of Economy and Trade and the European Bank for Reconstruction and Development. Kovaliv hopes to see it submitted to the Verkhovna Rada in fall.

However, getting the bill through the Rada could prove tricky. Concession isn't that much different from privatization in the sense that control of an enterprise



Ukraine's gross domestic product peaked at $183 billion in 2013, but has tumbled by about half since then. However, 2-3 percent economic growth has returned and GDP is expected to top $100 billion again in 2018.

passes — for 30–50 years — from the state to a private company. That won't appeal to lawmakers that are influenced by oligarchs or those who sincerely believe that such enterprises should be run by the state.

Unfriendly law enforcement

But any incoming investment, via concession or not, could be scared away by the recent activities of law enforcement agencies, which have been launching investigations into businesses and carrying out searches of their offices.

This is a big concern for Kovaliv and everyone else working to lure investors to the country.

Selling Ukraine as an investor-friendly place is hard when one of the country's biggest investment banks, Dragon Capital, are searched by the Security Service of Ukraine, better known as the SBU, because its computers, the security service claimed, use Russian-made employee-monitoring software.

And while Kovaliv is careful when commenting on the issue, saying that the SBU's actions might be justified by the security concerns with Russia, she says she condemns the methods that the service has used.

"Why do you need two buses of masked men with guns when coming to search a white-collar company?" she says.

She says that one such surprise visit by the SBU took place at an agricultural enterprise in Odesa Oblast that is owned by an Asian company that she won't name. Armed SBU fighters in black masks arrived during a visit by representatives of the company's head office. Needless to say, the Asian visitors were shocked.

Negative experience of dealing with law enforcement and financial control services can easily repel potential investors.

"If a case like that gets reported in the Financial Times, it can hurt Ukraine's economy more than the suspected violation that they're investigating," Kovaliv says.

Yulia Kovaliv, head of the Office of the National Investment Council, talks to the Kyiv Post in her office on June 2. (Oleg Petrasiuk)

Law enforcement agencies stopped raiding businesses for the first two years after the EuroMaidan Revolution that drove President Viktor Yanukovych from power on Feb. 22, 2014. However, they went back to such raids in 2016.

Inflation is expected to gradually decline to
5 percent
in coming years, according to the International Monetary Fund.

Two-year lull ahead

Still, cases like that of Dragon Capital, where law enforcers use a security-related pretext to investigate a company, are rare. The agency that businesses complain about the most is the tax police.

This much-criticized investigative agency was nearly liquidated in error, when at the end of 2016 parliament passed new tax legislation that accidentally left out any mention of the tax police.

The parliament quickly announced that the tax police would continue operating, but the praise that the error got from reform-oriented lawmakers and within the business community was proof of the bad reputation of the agency.

The problem of law enforcement and tax police raids on businesses will be solved — at least partly — when the long-anticipated Financial Investigations Service is created. It will take over the power to make such checks on businesses.

The new agency has been in the process of being created since 2015. In March, the Cabinet of Ministers approved a draft law that would establish it. But the law is yet to be submitted to the parliament.

When she talks about law enforcement, Kovaliv's optimism gives way to realism.

Once the Financial Investigations Service is created, business will have a grace period of up to two years. That's how long employees of a new agency are usually careful not to do anything rash, according to Kovaliv.

But by that time, Kovaliv hopes that the "snowball" of foreign investment will already be rolling at full speed in Ukraine, and not even bad press about law enforcement raids on business will be able to stop it.

BY BRIAN BONNER
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When the Kyiv Post interview turned to whether Ukrainian President Petro Poroshenko is one of the "good guys" or "bad guys" — meaning is he a genuine reformer or not, Hugues Mingarelli avoided the question the first time.

When asked a second time whether he thought Poroshenko is acting in the interests of the Ukrainian nation or serving the oligarchs, the European Union ambassador to Ukraine put the president in the "good guy" camp.

"My feeling is yes," Mingarelli, a French citizen who has represented the 28-nation bloc in Ukraine since September, said.

Any hesitation or tentativeness from Mingarelli is understandable to Ukrainians and foreigners alike. Polls show that most Ukrainians put Poroshenko in the anti-reformer camp while a fervent minority think he's doing a wonderful job.

