

# business ukraine

ISSUE 02/2017

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# business ukraine

**BUSINESS UKRAINE ISSUE 02/2017:** Dnipro has long been Ukraine's industrial capital and a major engine of the national economy. The city has suffered more than most since 2014 due to the collapse of trade with Russia, but the Dnipro economy is fast diversifying as entrepreneurs and industrial giants alike seek out new international markets. This month's issue of Business Ukraine magazine offers a window on today's Dnipro - a city once associated with Soviet secrecy that has become a bastion of the new Ukraine.

(Cover image: the entrance to Dnipro's artistically inspired Interpipe Steel electric melting complex)



## Five things that will amaze Ukraine's Eurovision guests

Thousands of performers, journalists and fans will descend on the Ukrainian capital next month for the 2017 Eurovision Song Contest. They will likely arrive with low expectations, having been convinced by years of negative news coverage and Russian propaganda that they are about to encounter a poverty-stricken, war-torn city overrun by fascist mobs and criminal gangs. The reality of Kyiv in May will likely leave them pleasantly surprised, to put it mildly.

### 1. A peaceful place of effortless elegance

Ukraine has been engaged in a hybrid war with Russia for the past three years, but the fighting is restricted to a relatively small portion of the eastern borderlands, many hundreds of kilometers away from Kyiv. Like 95% of this vast country, the Ukrainian capital is untouched by the conflict. There are no tanks or bombed out buildings. Instead, Kyiv remains one of the loveliest cities in the world, full of sweeping cobblestone boulevards, lush parks, ornate churches, and wedding cake palaces. It is an elegant city with a decidedly feminine ambience befitting its historic role as the mistress of Eurasia. Eurovision could hardly be coming at a better time of year, either - Kyiv is at its blossoming best in mid-May.

### 2. The World's biggest Russian-speaking city

Many Eurovision guests will arrive in Kyiv having heard all manner of nonsense about Ukraine's allegedly oppressed Russian-speaking minority. Such misconceptions are the result of journalistic laziness as much as deliberate disinformation. The international media has sought to simplify the war in Ukraine by painting a black-and-white picture of a country split neatly along linguistic lines. In this dumbed down version of Ukraine, Russian-speakers in the east lean towards Moscow, while Ukrainian-speakers in the west favor Europe. In reality, most Ukrainians are bilingual, while language has never been an accurate indicator of political affiliations. The situation in Kyiv highlights the folly of portraying Russian-speaking Ukrainians as Kremlin supporters. Russian is the dominant language throughout the Ukrainian capital, both in the media and on the streets. This makes Kyiv the biggest Russian-speaking city in the world outside of Russia itself, and yet it remains a staunchly patriotic Ukrainian city. Kyiv residents simply see no contradiction in being a Russian-speaking Ukrainian patriot.

### 3. Europe's cheapest capital city

Kyiv has recently come top in various annual surveys to identify the world's cheapest cities. This is hardly surprising. The Ukrainian currency crashed in

2014-15 during the height of the hybrid war with Russia, and although the economy has since returned to growth, prices will take years to reach pre-2014 levels in dollar terms. As a result, the cost of everything from dining out to taking a taxi is still often ridiculously low. Eurovision visitors will be amazed at how far their foreign currency goes in today's Kyiv.

### 4. The fashion world's latest hipster hotspot

For the first decade after the fall of the Iron Curtain, the post-Soviet world struggled to shake off associations with chronic bad taste. Ladies faced criticism for wearing too much makeup and not enough clothing, while men often appeared to be dressed as extras in a cheap mobster movie. This is no longer the case in Kyiv. Ukrainian designers are currently among the hottest trends in world fashion. They take their inspiration from the stylish wardrobe choices and originality on display in everyday Kyiv life. The Ukrainian capital is also a hipster haven where beards and tattoos are virtually ubiquitous. Barber salons and painfully fashionable popup cafes are two of the most common features of the post-Euromaidan Kyiv landscape, reflecting the relentless march of this growing hipster domination. With Berlin now gentrified and Prague long since lost to the stag party scene, underexposed Kyiv could well be next in line to serve as Europe's hipster capital.

### 5. Paradise of parks and beaches

Some European capital cities have parks. Some have beaches. Very few have both. Kyiv is the exception. The Ukrainian capital has a wealth of green spaces. There are so many trees within the city limits that the adopted symbol of Kyiv is the chestnut leaf. This has helped generate a garden city atmosphere very much in keeping with Ukraine's reputation as Europe's fertile breadbasket. Eurovision guests will be even more surprised by the city's kilometers of sandy beaches. Most Eurovision guests will arrive at the event venue on Kyiv's Left Bank via metro. As they travel across the Dnipro River metro bridge, they will witness a stunning panorama of islands and beaches unfolding before their eyes. This explosion of exotica is the last thing most visitors will expect to see. It will go a long way to dispelling any lingering stereotypes about a drab and joyless Soviet city.

**Peter Dickinson**  
*Business Ukraine magazine*



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# Investing in Dnipro

**Ukraine's industrial capital seeks increased global reach as country adjusts to new Russian realities**

Dnipro is a city of many names and many different faces. Nestled on the banks of the Dnipro River in the heartlands of Ukrainian Cossack lore, it once occupied a central place in the Tsarist colonization of southern Ukraine, and later served as the secretive capital of the Soviet Union's atomic weapons program. Since 2014, it has become a bastion of Ukrainian resistance to the Kremlin's hybrid war. This latest incarnation is hardly surprising for a city that never quite lost its Ukrainian flavor despite generations of Russian dominance. Geopolitical turbulence has led to a series of name changes over the years. Previous names have included Ekaterinoslav, Novorossysk, Sicheslav, and Dnipropetrovsk. The switch to the short and simple "Dnipro" came in 2016.

## **From Iron Fever to Rocket City**

Originally founded as Ekaterinoslav in honor of Russian Empress Catherine the Great, Dnipro stands on the site of Ukrainian Cossack settlements that predate the arrival of Russian influence. The city initially served as the administrative capital of the territories seized during Catherine's eighteenth century wars of expansion in southern Ukraine.

Dnipro underwent rapid growth in the last nineteenth century thanks to the work of Ukrainian geologist Oleksandr Pol, whose literally groundbreaking findings into the metallurgical uses of local ores opened the way for a period of intensive industrializa-





tion. This attracted investors from across Europe and generated a stampede of speculation that shared many common features with the gold rushes of the American Wild West.

Under the Bolsheviks, Dnipro maintained its prominent position as a regional industrial hub while also becoming the center of the Communist regime's rocket program. During the later years of the Soviet era, an entire generation of political leaders emerged from Dnipro to stride across the international stage. Local boy Leonid Brezhnev ruled the Soviet Empire for almost two decades alongside a close circle of fellow Dnipropetrovsk Oblast natives.

Since the collapse of the USSR, this tradition for producing political heavyweights has continued. Ukraine's iconic two-time Prime Minister Yulia Tymoshenko is the most famous in a series of political leaders to have made the leap from Dnipro to Kyiv, but she is only one of many. The city has also produced some of Ukraine's wealthiest oligarchs including Viktor Pinchuk and Ihor Kolomoisky.

## 10.2% of Ukraine's GDP

The concentration of oligarchic riches in Dnipro is no coincidence. Despite suffering more than most from the recent collapse in economic ties with Russia, the city remains the largest single contributor to the Ukrainian state budget outside of Kyiv itself, accounting for 10.2% of Ukraine's GDP and 16% of the country's exports. High tech and heavy industry continue to dominate the Dnipro economy. It is the undisputed capital of Ukraine's steel and aerospace industries, while also having a strong presence in the chemicals, engineering, and food-processing sectors.

Emerging local industries include retail and IT. Anyone visiting the city's elegant downtown area for the first time is likely to be struck by the sheer number of sophisticated shopping malls. Unsurprisingly, this retail ensemble includes the country's most visited shopping

mall beyond Kyiv. The IT sector has benefited considerably from Dnipro's high tech heritage along with its rocket technology and space travel associations. This has endowed the city with a range of specialized institutes of higher education and a highly educated population comfortable with cutting-edge innovation. Like many of Ukraine's regional capitals, Dnipro's IT industry suffers from brain drain, with skilled employees often tempted away by higher salaries and increased lifestyle options in Kyiv or abroad. Nevertheless, it is home to a cluster of IT companies including representative offices from many of Ukraine's largest IT market players.

Logistics is another growth sector within the Dnipro economy, but the absence of a modern international airport currently prevents the city from maximizing the advantages of its geographical location in the center of Ukraine's broad industrial belt. Likewise, Dnipro fails to benefit as much as it could from the close proximity of numerous other large cities due to the poor quality of existing road connections. Zaporizhia, Kharkiv, Poltava and Kriviy Rih are all relatively close but deteriorating regional road surfaces make intercity transit an inconvenient affair. Infrastructure rejuvenation is required if the city is to capitalize on its attractive position dominating the southern Ukrainian steppe.

In terms of size, Dnipro ranks among Ukraine's top five cities. It has an official population of around one million. However, taking into consideration the arrival of displaced people from the nearby conflict zone, together with steady population inflows from economically stricken satellite towns, the real figure is likely to be considerably higher.

Dnipro has the resources to drive the Ukrainian economy forward. Key priorities at present include reorienting major industries towards global markets and attracting international investment. Much will depend on the city's ability to sell itself while countering fears generated by the proximity of the Kremlin's hybrid war.

# Defender of Dnipro

**Mayor Filatov helped defend Dnipro from hybrid war – can he now attract international investors?**

When Russia's hybrid war moved from Crimea to mainland Ukraine in the first weeks of spring 2014, the resistance began in Dnipropetrovsk. At the time, the country was rudderless following the chaos of the Euromaidan Revolution, and appeared in mortal danger of falling into the hands of the Kremlin's irregular forces and their local proxies. As a wave of panic swept across Ukraine, Dnipropetrovsk-born oligarch Ihor Kolomoisky took on the job of Regional Governor and gathered a team around him with the goal of fighting back.

Within days, they had rallied sagging national morale by mocking Vladimir Putin publicly while offering bounties for the liberation of government buildings and the capture of Russian "Little Green Men". Behind the scenes, threadbare Ukrainian military units received desperately needed basic supplies, while volunteer battalions hastily came together. This was modern Ukraine's moment of truth, and Dnipropetrovsk had emphatically passed the test.

None of this was inevitable. As the gateway to the Donbas and the richest Ukrainian city after the capital itself, strategists on all sides saw Dnipropetrovsk as one of Russia's top priorities. The city had long been within the catchment area of Viktor Yanukovich's Party of Regions and had witnessed violent clashes in early 2014 as the Euromaidan protests in Kyiv spiraled out of control. With the situation rapidly deteriorating across the whole of southeast Ukraine in the wake of the Crimean annexation, few would have bet against the appearance of mysterious masked gunmen and the declaration of a Dnipropetrovsk People's Republic.

All this makes the city's subsequent transformation all the more remarkable. It is often said that Russia's hybrid attack forced millions of previously ambivalent Ukrainians to get off the fence and choose where their loyalties lay. Dnipropetrovsk came down firmly on the side of Ukraine, and the city has not looked back since. Today, even the name has changed. It is now known officially as Dnipro, having dropped the awkward reference to Ukrainian Communist leader Grigory Petrovsky as part of the country's de-Sovietization process. This symbolic switch reflects the prevailing mood in a city that finds itself at the very heart of Ukraine's war effort.