More than three years after the EuroMaidan Revolution that drove

mbassador garelli talks about what deters investment into Ukraine

Ukrainian President Petro Poroshenko (L) European Union Ambassador to Ukraine Hugues Mingarelli take part in the launch of the symbolic "visa-free timer" on June 10 to mark the start of visa-free travel for Ukrainians to most of Europe on June 11. (Mykhailo Markiv)

President Viktor Yanukovych from power on Feb. 22, 2014, big lists can be drawn up of the nation's accomplishments and failures.

Establish rule of law

In fact, the list of failures is shorter but no less serious: Ukraine has failed to combat corruption and establish rule of law.

This is why the fundamental questions about Ukraine's future as either a modern European democracy or backwater post-Soviet oligarchy involve the morality and motivations of Ukraine's political leadership.

While not a publicity hound, the French national Mingarelli has distinguished himself in 10 months of service — replacing Poland's Jan Tombinski — as a veteran E.U. official who is not afraid to speak his mind if he thinks it will help.

And so he does on the question of why Ukraine attracts paltry amounts of investment to power its small and sluggish economy.

"Ukraine has exceptional assets to attract foreign or even direct investments. These extraordinary assets are: a very highly skilled population, a long industrial tradition — these people have been producing satellites, airplanes and missiles for decades, exceptional land, exceptional location, big size, a big market," Mingarelli, a 30-year EU veteran, said. "But foreign direct investment is still not there and investors do not come for one main reason — the absence of rule of law, which some people call corruption."

The prescription is simple yet hard for Ukraine to achieve.

"Reduce corruption and increase rule of law to levels comparable to European countries and this country will get the maximum level of foreign direct investment and be a prosperous country," Mingarelli said.

To do that, Ukraine needs to transform its judicial system, making the law enforcement institutions effective, independent and trusted. Without an anti-corruption court and a new slate of judges, he said, rule of law is not possible in Ukraine.

Fight oligarchy

One of Mingarelli's more apt assessments is worth repeating time and again.

"This country has been a cash machine for about 10 or 15 people and the whole country has been shaped for the benefit of these people," Mingarelli said of Ukraine's elite. He felt no need to call out the oligarchs by name, telling the Kyiv Post "you know the names" and that they track with the rankings of richest Ukrainians.

"The economics of the country and society have not been shaped for the benefit of the collective, like in most countries," Mingarelli said. "It has been to the contrary. It has been shaped for the benefit of a few people and the collective was basically totally ignored. This is a terrible legacy."

This legacy will take time to undo. It will also take commitment from the people and politicians, a strong civil society and international backing to transform.

A starting point would be justice against those who are guilty of crimes against the state, he said.

"We cannot say it's in the past and we can forget about it," the ambassador said of Ukraine's history of unsolved crimes and unpunished corruption. "Those who have stolen from the country should be brought to justice and pay for it. Otherwise, you cannot rally the citizens behind the reform process. You cannot expect people to accept (difficult reforms) unless you take the necessary steps to punish people who have been stealing all these years."

This is why he said that the E.U. is closely watching what happens to ex-State Fiscal Service chief Roman Nasirov, accused of robbing $74 million from the state by abusing his tax powers, and ex-lawmaker Mykola Martynenko, who allegedly embezzled $17.3 million through an agreement to sell uranium at inflated prices to a state-run plant.

Ukraine has taken giant steps towards the European Union this year, gaining visa-free travel and ratification of a political and free trade agreement. But the Russian bear is always next door – and sometimes in Ukraine's yard, as in Crimea and parts of the eastern Donbas.

"It's important that Nasirov and Martynenko can go through a really fair process where Ukrainian citizens can realize there is now justice in the country," MIngarelli said. "It's very important, not for the sake of revenge, but to rally people to reestablish trust or confidence between the people and the political leadership."

No increase in sanctions

The West, including the U.S. and the E.U., have shown remarkable patience and unity with trying to persuade Russia to call off its three-year war against Ukraine and return the Crimean peninusula, stolen in 2014.

There is no end in sight to Russia's war, which has killed 10,000 people and displaced 1.5 million people. The Kremlin is not honoring any of the key elements of the 2015 Minsk peace agreement — namely a cease-fire, withdrawal of troops and weapons and return of eastern borders to Ukrainian control.

While the E.U. is likely to stick to the current economic sanctions against Russia, including bans on short-term credit and some types of investment, Mingarelli said he's seen no political support for tougher sanctions.

"I haven't heard anybody says sanctions should be removed," Mingarelli said. "The Minsk agreement has stalled." At the same time, "now a large number of member states consider the current sanctions are enough."

No illusions

Mingarelli said that he also doesn't see "any change" in Russian behavor, attitudes, and military activities.

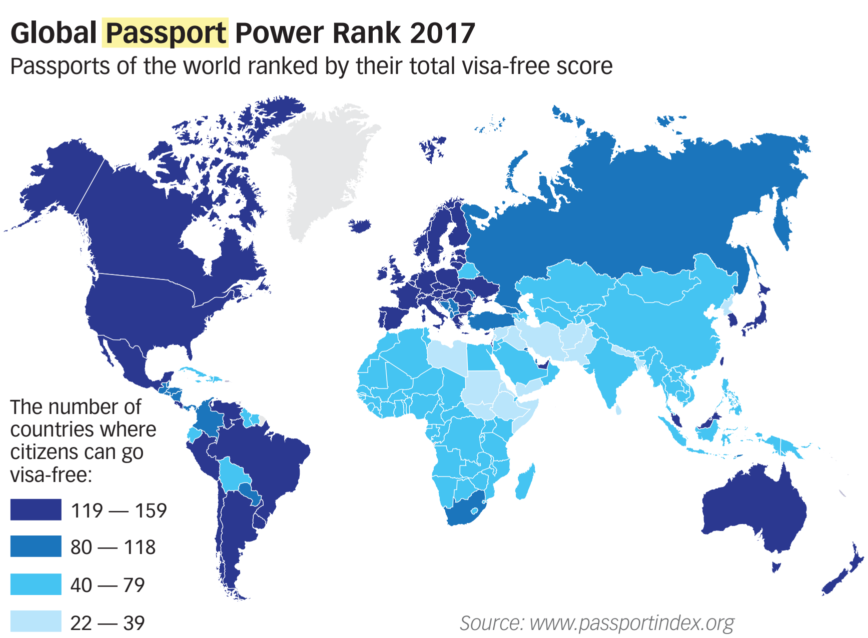
"Their objective is to prevent the modernization of this country and a direct rapprochment with the E.U. that turns Ukrainian society into a European, Western society," he said. "It's clear that some in Russia do not accept this decolonization process."

Spurring trade

The goal of transforming Ukraine into a European democracy requires greater economic prosperity. Ukraine has a big tool to achieve wealth — a free-trade agreement with the E.U. among other nations, including Canada.

However, with the E.U. at least, Ukraine is lagging in adoping the standards, norms and regulations required to trade freely (or with low tariffs) to the 28-nation bloc.

Instead of implementing those standards, Ukrainians tend to complain about low duty-free export quotas for many products. Ukrainian reaches its quotas



The Ukrainian passport became much more powerful when visa-free travel with most nations in the European Union took went into effect on June 11. Ukrainians can now travel to 119 nations of the world visa-free or by receiving visa upon arrival, putting Ukraine ahead of Russia in the ranks of privileged world travelers.

early in the year for many agricultural products, such as honey. After that, however, the tariffs on Ukrainian exports are applied by the E.U. in line with World Trade Organization standards.

The E. U. is close to raising duty-free quotas on 16 products, Mingarelli said. "Ukraine will be allowed to export more fertilizer, wheat, maize, oats, tomatoes, without paying customs duties," he said.

But he said that quotas are not the major impediment to increasing Ukraine-E.U. trade. While the E. U. collectively has replaced Russia as the nation's top trade partner, as an individual nation Russia remains Ukraine's top investment, export and import partner.

"The main issue is norms and standards," Mingarelli said. "When Ukraine has adopted the bulk of norms and standards, they will be part of the E.U. single market. For them it is really, really important. They have everything — skilled labor, low labor costs, an industrial tradition, quality agricultural land, location at the center of Europe. What more could you dream of?"

How E. U. helps

The E. U. has made no secret of its expectations for Ukraine. More precisely, E.U. leaders have told Ukraine's leaders to do more on reform if they expect more financial assistance.

By that measure, Ukraine is doing so-so.

While some are promoting an ambitious "Marshall Plan" aid program to pump billions of euros into Ukraine, named after the U.S.-funded reconstruction program of post-World War Europe, the reality is far less grandiose.

The E. U. has offered something in-between — 3.4 billion euros in macrofinancial assistance since the EuroMaidan Revolution that deposed President Viktor Yanukovych in 2014, along with 250 million euros in annual grants and another 50 million euros in humanitarian assistance.

The E. U. has expertise in many areas that Ukraine could benefit from — including decentralization, privatization, civil service, development of independent journalism — especially a public TV broadcaster — and in many other ways.