## Bastion of the new Ukraine

Dnipro Mayor Borys Filatov was a key member of the team that emerged in March 2014 to defend the city. A larger than life and eminently quotable character who is one of Ukraine's brightest social media personalities, Mayor Filatov has come to embody Dnipro's current role as the frontline bastion of the new Ukraine. While most other Ukrainian city bosses stand or fall by their ability to improve public services and rein in corruption, Filatov's public persona is framed in a much grander historical context. While canvassing Dnipro locals about their attitudes towards the mayor, one response is heard time after time. "He saved us from the war."

When Business Ukraine magazine caught up with Mayor Filatov in his office at the Dnipro City Administration building in early March, he was happy to reminisce about the narrow escape he helped orchestrate back in 2014. "It was a close call," he admits. "There was an attempt to seize this building. The plan was the same as for Donetsk and Luhansk. Luckily, we do not have a shared border with Russia, so there were not so many so-called "Russian tourists" to deal with. Nevertheless, we intercepted busloads of Russians sent here to destabilize the situation."

## Mayoral election win

Mayor Filatov's role in the success in 2014 led to a place in parliament. This was followed by victory in Ukraine's 2015 local elections – a win that allowed him to secure his current position. The autumn 2015 vote saw politicians tied to the ousted Yanukovich regime elected as mayors in a number of the Kremlin's key Ukrainian targets such as Kharkiv and Odesa, leading to media speculation of growing Maidan fatigue and a possible counter-revolution. This was not the case in Dnipro, which emerged as the only major city in southeast Ukraine to elect a member of the new generation as mayor.

Filatov attributes his win to public gratitude for avoiding the bloodshed of the occupied east. "The election presented people with a very simple choice," he says. "They understood that the return of the old guard could end very badly. Even those who had sympathies for the Soviet era or longed for more paternalistic times saw what was







► going on in the neighbouring oblasts. They were grateful they did not have to spend their nights hiding from artillery bombardments in basements.”

Such gratitude requires little additional explanation, but the fact remains that Viktor Yanukovich’s pro-Russian Party of Regions comfortably took first place in Dnipro during the parliamentary elections of 2012 – the last national vote prior to the Euromaidan Revolution. Mayor Filatov says he is well aware political divisions within the city did not disappear overnight amid the shocks of 2014. Indeed, it is a popular theme in his frequent Facebook posts. Nevertheless, he argues that the existential challenge posed by Russia’s military intervention has transformed attitudes towards issues of national identity, putting previous political differences into perspective. “There are people close to me who were categorically against Maidan,” he says. “But when Russia treacherously seized a piece of our country and then deployed its forces to the Donbas and began killing Ukrainians, a lot of people started to think differently. It is perfectly normal to have conflicting attitudes towards things like Stepan Bandera. Is he a hero or not? Should we remove Soviet monuments? Do we need two state languages? However, when it comes to the relationship with the Russian Federation, I believe we have experienced an irreversible break. I cannot conceive of any propaganda campaign that could possibly win the people of this city back to close ties with Russia. They tried to coerce us into friendship, but they have produced exactly the opposite effect.”

## Distinctive and diverse Dnipro

A born and bred Dnipro native, Mayor Filatov is perhaps at his most engaging when expounding on his hometown’s history and character. Despite the city’s close associations with Catherine the Great and the Russian imperial expansion of the late eighteenth century, he rejects attempts to depict Dnipro as part of the so-called Russian World (a vague but menacing concept promoted by the Kremlin that implies Russian hegemony extending deep into Ukraine and much of the former Soviet Empire - Ed.). Instead, the Dnipro Mayor paints a picture of a cosmopolitan melting pot in a region with strong Cossack roots and a traditional Ukrainian agrarian character. “Dnipro has always been a multicultural place,” he says. “We have always had a large Jewish community. There were always Germans here. Always a Catholic community and an Armenian community living together with Ukrainians. Even the official date for the city’s foundation is arbitrary. When the Tsarist project began in 1776, the site was already home to a large Cossack population, while the surrounding countryside has always been part of Ukraine’s agricultural heartlands.”

Filatov recognizes why observers might be inclined to group Dnipro together with the other large and predominantly Russian-speaking industrial hubs of the Ukrainian southeast, but he is adamant the city has a distinctive identity that defies the stereotypes common in Moscow-centric narratives. “It may not be considered politically correct to say so, but I like to think that Dnipro represents the best qualities of Odesa and Donetsk,” he offers. “We are reliable and straightforward like Donetsk folk, but as cunning and streetwise as



Odesites. At the same time, there has always been a certain subtlety to life here, and an emphasis on the intelligentsia. People have always been able to find a common language and reason with each other. Even during the lawless years of the early 1990s when you had bandit wars raging elsewhere in the Donbas, there was nothing like that in Dnipro. You can breathe more easily here.”

## Ukrainian civic identity

Today’s Dnipro remains a very multicultural city. At the same time, it is now also one of Ukraine’s most self-consciously patriotic places. Blue-and-yellow Ukrainian flags adorn billboards, buildings, handbags, lapels, and car dashboards, while regular rallies draw large crowds. Energetic flashmobs take to the streets each weekend and introduce locals to the Ukrainian historic figures behind the city’s new street names, while support for the Ukrainian armed forces is ubiquitous. Dnipro’s hospitals have treated the majority of the Ukrainian troops wounded in the Donbas, with locals flocking to give blood whenever demand has spiked during surges in fighting. These long queues of blood donors have become one of the defining features of wartime Dnipro, reflecting the community spirit engendered by close proximity and intimate involvement in the conflict. Mayor Filatov says the striking rise in Dnipro’s patriotic mood is part of a countrywide shift in attitudes towards Ukrainian identity. He believes the city has played a key role in an historic awakening that goes far beyond the kind of emotional excesses common in times of war. “When we talk about the city becoming pro-Ukrainian, what we’re really talking about is the emergence of the Ukrainian political nation. Since 2014, Dnipro has been at the center of this process. We are witnessing the phenomenon of a new civic identity taking shape.”

## Wanted: new trade partners

Amid all the talk of hybrid war and national awakenings, it is easy to forget that Mayor Filatov has a city to run. His task has been made significantly harder by the collapse of commercial ties with Russia, which had previously been the main partner and primary market for many of Dnipro’s major industrial concerns. The geopolitical confrontation with Moscow has had a negative impact across the local economy, with the city’s famed rocketry and machine-building industries particularly hard hit. Mayor Filatov admits that the damage from the Russian embargo has been severe, but points to a range of other sectors in the local economy that are helping to compensate for these losses. In particular, he identifies logistics, finance, and a booming local retail sector that includes more downtown malls than any other Ukrainian regional capital.

Dnipro is also at the forefront of Ukraine’s efforts to embrace e-government. Aided by Estonian-Ukrainian Deputy Mayor Jaanika Merilo, Filatov has led the push for nationwide legislation opening the way to everything from e-tickets on public transport to the digitalization of public services. “Our goal is to relieve businessmen, investors, and ordinary citizens of the obligation to communicate with state functionaries. By reducing contact between the public and civil servants, we reduce corruption and make life easier for everyone,” he explains. Transforming Ukraine’s infamously byzantine bureaucracy into an efficient example of e-government is a Herculean task and one that places the Dnipro Mayor on a collision course with large numbers of people who have a direct stake in the subterranean cash flows of the existing system. “There is opposition,” he concedes. “It is impossible to change everything overnight. Our objective is to keep expanding e-services slowly but surely. Every day we bring more and more people into the system. We spend a lot of time promoting new services and explaining the options to the public. It is not a rapid or revolutionary process, but things are gradually changing for the better. Within a few years, I expect some public services will have changed beyond recognition.”

## Attracting international investment

Adopting e-government innovations will improve Dnipro’s attractiveness, but it will not be sufficient in itself to attract much-needed international investment to the city. Mayor Filatov speaks enthusiastically about his readiness to personally welcome investors to the city and ease their market entry. He has set a target of creating 100,000 new work places and attracting USD 5 billion in investment. The Mayor outlines a number of ambitious projects including an industrial park, international airport, and exhibition center, while waxing lyrical about Dnipro’s excellent human resources. However, the elephant in the room remains the Russian hybrid war beyond the horizon. The frontlines of the conflict lie a few hundred kilometers to the east of Dnipro, and Mayor Filatov acknowledges that this inevitably dampens investor enthusiasm. He believes these fears are understandable but unwarranted. “There is absolutely no risk of conflict erupting here unless we see the outbreak of a full-scale conventional land war with Russia,” he states. “Of course, Russia is known as an exporter of state terrorism so certain provocations cannot be ruled out. But I’m 110% sure that it would be impossible to destabilize this city.” Given his past record, Borys Filatov’s security assessments deserve due consideration. Nevertheless, the battle to convince risk-averse international investors of Dnipro’s merits is only just beginning.

**“When we talk about Dnipro becoming pro-Ukrainian, what we’re really talking about is the emergence of the Ukrainian political nation”**

# The Modern Art of Metallurgy

Victor Pinchuk's Interpipe Steel plant in Dnipro is technologically advanced and artistically inspired





As evening settles across Dnipro, the city's most striking landmark is a novel artificial sun blazing across the river from the Left Bank. This unusual installation is the calling card of Dnipro's Interpipe Steel electric steel melting complex, where cutting-edge production combines with contemporary arts to create one of the world's most innovative and original industrial facilities.

Completed in 2012, it is the first metallurgical plant to be built from scratch in Ukraine for 40 years. With a total financial outlay of USD 700 million, it is also the largest single private investment in the country since the dawn of Ukrainian independence in 1991. Production capacity at the mill is 1.32 million tons per year, making it the largest enterprise of its kind in Eastern Eu-

rope. In 2016, in-house steel production reached 614,000 tons.

## Ecologically friendly approach

Interpipe Steel is widely recognized as the most eco-friendly metallurgical mill ever built in Dnipro. It marks a striking departure from the ecological issues associated with the industrial infrastructure inherited by Ukraine from the Soviet Union. Before the launch of the complex, Interpipe had used open-hearth technology to provide a part of its facilities with steel billets. The new steel mill's state-of-the-art equipment and green technology have now enabled Interpipe to replace outdated open-hearth steel production. This has cut energy consumption per ton of steel by more than half and dramatically reduced emissions.



» The plant's gas collection and purification system features ecologically safe technologies designed to reduce the dust content in emissions. The mill has also been equipped with a unique water supply system. Engineering solutions applied at the design phase of the construction project have made it possible to create a completely closed circulating water supply system without any industrial waste discharge into the Dnipro River and other local waterways. Electricity comes to the plant via an ecologically safe cable running underground to minimize impact on the surrounding environment.

In order to limit noise pollution from the scrap melting process, the plant's arc steel-melting furnace has had a special protective cover installed (in metallurgical terminology a "Doghouse"). This cover ensures comprehensive noise insulation and keeps noise levels at the legally established norm of 45 decibels after dark and 55 decibels during the daytime.