In this transformation, he emphasized, Ukrainians must set the democratic agenda themselves. The E. U. will then be glad to support.

"The main engine of reform process has to be the Ukrainian people," he said. "We are a force that backs reformers at the right moment."

Clearly, the battle is on.

"There is no doubt there is a daily struggle between those who try to reform the country and those who try to keep it as it has been in the first years of independence. We see this daily struggle in the ministries and in the Rada," Mingarelli said. "My sense is up to know the reformers have managed to push the country in the right direction at a very slow place and not in a linear way."

Pick up pace

He said that he worries about the patience of the Ukrainian people running out.

"How long can they stand this level of suffering and this bloody difficult life?" he asked. "This is the risk. We know that populists win elections precisely because of this level of suffering."

On balance, and on the strength of Ukraine's vibrant civil society, Mingarelli said: "I still have the feeling society is moving in the right direction towards Western standards when it comes to establishing an open and democratic society. I cannot tell you what the end result will be. I am optimistic."

Ukraine's minimum monthly wage is
$122
and average monthly wage is expected to reach $271 this year

European Union Ambassador to Ukraine Hugues Mingarelli talks with the Kyiv Post in his office on June 6 in Kyiv. (Volodymyr Petrov)

Children push a button to launch of the symbolic "visa-free timer" on the occasion of the introduction of visa-free travel with the European Union in front of the Presidential Administration in Kyiv on June 10. Visa-free travel for Ukrainians started on June 11. (Mykhailo Markiv)

Ukraine racks up wins in spring, hoping for more

DIANE FRANCIS

Ukrainians are finally starting to see that "spring has arrived" following a string of positive developments.

"It's the Ukrainian national habit to complain, but there has been a lot of good news lately," said Ukraine's Deputy Minister of Trade Nataliya Mykolska in an interview while on a trade mission to Canada. "Naftogaz won the Stockholm arbitration case against Gazprom on its merits. The importance is that we can buy gas from Russia at market prices and not at their inflated prices."

Still to be decided by arbitration is Naftogaz's counterclaim against Gazprom, alleging overcharges of $30.3 billion.

Interestingly, this good news, and more, was circulated on the Facebook page of Vlad Rashkovan, an official with the International Monetary Fund. "Stop saying that in Ukraine, nothing changes," he wrote inviting others to join in. "Look at the results of the last two months."

Indeed, progress is under way. Here is his shortened list of 15 leaps forward, followed by a few others:

June 1: Canada ratified the free trade agreement with Ukraine.

May 31: The international arbitration court in Stockholm rejected Gazprom's controversial "take or pay" claim, ruling in Naftogaz's favor.

May 30: The Dutch senate approved ratification of the EU-Ukraine association agreement.

May 30: The state e-auction system Prozorro sold the assets of bankrupt banks for one billon hryvnia, preparing for participation in the auctions of small privatizations.

May 17: The European Union approved Ukraine's visa-free agreement.

May 13: The Eurovision Song Contest held in Ukraine was recognized by the Eurovision board as a success.

May 3: Ukraine rose 30 points on the Global Open Data Index. The country is now ranked as the 24th most open, after Sweden, Germany, and Hong Kong.

April-May: as a part of the currency liberalization strategy, the National Bank of Ukraine canceled a series of capital controls requirements.

April 26: President Petro Poroshenko signed a law easing the merger and capitalization procedures for small banks.

April 19: The Cabinet of Ministers approved financing for dredging a new grain terminal currently built by MV–Cargo company, which is a joint venture of Cargill. The total amount of investments is $150 million, and is also financed by the EBRD and IFC.

April 14: Poroshenko signed a law on a three-year state budget process.

April 13: The Ukrainian parliament approved a law on the electricity market, which introduced a series of important reforms to liberalize the country's energy market.

The Global Open Data Index
2016/2017

Rank	Country	Score
1.	Australia	79%
	Taiwan	79%
3.	France	73%
	UK	73%
5.	Canada	69%
23.	Hong Kong	50%
24.	Ukraine	49%
	Austria	49%
	Slovenia	49%
	Belgium	49%

Source: Open Knowledge International

Ukraine has risen to 24th among nations in the Global Open Data Index, a sign of greater transparency in government. It is tied with Belgium, Slovenia and Austria.

April 3: The International Monetary Fund agreed to release the next tranche of $1 billion, bringing total disbursements to $8.38 billion.

April 3: As a follow-up of a European Bank for Reconstruction and Development-funded project, a law on financial restructuring and the secretariat for financial restructuring of corporations has become operational.