This green approach has helped to attract a new generation of young and qualified metallurgy professionals to work at the mill, with up to ten applications for every vacancy. Interpipe Steel has also created a working environment that mirrors the most progressive global trends. Smoking is prohibited anywhere on the grounds of the mill. The plant control post has had breathalyzers and metal detectors installed. Employees cannot use cell phones in the workshops. Meanwhile, the facilities provided for mill employees are far beyond anything envisaged at many of Ukraine's older industrial giants. Personal service rooms feature an innovative zoning system, with space divided into home clothes zone, hygiene zone, and working clothes zone. Every employee has an individual locker for his or her personal belongings, and receives three sets of uniforms maintained by the company.

## Industry meets art

This innovative attitude towards ecological issues and production culture makes the mill exceptional, but the giant artworks around the plant are what really capture the imagination. The team behind Interpipe Steel see the arrival of the mill as a milestone in the industrial and cultural history of post-Soviet Ukraine. For Dnipro residents, the opening of the mill meant the appearance of a series of new landmarks – Danish-Icelandic artist Olafur Eliasson's "Dnipropetrovsk Sunrise" ensemble. This giant contemporary art project consists of five large-scale works conceived by the artist as an integral part of the mill. The centerpiece "Sunrise" is meant to serve as a metaphor for the industrial renaissance of Ukraine.

Interpipe founder Victor Pinchuk, who is well known as a patron on the contemporary arts, sees the mill as a way of artistically honoring Dnipro's grand metallurgical traditions. "When we first thought about the construction of a new mill, we had a dream – to create the most up-to-date metallurgical production facility in Ukraine. In the course of our work, we realized that we could do much more," he says. "We eventually created a mill that combines innovative technologies and production culture with contemporary art. This mill is the only one of its kind – a plant built for its workers, for the city, and for society. For me personally, the mill is also a tribute to generations of Ukrainian metallurgists."

Artist Olafur Eliasson has a long history of creating larger-than-life sculptures and installations across the globe. He explains that the Interpipe Steel project was an interesting departure as it juxtaposed the creative impulse of contemporary art with the functionality in-

herent in any industrial production facility. "Art has the capacity to suggest visions, states of uncertainty, and new stimuli, whereas factories, to ensure smooth production, are of necessity governed primarily by order and predictability," he explains. "I saw this commission as an invitation to co-develop a generous and welcoming environment; a setting where human values and needs come first, where a degree of unpredictability and aesthetic experience is embraced in the factory's everyday life and in the city of Dnipro."

## Sunrise and time tunnel

Interpipe Steel hosts five major art objects created by Eliasson. "Dnipropetrovsk Sunrise" is a 60-metre-tall, freestanding sun. Made out of two intersecting yellow corrugated-metal ellipses supported by scaffolding, the sun is illuminated at dusk and dawn, making it visible from all points of the compass. It serves as one of the most iconic landmarks in Dnipro and stands out on the eastern horizon from across the river as a permanently rising sun.

"Your Thinking Bridge" is a twenty-two-meter-long installation that occupies the entire length of the elevated walkway inside the Interpipe Steel factory. The walls and ceiling of the enclosed bridge are covered with mirrors and metal. Two semi-spheres are attached to the mirrored surfaces at the juncture between the walls and ceilings, so that they appear as full spheres together with their reflections. Track lighting on the handrails and lights inside the spheres illuminate the passageway. The facing mirrors evoke an infinite space in which the spheres and the workers moving through the walkway are endlessly reflected.

"Your Time Tunnel" is an arched entrance large enough to encompass two lorries side by side. Your Time Tunnel consists of a series of arcs that form an impressive portal through which traffic flows into and out of the Interpipe Steel facility. Constructed from pipes produced at the factory, the elliptical and circular arcs derive from cross sections of a pipe taken at different angles. The appearance of the tunnel changes according to the vantage point from which it is viewed – whether you are inside or outside, moving or standing still. It cannot be grasped instantaneously as a single image, which makes the time it takes to view the shifting relationships of the circles and ellipses an important element in the work.

"Material of Movement" is located in the main hall of the factory. It comprises a series of circular and elliptical discs made of reflective yellow glass. Lights, installed in the gap between the discs and the wall, create a soft glow around the circumferences of the discs. Progressing from circle to ever more elongated ellipses, the two-dimensional shapes produce the illusion of a disc becoming foreshortened as it spins in space.

"Your Heat Mural" is a group of large-scale images displayed on the factory facade. The effect is reminiscent of a thermal analysis of the interior. At first glance, it seems to grant a view into the factory, except that it is not the actual contents of the building that are shown, but an abstract impression of what goes on inside, the invisible heat exuded by the manufacturing of steel.

The mill is a tourist attraction in its own right and is open for visitors. Anyone can sign up for a tour online and explore the largest electric steel-melting complex in Eastern Europe. While touring the mill, visitors are offered insights into the construction history of the mill, while also learning about its eco-friendly technologies and admiring the world class masterpieces of contemporary art on display.







# DNIPRO CITY TODAY

## DNIPRO KEY FACTS

- › DISTANCE TO KYIV – 465 KM;
- › AREA – 405 SQU KM;
- › POPULATION – 960 THOUSAND;
- › UNIVERSITIES - 9;
- › AGE - 35% OF POPULATION IS FROM 20 TO 40;
- › 9 BUSINESS CENTERS;
- › 900 M2 OF RETAIL SPACE PER 1000 INHABITANTS.

10.2% OF THE GNP OF UKRAINE  
16% OF TOTAL EXPORTS OF UKRAINE  
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## DNIPRO INNOVATIVE

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- › High-end devices and systems.

### IT OUTSOURCING

TOP-3 IT software development companies in Ukraine.



## DNIPRO INDUSTRIAL

- › **STEEL INDUSTRY**  
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- › **ENGINEERING**  
Aviation units, mine hydraulics, special electric drives;
- › **CHEMICAL AND PROCESSING INDUSTRY**  
2 / 3 market shares of specific gases of Ukraine, exports to Europe and Asia, battery charges;
- › **LIGHT INDUSTRY**  
High quality sewing, food industry;
- › **FOOD INDUSTRY**  
Sunflower oil.



## TOURISM

- › 70 hotels;
- › 20 shopping and entertainment complexes;
- › 460 cafes, 22 nightclubs.



## SPORT

The main arena of Ukraine in canoeing and kayaking 862 m cableway for water skiing and wakeboarding.



# DNIPRO CITY TOMORROW

## THE AIM FOR THE NEXT 10 YEARS:

- To create **100 thousand high margin jobs** in high-tech engineering, IT, robotics, health (foreign medical tourism), service industries (HORECA etc).
- Inflow of population with additional number up to **500 thousand to achieve population** of the city **1 500 000 persons**.
- To create conditions for an annual **1 Million visitors** to the city (tourism and business visitors).
- To **attract USD 5 Billion** to the city: FDI, domestic investments, loans (international financial organizations and others), financing from the central budget of Ukraine, donor funds, technical assistance.



## RESULT:

2 FOLD INCREASE IN GROSS REGIONAL PRODUCT  
AND BUDGET REVENUES OF THE CITY



# New Dnipro agency aims to improve investor appeal

## Dnipro Development Agency focuses on attracting domestic and international investors

In November 2016, Dnipro City Council unveiled the new Dnipro Development Agency (DDA) as part of efforts to boost the city's business climate and facilitate investment. Business Ukraine magazine spoke to DDA Director Volodymyr Panchenko about the goals of the agency and the key investment opportunities in Ukraine's industrial capital.

### **Where did the initiative to establish the DDA come from?**

The concept behind the DDA first featured in the 2015 election program of Dnipro Mayor Borys Filatov. The idea was to help make the city more open and accessible to the outside world, in order to attract new investment and help create more work places. This job creation is crucial for the development of Dnipro. At present, salary contributions account for 50% of the city budget. The more work places created, the greater the budget will be for a range of ambitious initiatives. Purchasing power will also increase, with a knock-on effect throughout the local economy. The role of the DDA is to support this process and develop strategies for implementation throughout city structures.

### **What are the core activities of the DDA?**

Our two key focuses are facilitating investment and developing the city brand. Our business support activities seek to refine existing development initiatives and bring them into line with international UNIDO standards. We aim to create business plans that meet the expectations of investors and other financing institutions. The end goal is to create an interactive business platform featuring investment opportunities proposed by both the private business sector and by municipal structures.

When we talk about investment, we are careful not to focus exclusively on the interests of international investors at the expense of domestic investors. The truth is that no market will be appealing internationally if it is not able to attract domestic interest. This domestic investment is a core focus for the DDA. We see it as a way to reinvigorate the local economy and build on Dnipro's traditional strengths as a major regional investment hub. Ideally, local and international investment will support each other. Domestic investment will create an attractive environment for international involvement, while the arrival of landmark investors will also send a powerful signal to Ukrainian business.

Our second key objective is to develop the Dnipro brand. During the Soviet era, Dnipro was a closed city. As a result, it remains off the radar for many foreign businesses. We want to change perceptions. It is no coincidence that the DDA slogan is, "Let's Open Dnipro to the World!" Tourism can play an important role here - both as a way of promoting a more open and accessible Dnipro brand, and as an important industry that will support the city economy.

### **Which areas of the Dnipro economy are the top priorities for the DDA?**

The city is eyeing a number of major

infrastructure projects that offer potentially interesting investment opportunities. Ukraine's road networks are currently well below European standards, so the development of suitable road connections between Dnipro and the Ukrainian capital are a strategic priority. The city's air transport infrastructure is also in line for a major overhaul.

We are currently preparing for the launch of an industrial park, with work set to begin in 2018 together with an international management company. This industrial park will feature ecologically clean businesses to minimize the impact on the environment. Work is also underway to develop a science and technology park including university campus facilities. The goal is to combine the strength of Dnipro's traditionally impressive higher education sphere with the city's space industry and growing IT sector.

Smaller scale private sector businesses also present opportunities for ambitious investors. Dnipro has traditionally been a major machine-building center. We are currently working with representatives of this sector to help facilitate entry into new international markets.

### **What services can the DDA provide to potential investors?**

We offer a full service package including everything from initial contacts to support on issues such as land allocation and communications. We also aim to minimize unnecessary bureaucracy. The process should be as efficient as possible, which is why the launch of the city's interactive investment map is so important. This resource will make a range of information available to investors while also providing access to services.

### **What were the primary areas of interest among potential investors during the recent DDA delegation visit to London?**

Our delegation, led by Mayor Filatov, discussed a major waste processing plant project with a potential British partner. We also met with several investment funds. As expected, investors are only interested in projects offering a clear payback strategy. Unfortunately, many major Ukrainian proposals previously failed to offer a viable business model. Instead, they relied on government guarantees. By providing a clear route to payback, we were able to generate considerable interest.

### **What investment attraction targets does the DDA have?**

The target set by the Mayor is to attract USD five billion in investment and create 100,000 work places over the next 10 years. Current DDA projects, primarily in the infrastructure sector, envisage around USD 1.8 billion in investment. We anticipate that these projects will help spur further investment in the private business sector and in the residential and retail construction industries.

### **How does the DDA intend to promote the Dnipro brand internationally?**

Dnipro needs to shed outdated Soviet stereotypes and become more open to the outside world. We see international perceptions as playing a crucial part in this broader rebranding process. The ultimate objective is to position Dnipro as a comfortable and profitable place to do business, regardless of whether you are a major institutional investor or an individual entrepreneur. We also want to project the image of a welcoming city with something to offer visitors from all over the world.



About the interviewee: **Volodymyr Panchenko** is the Director of the Dnipro Development Agency





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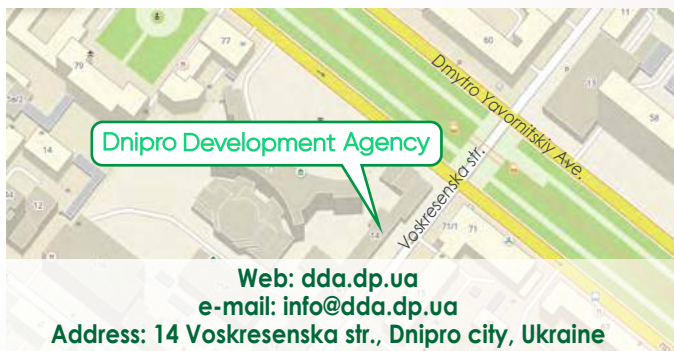


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## INDUSTRIAL PARK

**Background** The Slobozhansky Highway location was chosen following analysis of nine potential locations for a Dnipro industrial park. The selected territory totals 80 ha. Located 5km from the city centre on the left bank of the Dnipro River, this is a classic brown field site involving the reclaiming of territory from a large metallurgical plant. The project is a chance to restore the land while building a cluster of modern industries and associated services. Preliminary allocation of park plots is already underway.

**Project objective** The planned Dnipro industrial park will be an urban complex. The project aims to support the development of the communications and biotechnologies industries, electronics, energy-saving technologies and the use of alternative energy sources, together with the creation of additional workplaces.

### Project specifics

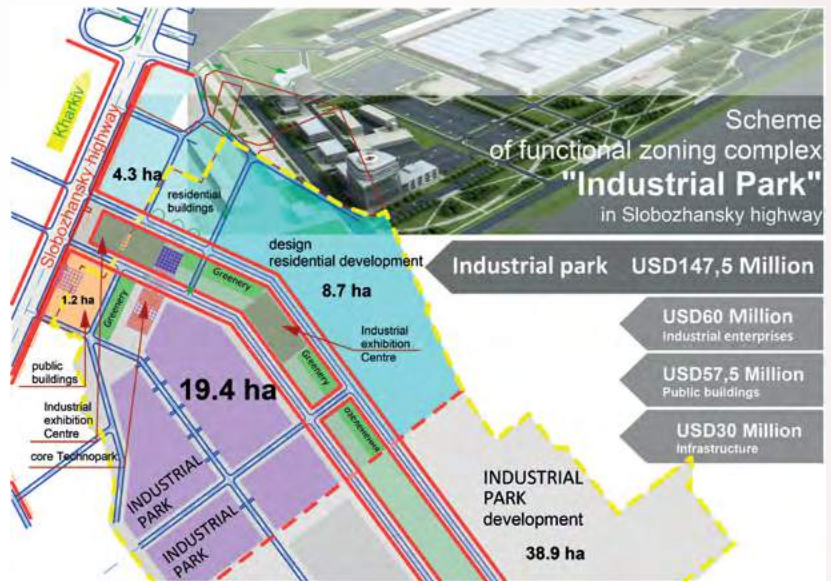
- The design stage of the project is currently underway. Plans for the industrial park include an exhibition center, business center, IT-incubator, production facilities, and service sector
- In addition to a special tax regime, the industrial park will offer advantageous lease terms, operational cost optimization, and additional benefits from shared infrastructure and other client services.

### Forms of cooperation

Concession management, loans, project financing, direct foreign investments.

### ROI

General cost of the project: USD 147.5 million.



## RESTRUCTURING THERMAL ENERGY STATIONS

**Background** Pridneprovsky thermal power station was built in 1952. The power plant operates on coal and is an environmental problem for the city. The transition to alternative sources is a priority for the Ukrainian energy sector.

**Project objective** Reconstruction and partial closure of Pridneprovskaya thermal power plant (total area of 900 hectares) and construction of a 500 MW solar power station. To achieve the goal of stable alternative energy supply, the project envisions construction of a 50 MW power storage unit with further capacity expansion. The project also provides for the use of renewable biofuels to replace coal.

### Project specifics

- The investor will receive a detailed feasibility study for the planned solar station
- Assistance from the city authorities to obtain permits and licenses
- Reduction of CO<sub>2</sub> emissions by 363.5 t / year
- Partial transition to alternative energy sources in Dnipro

**Forms of cooperation** Concession management, loans, project financing, direct foreign investments.

**ROI** General cost of the project: USD 650 million  
Project duration: 2 years (design and construction)  
Payback period: 6 years.



## MODERNIZATION OF TRANSPORT SYSTEM



## FUTURE PROJECTS

**Background** The existing city electric transport network (trolleybuses, trams) does not meet modern requirements. The weariness of rolling stock affects both capacity and quality. The low profitability of routes prevents funding for uninterrupted and reliable operation. Minibuses increase traffic volumes while reducing road safety and adding to emissions.

**Project objective** The development strategy aims to improve traffic flows, create a convenient public transport system for approximately one million Dnipro residents, and improve delivery of goods throughout the city including eight districts and bypasses (the total area of the city is 405 km<sup>2</sup>).

### Project specifics

- The investor receives a detailed feasibility study of the transport system development project
- Assistance from city authorities to obtain technical conditions, permits, licenses
- Reduction of CO<sub>2</sub> emissions by 30%, reduction of major traffic flows by 50%

**Forms of cooperation** Concession management, loans, project financing, direct foreign investments.

**ROI** General cost of the project: USD 300 million (subject to confirmation)

Project duration: 7 years (design and construction).



## PUBLIC TRANSPORT CABLEWAY

**Background** The aim is to connect regional districts and the city center by building two cable car lines. This will reduce the pressure on existing transport routes and help to generate further development of infrastructure.

**Project objective** The aim of the project is a cableway with six stations, a capacity of 2000-3000 people per hour, and a length of 7.2km. The designated equipment supplier and project executor is Doppelmayr (Austria).

**Project specifics** Reducing CO<sub>2</sub> emissions by 10%, reducing traffic demands on the new bridge by 30%.

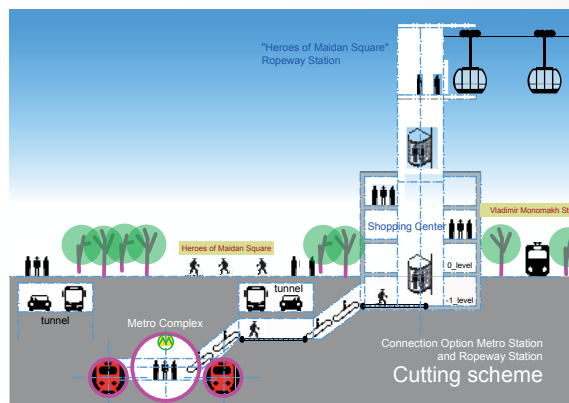
**Forms of cooperation** Concession management, loans, project financing, direct foreign investments.

**ROI** General the cost of the project: USD 50 Million

General cost of the project: USD 50 million

Project duration: 2 years (design and construction)

Payback period: 11 years.



## CONSTRUCTION OF THE ROAD SECTION

**Background** The aim is to develop the strategically important road artery between Dnipro and Kiv. This involves the reconstruction and partial construction of a section of the Balovka-Reshetilovka highway (137km) and connection to the Kyiv-Kharkiv highway.

**Project objective** The new highway will feature three lanes in both directions with increased capacity.

**Project specifics** The investor will receive a detailed description and economic overview of the project  
Assistance from the relevant authorities in obtaining technical conditions, permits, licenses  
Existing sections of the 40km route have been partially reconstructed, the preparatory basis for the construction of the road is 60km

**Forms of cooperation** Concession management, loans, project financing, direct foreign investments.

**ROI** General cost of the project: USD 300 million

Project duration: 5 years (design and construction)

Payback period: 15 years.





# Reinventing Dnipro's Soviet era industrial inheritance

Playground producer brings new life to formerly derelict agricultural machinery production plant



Just south of the Dnipro downtown area and slightly set back from the mighty river that dissects the city, a ramshackle industrial complex is slowly coming back to life. During the Soviet era, it had been a combine harvester plant supplying the collective farms of the USSR. After a period of post-Soviet stagnation, the complex is now up and running once more, producing children's playgrounds for clients cross Europe.

## Family business

The growth of children's playground company Goida is an example of the entrepreneurial spirit that is helping to reinvent the industrial inheritance of Dnipro's Soviet past. Founded as a family business at the turn of the millennium by Olga Kilova and husband Pavel, Goida began with minimal capital and a small workforce numbering barely a dozen. The husband and wife team set up shop in one of the smallest buildings of the disused agricultural machinery production complex. They have slowly but steadily expanded their presence ever since.

Today, the company employs over 200 employees and occupies more than 11,000 square meters of floor space. Derelict structures have received thorough renovations, with production facilities brought into the twenty-first century. New staff quarters include male and female saunas for post-shift relaxation, while Ms. Kilova boasts that the cavernous production lines of the plant are warm enough for shirtsleeves even in the depths of a Ukrainian winter.

The children's playgrounds produced by Goida are in use across the northern hemisphere, with the most distant delivery to date having made the long journey down the Dnipro River and via ocean freight to Vladivostok in the Russian Far East. These playgrounds are unique. The company has its own design bureau producing everything from pirate ship climbing frames to multi-purpose sports installations. Some of the designers are veterans of Dnipro's missile and rocket industry – another example of Goida's knack

for extracting new value from the city's Soviet inheritance.

## Focus on EU exports

Exports made up a significant portion of the company's business. Prior to the onset of the Kremlin's hybrid war in eastern Ukraine, Russia had been the largest single market. Today, the emphasis is very much on expansion into the EU. Ms. Kilova says securing international certification and participating in European trade forums have been the twin engines driving the company's EU expansion. She claims Ukrainian entrepreneurs are often unnecessarily cautious about entering new markets, and is dismissive of the many training courses and master classes currently offering guidelines on how to find business partners in the EU. "There is really no need to attend all these endless seminars. Companies should simply hire competent translators, investigate the relevant certification requirements, and participate in key EU trade events," she says.

This approach has brought dividends for Goida. Current European Union exports focus on former Eastern Bloc nations like Romania, Poland, the Czech Republic, and Hungary, but the company's number one EU customer for the past year has been Spain. Goida's revenues are rising, with the current annual total up from EUR 1.8 million in 2015 to EUR 2.15 million in 2016.

## Fruits of decentralization

Domestic demand is also growing again following the nationwide slump in 2014-2015. Ukrainian orders currently account for around 70% of the plant's output, with increased interest from individual towns and regional administrations throughout Ukraine. Ms. Kilova puts this rising regional demand down to Ukraine's decentralization reforms, which have meant more money for local budgets and a readiness to invest in facilities for families. "We have definitely felt the difference over the past year," she reflects. "It is clear that Ukrainian local authorities have more money to spend and are willing to do so."