The National Academy of Sciences of Ukraine estimates that 58.3 percent of Ukrainians lived in poverty in 2016

April 1: The Ministry of Finance launched an automatic electronic register of VAT reimbursement.

It's an impressive list. Here are four more:

The new National Anticorruption Bureau of Ukraine arrested two of the country's highest-ranking officials on corruption charges.

The IMF advanced $1 billion to Ukraine but has tied this funding to reforms, namely the establishment of an Anti-Corruption Court and more powers for the National Anticorruption Bureau of Ukraine.

Ryan Air is coming to Ukraine this year. This is in recognition of the country's business and tourist importance to Europe and will add to economic growth by bringing more competition for Ukrainian consumers and visitors, and more traffic.

Last, but not least, the Russia scandal in the United States and Russia's meddling in the French elections dominates the world's headlines and has destroyed Putin's image and hopes to get sanctions scrapped or even reduced. At the same time, it has raised Ukraine's profile and importance as the line in the sand against Putin's attempt at world dominance.

Clearly, more people are realizing that Ukraine is strategically important as the largest country in Europe with great potential. Ukraine is the world's fourth most educated; the third largest IT outsource nation in the world after the United States and India; an agricultural giant which is the largest exporter of sunflower oil, second largest grain exporter and third largest exporter of corn, and will be an economic powerhouse once it overthrows its corrupt elites and defeats Russia. Millions of Ukrainians who have left, and billions of dollars, will flood into the country if reformers win the federal election in 2019.

The struggle has been long and slow. But culturally Ukrainians have chosen Europe over the corrupt Soviet system. And while many of us would want change more quickly the fact is that nothing, and no one, can stop its destiny.

Diane Francis is a senior fellow at the Atlantic Council's Dinu Patriciu Eurasia Center and author of 10 books. This column was originally published by the Atlantic Council and is reprinted with permission.--

IMF identifies many problems for Ukraine's leaders to solve

Editor's Note: The following summaries are from the International Monetary Fund's April 4 staff country report on Ukraine available on its website at www.imf.org

Ukraine is considered only a "partly free" nation according to Freedom House's democracy index

Top 10 inflows of foreign direct investment, 2016

Country	FDI inflows (billions of dollars)
United States	385
United Kingdom	179
China	139
Hong Kong, China	92
Singapore	50
Brazil	50
France	46
The Netherlands	46
Australia	44
India	42
Ukraine	4

Sources: Ukrstat, http://unctad.org/en/PublicationsLibrary/webdiaeia2017d1_en.pdf

Ukraine attracted only $4 billion in foreign direct investment in 2016. Investors say lack of rule of law, including lack of property rights, and Russia's war are deterrents.

State budget	The problems include limited credibility and predictability of annual budgets, absence of clear fiscal objectives and rules, special treatment of certain "protected" items in the process of budget release, limited coverage of the fiscal reporting,different public sector entities applying different accounting. Policies and financial audits of budget reports do not entirely complying with international standards.
Public administration	Government is inflated in size with public sector employment accounting for more than 25 percent of the nation's total employment. Public employees are inadequately paid, corruption-prone, work in inefficient structures and use inefficient procedures.
Public pensions	Ukraine has a large number of pensioners, pays low average pensions, gives special treatment to some occupations, has a low retirement age and operates a high-structural deficit of the pension fund.
Social assistance	Social assistance is poorly targeted, with significant leakage to high-income groups.
Health care	Life expectancy is nine years less than in European Union countries, reflecting a misallocation of resources, with overstaffing, high out-of- pocket spending and substantial room for improving efficiency and effectiveness of treatments.
Education	Ukraine achieves low educational attainments, suffers from relatively high and inefficient public education spending, reflecting an extensive school network, low teaching hours and a high level of employment at about eight student-teacher ratio, which is much lower than in other countries.
Public investment	A declining capital stock reflecting low and inefficient public investment, caused by the absence of a multi-annual budget framework and, in particular, the lack of a stable medium-term funding framework for public investments.
Procurement of goods and services	Ukraine suffers from a non-transparent and corruption-prone public procurement system.

Top 12 recent investments in Ukraine, according to a Kyiv Post survey of business and government leaders in nation

1. **Allseeds Group** (agricultural corporation), new plant construction in Odesa Oblast, $200 million (2014-2016)
2. U.S agricultural company **Bunge**, grain terminal, Mykolaiv, $180 million.
3. **ArcelorMittal** plans to invest $1.2 billion in the metallurgy industry by 2021, $150 million of which has already been invested as of May 2016.
4. U.S agricultural holding **Cargill**, grain terminal in Pivdenny Port, Odesa Oblast, $100 million
5. **Procter & Gamble** corporation, upgrading its own plant in the Kyiv Oblast oblast city of Boryspil, $100 million
6. Chinese **COFCO Corporation**, grain and oil terminal in Mykolaiv, $75 million (2014-2016)
7. **Risoil S.A Chornomorsk Port**, Odesa Oblast, grain terminal, $70 million
8. **Horizon Capital** and the Dutch Development Bank FMO (Netherlands), Ukrainian shareholders, Biofarma pharmaceutical complex in Bila Tservka, $40 million; another $30-35 million is being invested over the next 12 months to expand production and build a second plant.
9. Japanese Government, **Trypilska CHP station**, Ukrainka in Kyiv Oblast, $40 million
10. Ukrainian **Sawmills** plans to open a new factory in 2017 worth $25 million in the Rivne Oblast city of Kostopil
11. **Unilever tea factory in Hostomel**, Kyiv Oblast, $9.3 million.
12. **Fujikura**, Yaroslav district of Lviv Oblast automotive parts factory, $6.7 million.

Although in need of more foreign direct investment, many companies have decided that Ukraine is a good place to do business. While agricultural dominates the leaders, sizeable investments are coming in consumer goods, steel, automotive parts, lumber processing, pharmaceuticals and energy.

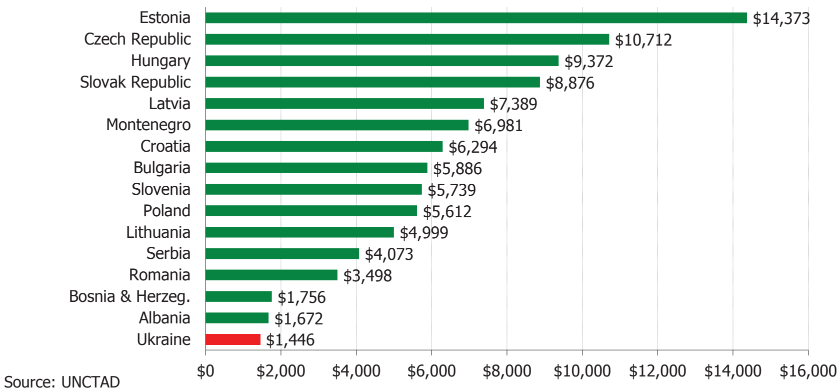

(UNIAN)
1

(Bunge)
2


(UNIAN)
3

1. Terminals of an Allseeds Group oil extraction plant in the port of Yuzhny in Odessa Oblast on July 16, 2015.
2. The new terminal for American-based agricultural giant Bunge stands in Mykolaiv on June 15, 2016.
3. An employer of ArcelorMittal steel company works on Oct. 13 in Kryvyi Rih.

FDI stock per capita (end-2015)



Source: UNCTAD

Major obstacles to foreign investment in Ukraine

Sources: EBA, Dragon Capital

(Top) Ukraine lags in attracting foreign direct investment, receiving $50 billion or less since 1991 independence. (Above) Investors say widespread corruption and an untrustworthy judiciary are the top barriers. (European Business Association, Dragon Capital)

Many Ukrainians have concluded that President Petro Poroshenko is unwilling or unable to extinguish the burning fire of corruption in Ukraine. Despite $40 billion being stolen by ex-Ukrainian President Viktor Yanukovych and his associates, and $20 billion in losses from the corrupt banking sector, no one has been convicted in a major criminal case and only small amounts have been recovered for the national treasury. The competition-stifling oligarchy, meanwhile, lives on.

→11 market economy that is now ready to grow fast.

Land market reform

The next big step should be land market reform. Farmers need to own their land to invest fully and to be able to use it as collateral for bank loans, so that they can invest more and so that the banks can expand their lending securely. The Ukrainian myth is that the "oligarchs" will buy all the land, but they cannot. Land prices will rise with the development of a land market, probably by three times, and the "oligarchs" have too little capital.

The current large agroholdings do not have sufficient capital to buy the land they now lease so cheaply. Ukraine's current agroholdings are often too large to manage. Latifundias work for extensive agriculture, but not for intensive cultivation. The large farms will have to reduce the size of their holdings, rendering them more manageable and efficient. Instead, medium-sized family farms of some 2,000 hectares are likely to develop, as is predominantly the case in Illinois, where the agricultural conditions are very similar to Ukraine. Ukraine can no longer afford to deprive itself of its greatest asset.