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# UDK LLC: Autoclaved Aerated Concrete – warmth and durability



"UDK" LLC. is one of the leading producers of autoclaved aerated concrete in Ukraine. The company was established in Dnipro in 2007, together with the commissioning of

a factory with modern technological equipment from "Masa-Henke". The first products appeared on the Ukrainian market at the end of 2009, leading to full loading of production capacities in less than a year. In April 2012, after the installation of additional equipment and modernization, production capacity increased by one-third, amounting to 440,000 cubic meters per year. Production specializes in AAC blocks with high construction and heat-insulation properties, with marking by density of D400 and D500 and strength classes of B 2.0 and B 2.5.

## UDK: build fast, build warm

"UDK" LLC. (Dnipro) offers a wide assortment of AAC blocks for all types of walls, U-blocks used for formwork, to create joists, lintels

and stiffeners, UDK TBM© for the assembly of blocks, as well as special tools for laying blocks. UDK GAZBETON blocks possess unique properties that make them ideal for any type of frame structures. UDK GAZBETON blocks have precise dimensions that allow for the application of a thin layer of bed mortar. On demand, blocks can be smooth or with tongue and groove and hand grip. Autoclaved aerated concrete is one of the most energy effective wall materials. Production of AAC is economical due to the low density of blocks, along with the minimal waste of raw materials and energy resources. In construction, economy comes due to the low density of the product, its large dimensions, and the consequent lower application of building mortar.

The constant internal quality control of raw materials and ready products ensures compliance with Ukrainian norms and standards.

## UDK: door-to-door delivery

You can find "UDK" LLC products through our partner distributors in practically all Ukrainian regions. Professional logistics companies offer delivery of large orders direct from the plant in Dnipro to the construction site.



# AXOR INDUSTRY: European-class manufacturing plant in Ukraine



Today, Ukraine is firmly on course towards

EU integration, which means not only European quality requirements but also European standards of living, including the availability of jobs and decent wages.

The 2011 decision by investors to build a state-of-the-art window and door hardware manufacturing plant in Dnipro – AXOR INDUSTRY – was essentially an investment in the development of the window manufacturing industry and the national economy in general.

Today, AXOR INDUSTRY provides work to more than 450 people. AXOR INDUSTRY products have found success in the CIS, Central Asia, the Baltic States, and Eastern and Central Europe, proving that Ukrainian product quality can compete on European and world markets.





### **AXOR INDUSTRY: an eco-enterprise and the #1 hardware manufacturing plant in Ukraine**

AXOR INDUSTRY is the industry's only full-cycle plant in Ukraine. All production processes are fully automated and designed to ensure human and environmental safety. For example, the plant features a rational waste utilization and water "rehabilitation" system. The quality of finished products is controlled 24 hours a day by the plant's own certified laboratory boasting advanced equipment.

### **Reliable partnerships: a key factor in quality Ukrainian product manufacturing**

Thanks to fruitful partnerships with window manufacturers, AXOR INDUSTRY creates a quality Ukrainian product. We have changed consumer perceptions with the realization that windows featuring Ukrainian-made hardware can be of high quality, and quality windows must come at prices that match this quality. We can now develop the window manufacturing market in general and contribute to the revival of the national economy, improving the quality of life of every Ukrainian.



## **MIROPLAST: strong partner in the window business**

# MIROPLAST

**WHEN QUALITY MATCHES DESIGN**

Established in 2006, MIROPLAST is one of the largest manufacturers of UPVC profiles

for windows and doors in Ukraine.

MIROPLAST Company focuses on meeting consumer needs for high quality and energy efficient windows and doors under the WDS brand. The company constantly develops its production facilities with the latest equipment while carrying out strict raw materials controls and final product tests in its own certificated laboratory as well as in European institutions. More than 400 highly qualified specialists guarantee a smooth production process along with steady company development, innovations and beneficial partnerships.

### **MIROPLAST: the most powerful UPVC production in Ukraine**

Today, MIROPLAST has production capacities up to 4000 tons of PVC profile per month - around 50% of the Ukrainian PVC window market. Thanks to a wide product range of PVC profiles, MIROPLAST can provide window suppliers with all necessary goods and services to reach the best solution for window and door production. Even laminated window and door profiles are easily available.

MIROPLAST believes in development via the growth and success of its



partners: window producers and construction companies. Together with reliable partners, the company improves the quality of Ukrainian living standards, bringing smart investments and comfortable living to their houses.

### **MIROPLAST: open to new markets**

Located in Dnipro - the industrial center of Ukraine - MIROPLAST has established itself far beyond the borders of Ukraine in the CIS and European countries as well as South America. The export of UPVC profiles and ready-made windows and doors are company's growth priorities.



# Top Five Tips for Dnipro Investors

**How to benefit from the investment opportunities offered by Ukraine's industrial capital**

Dnipro is not the capital city of Ukraine, but it is the capital of the Ukrainian mining, machine-building, metallurgical and chemical industries. It is also located at the geographical heart of the country in a position that provides access to vast business and consumer markets. In fact, if you take a set of compasses and draw a circle on a map of Ukraine with a diameter of 300 kilometers and a center in the city of Dnipro, you will find that more than 17 million people live inside this circle. Over 40,000 companies have their base of operations in this catchment area, and it accounts for more than 30% of Ukrainian GDP.

The huge regional market located around Dnipro is larger in terms of potential consumers than the national markets in 20 of the 27 member countries of the EU (not including the UK). The Dnipro region's B2B market is also highly attractive, especially when you take into consideration the fact that many local factories are oriented towards foreign markets and have stable revenues. These factors have helped a significant number of American, European and Turkish investors to develop their own success stories in Dnipro.

For example, American agribusiness giant Bunge has an oil-processing plant and grain elevators in Dnipro. This approach is in contrast to America's ADM and European company Louis Dreyfus Company, who choose to manage their agricultural commodities trading mainly via the facilities of local companies. Austrian Primetals Technologies (a subsidiary of Siemens and Mitsubishi Industries) and Italy's Danieli Heavy Machinery Engineering have both established a strong local presence with offices in Dnipro. German HeidelbergCement is developing a chain of quarries and cement-producing factories in the region. Turkey's Miroplast and Axor factories cover local demand for PVC profile and accessories for windows and doors, while also producing for international export markets. There are many more examples of international investment in a wide range of industries.

In addition to Dnipro's numerous competitive advantages, recent improvements in the Ukrainian business environment are also making the investment climate more attractive while having a positive impact on the local business community. Numerous previously time-consuming and cumbersome procedures have been streamlined and modernized. Things like registering a new company, cooperating with the tax service, registering vehicles and real estate, and beginning construction works have all undergone fundamental simplification. In many cases, the entire process has moved online as Ukraine increasingly embraces e-government.

A range of basic commercial information that is important in order to secure property rights is now available to the public via online registers. This includes data on legal entities, real estate titles, and court decisions. As a result, property rights are now much easier for owners and their lawyers to enforce.

Since 2016, Ukraine has cancelled hundreds of restrictive regulations and document requirements, including the registration of foreign investments. Across the legal and business communities, we are now feeling a major shift in the fight against corruption. Many corrupt state officials at the local and national levels have faced accusations of abuses, with some already sentenced by the courts.

All these trends help to make Dnipro an increasingly attractive option for potential international investors. Nevertheless, new market entrants must do their homework and assess the specific commercial challenges and local nuances of the Ukrainian market as a whole, and the Dnipro business environment in particular. The following Top Five Tips will provide some local insight into the Dnipro investment environment from a legal perspective. These five points should help investors to minimize risk exposure while maximizing the benefits of a presence in Ukraine's industrial capital.

## Tip 1: Study the Local Culture

Ukraine is a particularly large and complex country with a range of different social and cultural nuances in different regions. Even specifics like legal practices can differ from region to region. Investors should consider paying attention to these regional variations while also acquainting themselves with the broader distinctions between Ukrainian and international business practices. These national distinctions can often be far more striking than regional specifics. For example, standard terms of payment among major European companies for such everyday issues as construction works and business services generally envisage a six-month window. However, for many Ukrainian companies this is not a viable option due to concerns over the instability of the national currency, the hryvnia. Repeated experience of currency devaluations has taught Ukrainians to be careful with payment scheduling, making longer windows impractical.

Another area where common international business practices often collide with Ukrainian practicalities is in the promotion of complex and open-ended long-term contracts. Ukrainian businesses are not inclined to commit to purchasing any product, service, or other item if they are unable to clarify the full cost of the entire contract at the outset. This explains why international consulting companies with their hourly fees are not particularly popular on the Ukrainian market. It also means that in practical terms, highly detailed contracts drawn up in other legal jurisdictions will often not work in Ukraine and may require modification.

Attention to local social specifics can also have a big impact on the success of any international investment. One of the specific features of the Dnipro region is the prominence of the local Jewish business community and the



role this community plays in local and international business. An awareness of local Jewish traditions, religious holidays, and business culture will help to provide insight and improve understanding. A “local” partner from the relatively faraway Ukrainian capital might well miss this kind of nuance or fail to accord it sufficient importance. This is why there is no substitute for genuine local knowledge and local partners.

## Tip 2: Research Your Local Partners

Like any business environment, the Ukrainian business community features a wide variety of people who often have markedly different approaches to issues of ethnics and acceptable behavior. It is perfectly possible to find ideal partners in Ukraine, but it also certainly pays to spend a little time researching the past business histories of your potential partners before committing to cooperation.

The past few years of crisis conditions in Ukraine provide the ideal context to clarify exactly who is who on any given sector of the economy. Many businesses scrupulously paid their debts and met all their obligations despite what were often extremely challenging market conditions. However, others were guilty of exploiting the situation in order to cheat partners and leave their commitments unfulfilled. Luckily, much of this information is now publicly available. Ukraine’s post-Euromaidan reforms have seen large volumes of business-related information brought together in online databases that are open to the public. This includes useful information on prospective contractors and local shareholders. Are there any distressed assets or unpaid bank loans in this person’s business history? Have they ever used bankruptcy in order to avoid meeting their obligations? Are there any outstanding disputes with shareholders or unpaid debts to contractors? In many cases, the answers to these questions are available via reference to Ukraine’s publicly available databases.

Research should also include factors that are less easy to quantify. What kind of reputation does your potential partner enjoy among their professional peers? Researching these factors in advance will help to protect potential international investors from exposure to significant risks and future losses.

## Tip 3: Avoid Comparisons with Central Europe or Russia

When new investors first come to Ukraine, they often have difficulties analyzing local markets and accurately assessing their prospects. As a rule, there is a temptation to refer to economic indicators and market analysis conducted in neighboring countries like Russia, Belarus, Poland, Georgia, or Romania. This approach will lead investors astray and create an unrealistic impression of the unique Ukrainian marketplace they are entering. For example, the prime base rent rates in Dnipro shopping centers may appear at first glance to be close to Amsterdam, while those in Kyiv are closer to rates in Milan. However, this does not take into account the specific local specifics you will sometimes encounter, such as the practice of fixing special exchange rates in rental agreements at below the existing market rate.