Property rights

After years of resistance from the old judges and prosecutors, some progress is finally visible with the formation of a new Supreme Court and mass arrests of corrupt tax officials. Admittedly, this is only a first step, which is not all too convincing, but at least something is happening. I would much rather see the sacking of all old prosecutors and judges and their replacement with a new guard. The essence is that property rights must be secured, which is the ultimate duty of the president.

An economic recovery is under way. GDP grew by 2.3 percent last year and by 4.8 percent during the last quarter of 2016. Ukraine was set for a take off, but then some politicians in the Self-Reliance party started a blockade against Rinat

A worker carries a step ladder to change light bulbs in the session hall of the Supreme Court of Ukraine in Kyiv on April 5. (Volodymyr Petrov)

Akhmetov's transit of coal from his coal mines in occupied Donbas to his power stations in free Ukraine.

Everything was wrong with this action. Foreign policy should be the monopoly of the government, and not in play for activists. This action alone shaved off at least 1 percent of 2017 GDP, and it offered Russia an excuse to confiscate 40 private Ukrainian companies in the occupied territories, and incite their further integration into Russia. This wrong-headed action continues to drive down Ukraine's industrial production.

More political fireworks can delay the badly needed land market reform, but the fear of early elections has abated. Growth continues, though on a lower trajectory. It is driven by investment, construction, consumption and recently exports.

One often-posed question is which industries will drive Ukraine's economic recovery. Two of the growth engines are already in place, the quickly expanding agriculture and related industries, and computer programming, accounting for more than 3 percent of GDP.

The third latent growth engine is the European supply chain, the European outsourcing of manufacturing and services to Ukraine now when the border barriers have largely come down. Why produce in Poland, when the salaries are one-fifth on the Ukrainian side of the border?

Anders Åslund is a senior fellow at the Atlantic Council in Washington and a former economic advisor to the Ukrainian government.

World's fastest-growing economies, 2017 projections

1. Ethiopia – **8.3%**
2. Uzbekistan – **7.6%**
3. Nepal – **7.5%**
4. Tanzania – **7.3%**
4. India – **7.2%**
6. Laos – **7%**
7. Philippines – **6.9%**
7. Cambodia – **6.9%**
9. Myanmar – **6.8%**
9. Ivory Coast – **6.8%**
9. Bhutan – **6.8%**
9. Bangladesh – **6.8%**

The World Bank projects that the global economy will grow 2.7 percent while Ukraine's economy will be only 2 percent. The nation has a long way to go to catch up to the world's fastest-growing economies.
Source: World Bank

At least
25 percent
of Ukraine's total employment
is in the public sector, a high percentage compared to other nations, according to the International Monetary Fund.

Business associations

Business Association	Year founded	Number of members	CEO	Contact info
U.S.-Ukraine Business Council	1995	205	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	870	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	602	Andy Hunder	www.chamber.ua Horizon Park Business Center 12 Amosova St., 15th Floor Kyiv, 03680, Ukraine Tel: +38 044 490 58 00 Fax: +38 044 490 58 01 e-mail: chamber@chamber.ua
The International Chamber of Commerce	1998	124	Volodymyr Schelkunov	www.iccua.org 19-B Reytarska St. Kyiv, 01030, Ukraine Tel: +380 44 234 42 73 Fax: +380 44 270 68 29 e-mail: office@iccua.org
Ukrainian Chamber of Commerce & Industry	1992	10,000+	Gennadiy Chyzhykov	www.ucci.org.ua 33 Velyka Zhytomyrska St. Kyiv, 01601, Ukraine Tel: +380 44 584 28 24 +380 44 584 28 36 e-mail: ucci@ucci.org.ua
The Belgian-Ukrainian Chamber of Commerce	2010	50	Olga Bukavyn	www.ubcc.eu Driekhoekstraat 27 3945 Ham - Belgium Tel: +32 473 850 900 Fax: +32 13 31 48 67 e-mail: info@ubcc.eu
Camera di Commercio Italiana per l'Ucraina("CCIPU")	2006	800	Maurizio Carnevale	www.ccipu.org 52 Dehtiarivska St. Kyiv, 04112, Ukraine Tel: +38 044 391 41 18 Fax +38 044 391 41 18 e-mail: info.ua@ccipu.org
British Ukrainian Chamber of Commerce("BUCC")	1997	250	Bate C. Toms	www.bucc.com.ua 18/1 Prorizna St., Suite 7 Kyiv, 01034 Ukraine Tel: +38 044 278 10 00 Fax: +38 044 278 65 08 e-mail: bt@bctoms.net
Canada-Ukraine Chamber of Commerce	1992	110	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