Likewise, in terms of consumer behavior, local quirks require detailed study. Investors cannot simply borrow from geographically close case studies. When it comes to something as banal as coffee consumption, for example, the figures for Dnipro would probably be close to existing indicators from the Russian and Georgian markets. However, there is likely to be significant divergence when it comes to beer consumption.

Even general market indicators for areas such as retail turnover can be unreliable if they fail to take into consideration the many peculiarities of each national, regional, or municipal market. In the case of retail turnover figures, specifics could include less regulated segments of the market such as street vendors and small businesses.

The best way to get around these problems is by identifying a credible local specialist with a proven record in a compatible industry. Detailed statistical information and reliable market analysis may not always be available in today’s Ukraine, but there is no substitute for personal experience.

## Tip 4: Educate Your Employees

Ukraine commonly ranks among the most educated nations in the world, and Dnipro is one of best-educated Ukrainian cities. Nevertheless, the professional training of many Ukrainians often relies on outdated technologies and old equipment, while also failing to incorporate modern business practices and approaches. Ukrainian employers often find they lack appropriately qualified candidates for senior positions requiring specific professional skills and knowledge of contemporary management systems.

Training will help to remedy to this problem. Ukrainian staff generally have a high aptitude for new skills, but they require the necessary instruction. International investors need to factor this into their business plans. Investors planning to hire large teams in Dnipro might wish to follow the example of many local companies who have opened their own in-house corporate academies, schools, and training courses. This would mean additional costs, but it would likely result in long-term savings and a far more efficient operation capable of seamless integration into existing international corporate structures.

## Tip 5: Engage a Good Local lawyer

This might seem like an obvious and somewhat biased piece of advice, but I have repeatedly seen how international investors have lost money due to a lack of knowledge on issues that are widely understood by the local business community. For example, Ukraine has special requirements governing the employment of disabled people in any company employing more than eight people. There are special regulations regarding responsibility for labor law and fire safety. Individually tailored employment contracts are the exception rather than the rule. According to Ukrainian employment law, breaches of compliance policy are not sufficient reason to dismiss somebody from their job. There are hundreds of similar legal details. Investors and new market entrants need to bear this in mind when looking to build a business in Dnipro. The good news is that Ukraine has a large market of experienced and qualified lawyers ready to provide international investors with the services they require.



About the author: **Denys Myrgorodskiy** is the Managing Partner of Dynasty Law Firm with offices in Dnipro and Kyiv



# Ukraine's First ATO Museum

**Dnipro museum leads the way in chronicling Ukraine's ongoing resistance to Putin's hybrid war**

For the past three years, wounded Ukrainian soldiers have arrived in Dnipro on an almost daily basis. The sirens of ambulances - sometimes travelling in convoy - have become the macabre background music to a city at the heart of Ukraine's war. Dnipro has provided more troops - and suffered greater losses - than any other Ukrainian region. All over town, an abundance of Ukrainian flags and other makeshift patriotic symbolism stands as testament to widespread public support for the country's defenders. Meanwhile, just beyond the city limits lies the final resting place for many of the unidentified soldiers killed in

the hybrid war unleashed by Russia in spring 2014. The three-year-old conflict has transformed Dnipro and turned a place that previously leaned towards Ukraine's pro-Russian political forces into a bastion of Ukrainian unity and independence. This transformation makes Dnipro an entirely logical site for Ukraine's first museum dedicated to the conflict.

## Memorial to an ongoing war

Open to the public since early 2017, the country's first ATO Museum is located in downtown Dnipro, next door to the city's mu-





nicipal history museum. The idea to create a museum was a joint initiative from conflict veterans and the regional administration. As with everything connected to Ukraine's war effort, volunteers also played a major part in bringing the concept to fruition.

The "ATO" in the museum's name refers to the acronym "Anti-Terrorist Operation", adopted by the Ukrainian government in early 2014 to denote the ongoing fighting in the eastern borderlands of the country. The complex sits within the grounds of the city's existing WWII museum, and includes both outdoor installations and indoor exhibits spread over a number of viewing halls.

The first thing visitors to the ATO Museum encounter is a makeshift checkpoint standing just off the pavement and marking the start of

the open-air expositions.

The checkpoint features a mural depicting a map of the Crimean peninsula in Ukraine's blue-and-yellow colors. "We felt it was important to place this element at the entrance because the war began with Crimea and it will end with Crimea," offers Yuriy Fanygin, an activist and local historian who was one of the driving forces behind the creation of the complex.

The outdoor installations are arrayed on either side of a walkway that represents the line of contact in the Donbas. On one side stand exhibits recalling the chaotic early days of the country's war effort and the liberation of numerous Ukrainian cities in summer 2014. Bullet-riddled ►►



place names remind visitors of previously anonymous Donbas towns that briefly became household words as fighting flared across the region. On the other side of the path, charred and twisted metal represents the devastation inside the war zone itself. Grad rocket shells protrude from the wreckage of a burned out civilian car and litter the ground. "Those rockets are Putin's preferred weapon of terror," says Mr. Fanygin, before reeling off the names of numerous east Ukrainian towns subjected to indiscriminate Russian Grad rocket attacks. "The idea is to paralyze ordinary people with terror and keep them in a psychological state of slavery."

## Battle for the Dnipro

The bulk of the museum's exhibits are located inside the adjacent WWII memorial complex. Mr. Fanygin says the people behind the ATO Museum initiative saw no need to add anything to the existing Soviet-era sign at the complex entrance, which reads simply, "Battle for the Dnipro". "We decided this was also entirely appropriate for today's war. In 2014, we knew Dnipro was the bastion of Ukrainian statehood. If Dnipro stood, Ukraine would survive. It was our own Battle for the Dnipro."

The first exhibition hall is crammed with relics from the conflict. It includes a range of stands honoring individual battalions, the local volunteers who provided essential supplies to the army, and the Dnipro doctors charged with saving lives in what were often impossibly inadequate medical conditions. One corner features accounts from those displaced by the fighting. Nearby, there is an entire wall decorated with enlarged versions of authentic SMS messages sent during the height of the conflict. The idea behind these text messages is to capture the human tragedy of the conflict, while also reflect-

ing the communications component in this most multimedia of military confrontations. Many of these abrupt messages carry a surprisingly powerful emotional charge, taking museum guests back to the fraught days of summer 2014 when the survival of the country was in question.

The most powerful and innovative element of the entire museum is undoubtedly the video hall where visitors are ushered into the center of the room and immersed in total darkness before being treated to a half-hour onslaught of footage played out simultaneously on all four bare walls. The result is part documentary, part art installation. It offers a stunning and at times distressing chronology of the conflict, with a cast including Russian TV propagandists, fleeing civilians, Ukrainian soldiers, frontline journalists, and international observers. The work of Natalia Khazan and Evgeniy Titenko, this video creation is the most significant achievement of the entire ATO Museum project. It deserves greater international exposure.

## Making sense of a senseless war

Dnipro's ATO Museum is unusual in trying to tell the story of a conflict that is still underway. War memorials and museums traditionally appear long after the guns have gone silent, but Mr. Fanygin says this is a luxury today's generation of Ukrainians cannot afford. He argues that the very nature of Russia's hybrid war, with its reliance of fake news and information attacks, makes it imperative for Ukraine to clarify its own narrative. "This war could continue for many years to come, but we cannot wait until it is over before we try to make sense of the events taking place," he says. "It was vitally important for us to begin sorting things out in our own minds. We need to be clear about what we are fighting for, and where the country is going."





# Dnipro's early expats

How Belgian, French, and German communities helped establish Ukraine's industrial capital

Ever since the 2004 Orange Revolution, lazy journalists and Kremlin agents alike have sought to divide Ukraine along geographical lines into separate and mutually exclusive pro-Russian and pro-European camps. According to this conveniently neat and tidy theory, people in the south and east of the country are predominantly Russian-speakers who historically lean towards Moscow, while those in the north and west of Ukraine are Ukrainian-speakers who see themselves as part of the European family of nations. This simplistic approach often serves as the point of departure for many newcomers looking to make sense of Europe's largest and most historically damaged nation. As a general introduction to the country, it paints a hopelessly inaccurate picture of Ukraine's complex ethnic, ancestral, regional, and generational divides. In reality, language is no indicator of political leanings in today's Ukraine, while the country's ideological fault lines often run through individual families.

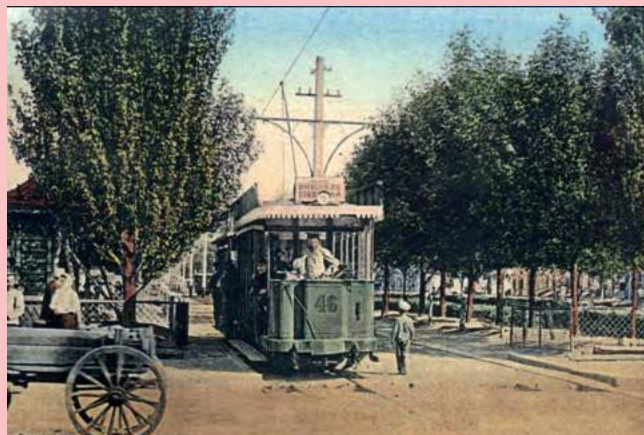
Dnipro is a good example of the fatal flaws that undermine the "Russian East vs European West" Ukrainian narrative. The Russian Empire founded the city in the late eighteenth century as a bridgehead for the further colonization of southern Ukraine. After serving for decades as the capital of what the Tsars called "New Russia", it later went on to become the center of the Soviet Union's rocket industry. A closed city for much of the Communist era, Dnipro was the local stomping ground of Soviet leader Leonid Brezhnev and many of his politburo colleagues. This heritage should have been enough to make modern Dnipro a staunchly pro-Russian city, but it is nothing of the sort.

## Iron Fever

A closer look at Dnipro's history highlights the varied international origins of today's city. The industrial expansion of Dnipro took place in the late nineteenth century and owed much to the involvement of entrepreneurs and investors from across Europe. The industrialization of the city began in earnest in the 1880s following the discovery of significant iron ore deposits in the region. This sparked a rush of industrial expansion and investment that many have likened to the "gold fever" which had drawn waves of immigrants to California three decades earlier.

The first Dnipro metallurgical plant opened in 1887 and relied heavily on financing from French bank Societe Generale. This initial French investment attracted additional French industrialists to the city, leading to the appearance of a range of French-run machine-building factories. A prominent Belgian contingent soon joined this French community. A pair of brothers from Liege, Charles and George Shoduar, established a joint stock company in 1889 and rapidly opened three large metallurgical plants in the city. Six years later, a metallurgical society was founded in Brussels to funnel further investment into the Ukrainian city. The Belgian connection grew stronger in 1897 with the creation of the Ekaterinoslav (Tsarist era name of Dnipro – Ed.) City Railroad joint stock company, which was behind the installation of Dnipro's first electric tram services. This tram route was a huge novelty at the time and remains a central element of the city's public transport network today.

In the same year as the appearance of Dnipro's tram service, Belgian capital financed the construction of the city's first power plant. To those living Dni-



pro at the time, this flurry of modernization projects must have felt like the dawning of a new era. It was an era with an unmistakably European flavor. By the end of the first decade in the twentieth century, Dnipro had become one of the first cities in the Russian Empire to switch to electric street lighting. After the French and the Belgians, the third-largest European presence in late nineteenth century Dnipro was the German business community. Spurred on by advantageous German banking terms, a number of German industrial groups appeared in the city in the 1890s. As well as metallurgy, they were also active in establishing a series of vast flour production plants to capitalize on the region's agricultural wealth.

## The Wild East

These major industrial endeavors spawned a wave of secondary economic expansion that attracted entrepreneurs from across Europe. While many contemporary immigrants chose to try their luck in America, others sought their fortune in the rapidly developing towns and cities of the Russian Empire's industrial heartlands – today's southeastern Ukraine. The story was the same across the Donbas region and along Ukraine's Black Sea coastline. The founding father of Donetsk was Welshman John Hughes – the city was originally named Yuzovka in his honor. Likewise, almost a century earlier in 1795, Englishman Charles Gascoigne had founded nearby Luhansk. A Spanish soldier of fortune played the lead role in the establishment of Ukraine's biggest port city, Odesa. This Spanish adventurer was followed by an aristocratic French exile, who served as Odesa's most celebrated governor.

This pattern of European involvement in the expanding cities of southeastern Ukraine resulted in significant European immigration. However, the region's cosmopolitan inheritance remains largely forgotten. The sweeping drama and genocidal tragedies of the twentieth century have obscured the international origins of industrial hubs like Dnipro, leaving behind a drab Soviet monotone along with Russian claims to historical exclusivity.

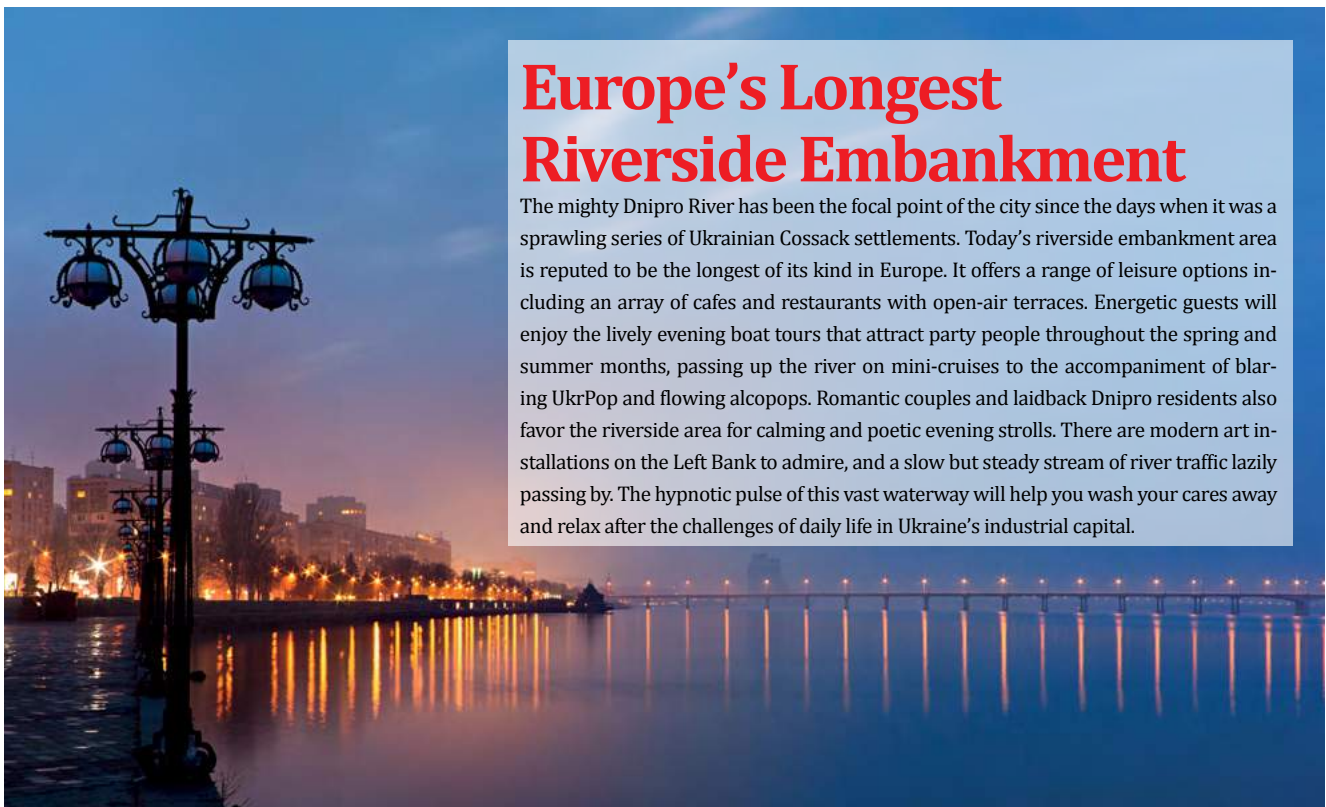
Such pretensions would have seemed strange to the denizens of early twentieth century Dnipro. On the eve of WWI, the city's population included more than ten thousand European immigrants and expat industrialists, making it one of the most diverse societies in the Russian Empire. As the city once more seeks to attract international investors, this colorful backstory offers timely inspiration.

# Dnipro Tourism

Ukraine's industrial capital generally conjures up images of vast wealth, metallurgical majesty, Soviet secrecy, and aerospace innovation. These stereotypes all play their part in shaping the city's personality, but Dnipro is also a place of considerable touristic charm. Located on the banks of the Dnipro River in a region rich in natural beauty and steeped in Ukrainian Cossack tradition, today's Dnipro offers a range of reactional and leisure activities that make it a fun city break destination. Business Ukraine magazine explores the city's tourist treasures.

## Europe's Longest Riverside Embankment

The mighty Dnipro River has been the focal point of the city since the days when it was a sprawling series of Ukrainian Cossack settlements. Today's riverside embankment area is reputed to be the longest of its kind in Europe. It offers a range of leisure options including an array of cafes and restaurants with open-air terraces. Energetic guests will enjoy the lively evening boat tours that attract party people throughout the spring and summer months, passing up the river on mini-cruises to the accompaniment of blaring UkrPop and flowing alcopops. Romantic couples and laidback Dnipro residents also favor the riverside area for calming and poetic evening strolls. There are modern art installations on the Left Bank to admire, and a slow but steady stream of river traffic lazily passing by. The hypnotic pulse of this vast waterway will help you wash your cares away and relax after the challenges of daily life in Ukraine's industrial capital.





# World's Largest Jewish Community Complex

Dnipro has historically always been home to one of Ukraine's largest Jewish communities. Since 2012, the city has also hosted the Menorah Center – the world's largest Jewish business and cultural center. This giant complex dominates the downtown skyline and is visible across much of central Dnipro. It features seven connected towers designed to recall a Jewish menorah, with special lighting on top of each tower playing the role of menorah candles. The center is large enough to contain everything from international-class conference facilities and ballroom to a four-star hotel and museum dedicated to the plight of the Ukrainian Jewish community during the Nazi Holocaust of WWII. There is also a kosher supermarket and kosher restaurant for all your culinary needs. The center has incorporated the existing neo-classical Golden Rose synagogue and other nearby buildings belonging to the Jewish community. It also houses business facilities and the offices of various Jewish charities.







## Ekaterinoslavskiy Boulevard

This chic boulevard is a relatively new and fresh arrival to the Dnipro downtown architectural ensemble. It is one of the city's most popular eating out and retail focuses. The district includes a range of fountains and other funky design elements such as overhead decorations. In the long and sultry summer months, it plays host to a series of terraces and streetside cafes that attract Dnipro's beautiful people.



## Monastery Island

This downtown natural treasure is a wonderful place for family strolls and romantic interludes all year round. Connected to the city via a pedestrian bridge, it forms part of Dnipro's largest park complex – Shevchenko Park. Monastery Island is home to one of Ukraine's largest Shevchenko monuments and boasts some of the city's best beaches. Weekenders can also enjoy a zoo, pony riding club, and various cafes. The island abounds in greenery and is a great place to chill out if you are looking to get away from the big city bustle without traveling out of town.



## Ukraine Grand Hotel

Known to many as "Ukrainian House" or "The House of Khrennikov", this local landmark is a classic example of Ukrainian modernist architecture. Built in 1912 by prominent Dnipro businessman Vladimir Khrennikov, this four-story building has won plaudits as the architectural embodiment of Ukrainian national traditions. Ukrainian ethnographer and historian Dmitry Yavornytsky played a key role in the development of the architectural plans behind the building and helped add elements of authenticity. With its tower topped by wrought iron spikes, tiled roof and white walls, the building is reminiscent of architectural styles common during the era of the Zaporizhian Sich and the heyday of the Ukrainian Cossacks. The building's ornate and detailed decorations include the coat of arms of the Zaporizhian Army – a Cossack with a musket and a sword. This monument to Ukrainian architectural heritage miraculously survived the destruction of WWII and serves today as one of the city's top hotels.



## Ukraine's Extreme Watersports Capital

Dnipro is home to Ukraine's largest aquatic sports complex, the Sentosa Cable Park. The park is popular for wakeboarding and water skiing. It has already gained a reputation beyond Ukraine as a venue for international competitions. Sentosa Cable Park boasts state-of-the-art facilities and offers a dose of adrenaline close to the city center. This is an extremely popular hangout during the summer season and is a great place to improve your skills with the help of qualified instructors.





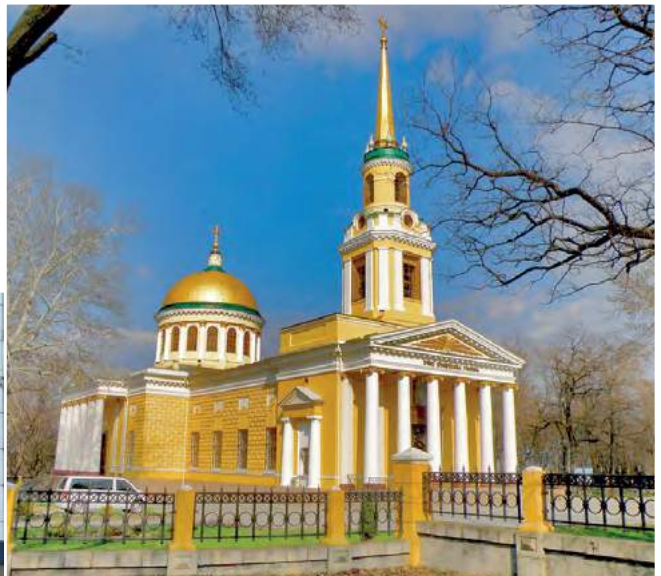
## Samar Dnipro Fest

This festival offers a window into Ukrainian history and incorporates authentic elements from across a range of different eras including everything from the Middle Ages to the present day. The festivities are diverse and dynamic, with arts and crafts alongside literature and period performances. There is also an accent on contemporary Ukrainian music, giving the event a traditional festival feel. The Samar Dnipro Fest is hosted at a cultural heritage site that occupies an important place in national folklore – Novobogoroditskaya Fortress, which dates back to the Ukrainian Cossack period.