Business Association	Year founded	Number of members	CEO	Contact info
Polish-Ukrainian Chamber of Commerce	1992	200	Jacek Piechota, Oleksandr Shlapak	www.pol-ukr.com 2 R. Okipnoi St. Kyiv, 02002, Ukraine Tel: + 380 44 568 42 06 +380 44 568 44 53; e-mail: kyiv@pol-ukr.com e-mail: info.ukraine@pol-ukr.com
Danish Business Association	2010	60	Lars Vestbjerg	www.dba-ukraine.com Tel: +380 67 674 68 66 e-mail: lars@vestbjerg.com 48-A Gorodnytska St. Lviv, 79019, Ukraine
French Chamber of Commerce	1994	100+	Thomas Moreau	www.ccifu.com.ua 10 Lypynskoho St., off. 10 Kyiv, 01030, Ukraine Tel: +38 044 235 36 64
Business Sweden in Kiev	2013	N/a	Daniel Larsson, Country Manager Poland, Ukraine and Romania	www.business-sweden.se T:+380 44 496 06 26 e-mail: ukraine@business-sweden.se 52 Bohdana Khmelnytskoho Str., Kyiv, 01030 Ukraine
Kyiv – The Netherlands Business Club	2000	40	Hans Ramaekers	www.bkn.com.ua 01001 Ukraine, Kyiv 10 Muzeyny Ln., off. 50 Tel: +38 044 221 71 35 +38 066 429 17 33 e-mail: info@bckn.com.ua
Norwegian Ukrainian Chamber of Commerce	2008	60	Arne Mjøs	www.nucc.no P.O. Box 634 Sentrum Oslo, 0106, Norway Tel: +47 408 61 467 e-mail: post@nucc.no
Association "Ukrainian Agribusiness Club"	2007	82	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 Ukraine-EU business cooperation assistance (consulting)	2014	N/A	Yuriy Kogut	03115, 121-B Peremohy Ave., off. 224 Tel: +38 044 220 29 82 Fax:+38 044 220 29 78 e-mail: contact@euassistance.org
British Business Club in Ukraine	2002	N/A	Gerald Bowers	www.bbcu.com.ua 18/1-G Prorizna St., Kyiv, 01034, Ukraine Tel: +38 067 320 15 84
The Swiss-Ukrainian Business Chamber	2005	Not to be disclosed	Lieni Füglistaller	www.ukrcham.ch Tel: +41 43 377 5485 Seestrasse 42, 8802 Kilchberg, Zürich e-mail: info@ukrcham.ch
European Economic Chamber of Trade, Commerce and Industry	2010	50	Stanislav Grygorskyi	www.eeig.com.ua 14-A Dimitrova St. Kyiv, 03150, Ukraine Tel: +38 (044) 200-10-40 e-mail: info@eeig.com.ua

Business Association	Year founded	Number of members	CEO	Contact info
Chinese Commerce Association	2015	17	Weijian Zhou	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 122-A Saksahanskoho St., 1, off. 4 Kyiv, 01032, Ukraine Tel: +38 044 234 30 26 +38 044 235 28 49 e-mail: info@tuid.org.ua
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 e-mail: leslog@um.dk
ADVANTAGE AUSTRIA, Commercial Counsellor 's office of the Austrian embassy	1993	N/a	Hermann Ortner Commercial Counselor	www.advantageaustria.org Posolstvo Avstrii - Torhovyi 3-5 Kruglouniversytetska St. Off. 31, 11th floor Kyiv, 01024, Ukraine Tel: +380 44 220 35 40 Tel: +380 44 220 35 41 e-mail: kiev@advantageaustria.org
Business France, merged UBIFRANCE and the Invest in France Agency	2015	n/a	Alexis Struve Director	www.businessfrance.fr www.ubifrance.com The Embassy of France in Ukraine 39 Reitarska St., Kyiv, Ukraine Tel: +38 044 590 22 18
Ukrainian business support agencies				
Kyiv Investment Agency	2014		Oleg Mistuque	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
Ukraine Invest	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
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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