## Religiously Diverse Dnipro

Throughout its history, Dnipro has always been home to a wide variety of different religious communities. This cosmopolitan heritage is reflected in the presence of numerous houses of worship that continue to coexist and function in the city. For example, visitors will find a range of different Ukrainian Orthodox, Catholic, and Protestant churches to explore. The city's diverse religious traditions have helped to create a culture of tolerance while providing a welcoming environment for people of all faiths.



## Dnipro's Iconic Stone Women

The Dnipro History Museum is home to one of the world's largest collections of ancient steppe sculptures. A number of fascinating female statues stand outside the museum, offering an echo of a long-forgotten era when nomadic peoples dominated the surrounding region. Known to locals as Dnipro's "Stone Women", these iconic figures serve as a reminder of the many different cultures to leave their mark on Ukraine over the centuries. Similar stone statues dot the landscape throughout today's Ukraine, with many looking out across the country's seemingly endless southern steppe lands. Female figures tend to dominate this genre of stone sculpture, hinting at ancient associations with fertility.







## Rocket Park in a Rocket City

Dnipro's status as the capital of the Soviet Union's rocket program earned it the twentieth century nickname "Rocket City". You can catch a flavor of this locally produced ballistic brilliance by visiting Dnipro's dedicated Rocket Park complex, which boasts a number of giant exhibits guaranteed to thrill fans of Cold War relics. The park serves as a reminder that Dnipro remains the capital of Ukraine's space industry and a significant player in the international rocket and missile industry. It is also home to the Alexander Makarov Aerospace Museum – Ukraine's only museum dedicated to rocket and space technologies.



## Sensational Summer Sailing

Who needs the seaside when you have one of the world's biggest and most beautiful rivers running right through the middle of town? The Dnipro River serves as a giant playground for the entire city and is an endless source of entertainment. Sailing is a popular pastime and visitors in the spring and summer months will see dozens of pleasure boats cruising up and down the river.

## COMING SOON: MAJOR IT CONFERENCE IN DNIIPRO

The ITEM-2017 Conference will take place in Dnipro on 17-18 June. This will be the fifth anniversary of the annual ITEM Conference, which is billed as the largest IT business development gathering in Central Ukraine. Over the past five years, ITEM has attracted more than 1,600 participants and 76 expert speakers from 14 countries. These speakers have included representatives from some of the most recognizable names in the IT world such as Google, Microsoft, Spotify, Lenovo, Oracle, WIX, Template-Monster, and Wargaming. This year the conference enjoys the support of the Dnipro City Council and the Dnipro Development Agency. Participants will include hundreds of company owners, CEOs, top managers, and business development specialists drawn from across Ukraine's booming IT sector. The two-day program includes guest presentations, discussions on key themes facing the Ukrainian IT industry, and practical workshops. The conference is also a great place to network and develop new partnerships.





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# UKRAINE COUNTRY PROFILE

## 2017

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## Reviving Ukraine's Banking Sector

Andy Hunder, President of the American Chamber of Commerce in Ukraine



Ukraine's banking sector has been severely impacted by the economic turbulence over the past 3 years. In 2016, however, the sector showed notable progress with a clean-up of the banking system. In addition to significant IMF support, positive developments included the cancellation of mandatory registration for foreign investments, gradual relaxing of foreign currency control measures, and positive moves for the liberalization of cash payments and initial measures for allowing repatriation of dividends.

Disappointingly, Ukraine has been unable to attract significant levels of Foreign Direct Investment (FDI). The lingering pace of reforms, weak judicial system, insufficient protection of creditors' rights and the country's blurred international image have been major obstacles in enticing FDI.

### Currency Liberalization

Unrestricted repatriation of dividends by foreign investors and relaxation of foreign currency control by the National Bank of Ukraine (NBU) would help to boost economic development. Currency liberalization is a set of well-defined actions that would lead to the improvement of the economic situation in Ukraine. This would contribute to the ease of doing business in Ukraine, which would help to draw foreign investors. Based on the Currency Liberalization Survey conducted among AmCham Member companies, the Chamber's Banking

and Financial Services Committee developed 10 Key Steps of Immediate Liberalization of Currency Regulation. These include the adoption of Resolutions of the NBU, and realistic deadlines for their implementation. Among the most important steps are the repatriation of unrestricted dividends; cancellation of mandatory currency sale; free transfer of funds from the sale of shares, corporate rights or other assets and the prohibition of the foreign currency purchase if the resident has currency on his/her accounts.

### Creditors' Rights Protection

Ukraine has deficient protection of creditors' rights. In order to fix the problem a powerful legislative framework would ensure decent protection of creditors' rights and resumption of lending. This would, in turn, renew confidence in the banking system. It is imperative to restart lending of small and medium enterprises, fundamental for the economic recovery and creation of new jobs. The adoption of relevant legislative framework on protection of creditors' rights, in particular Draft Law #6027 "On Amendments to Some Legislative Acts of Ukraine on Increasing Trust between Banks and Their Customers" dated March 3, 2017, would benefit both consumers and creditors, protecting consumers against violation of their rights and boosting the investment potential of Ukraine.

### Recovering Ukraine's lending

The American Chamber of Commerce in Ukraine remains committed to being a reliable partner of the Government and other stakeholders in the process of the country's economic recovery and development. Additionally, in banking and financial sphere, our efforts will focus on facilitating the development of financial instruments such as financial restructuring legislation, factoring and leasing. We are determined to contribute to the establishment and development of competitive environment for banking and other financial services.

In order to transform today's emerging positive economic trends into a sustainable economic recovery, we will continue actively supporting Government institutions and Ministries by providing our proposals and expert recommendations.

Strong economic recovery, in its turn, together with the return of lending in the banking sector, will expedite a rapid increase in Foreign Direct Investment and continuation of the important reforms in banking and finance sector that have started, but which still require lots of efforts to be successfully completed.

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**B2B**

Continuously creating opportunities for Business to Business Partnerships

**B2U**

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events in February - March

**1,200**  
guests

**40** position papers

**86** B2G dialogue

**13** high-profile B2G meetings

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Cabinet of Ministers approved voluntary reimbursement of medicinal products



National Bank of Ukraine relaxed foreign exchange restrictions on transactions related to external trade activities

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The Chamber has conducted a survey of Chamber Members companies to identify the most pressing issues in foreign currency regulations that foreign investors and local companies are experiencing in Ukraine. As a result of such survey and based on the opinions of most active foreign investors in Ukraine, the experts of the Chamber Banking & Financial Services Committee developed 10 key steps that require immediate liberalization in the current currency regulations.

The identified 10 key steps for immediate liberalization in the current currency regulations include the following:

1. Unrestricted repatriation of dividends;
2. Cancellation of mandatory currency sale of foreign currency proceeds;
3. Free purchase of foreign currency and free transfer of funds from Ukraine resulting from the sale of shares, investment certificates, corporate rights or other assets by foreign investors;
4. Lifting the prohibition to purchase foreign currency if the local company has foreign currency in its bank account;
5. Registration of loan agreements with non-residents in the National Bank of Ukraine:
  - a) Lifting the ban for early repayment of loans;
  - b) Possibility to register assigned loan with a non-resident lender (without the consent of the Ukrainian borrower);
6. Permitting representative offices qualified as permanent establishments in Ukraine to receive foreign currency into their local bank accounts in foreign currency;
7. Permitting contractual set-off under cross-border agreements;
8. Lifting limitation of the borrowing costs for loans / loans from non-residents;
9. Lifting the licensing requirements for cross-border transactions not falling under exemptions;
10. Lifting the prohibitions to use currency swaps, futures and other currency hedging instruments.

The Chamber experts believe that an effective implementation of these steps will allow Ukraine to embark on the liberalization of capital movements without waiting for the adoption a new law on foreign currency. The implementation of most of the above steps can be carried out by the National Bank of Ukraine on its own without direct

## IN FOCUS: BANKING AND FINANCIAL SERVICES

Every actual or potential investor pays attention to the level of legislative recognition and existence of functioning mechanisms for the creditors' rights protection, since it is an important component of investor's confidence in the future credit funds return. Unfortunately, today Ukraine has a quite poor level of creditors' rights protection. In this regard, with the aim of increasing the investment attractiveness of Ukraine, the American Chamber of Commerce in Ukraine stresses the importance of adoption of Draft Law #6027 on increasing of the trust between banks and their customers, which is aimed at stimulation of lending to Ukrainian economy.

Taras Kyrchenko,  
Co-Chair of the  
Chamber Banking &  
Financial Services  
Committee

PRAVEX-BANK,  
PJSCCB



**Chamber Banking & Financial Services Committee** sees its role in participation in the Ukrainian banking system development and promotion of high quality banking standards and values as well as support and development of initiatives of the Ukrainian government and local banking association towards establishment of local banking environment harmonized with the best international banking practices.

**Among the key priorities of the Chamber Banking & Financial Services Committee are:**

- Liberalization of currency control regulation
- Creditor's rights protection
- Financial instruments (factoring and leasing) development
- Establishment of competitive environment for banking and financial services

Bogdan Ivaniuk  
Responsible Chamber  
Policy Officer  
(Committees)

Blvaniuk@chamber.ua



Ihor Olehov,  
Co-Chair of the  
Chamber Banking &  
Financial Services  
Committee

Baker & McKenzie





## HIGH-LEVEL B2G MEETINGS



Meeting with Oleksandr Dombrovsky, Acting Head of the VRU Committee on Fuel and Energy Complex, Nuclear Policy and Nuclear Safety



Meeting with Oleksandr Sayenko, Minister of the Cabinet of Ministers and Yuriy Fedchyshyn, Adviser to the Prime Minister of Ukraine



- On March 7, Chamber Members met with Oleksandr Dombrovsky, Acting Head of the Verkhovna Rada of Ukraine Committee on Fuel and Energy Complex, Nuclear Policy and Nuclear Safety. He shared with participants the information about current status of the Draft Law on Electricity Market, as well as Draft Laws in the sphere of gas market and energy efficiency. *(above left)*
- On March 7, representatives of the Chamber Customs and IT Committees and Tetyana Prokopchuk, Chamber Vice President of Policy, held a working meeting with Oleksandr Sayenko, Minister of the Cabinet of Ministers of Ukraine and Yuriy Fedchyshyn, Adviser to Volodymyr Groysman, Prime Minister of Ukraine. Discussion was dedicated to further expansion of Single Window functional. In particular, participants discussed the simplification of foreign economic operations for businesses through customs when moving goods across the customs border of Ukraine *(above right)*
- On March 2, Members of the Chamber Food & Beverage Committee met with Ostap Semerak, Minister of Ecology and Natural Resources of Ukraine. Discussion was mainly focused on the Draft National Waste Management Strategy developed by the Cabinet of Ministers of Ukraine in cooperation with international partners (European Bank for Reconstruction and Development and GIZ). *(below)*



Meeting with Ostap Semerak, Minister of Ecology and Natural Resources of Ukraine





# B2G DIALOGUE

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Meeting with Oleksiy Filatov,  
Deputy Head of Administration  
of the President of Ukraine



IT Committee Meeting devoted to Presentation of  
Ukraine's Digital Agenda - 2020  
by representatives of the Hi Tech Office Ukraine

- On March 1, Chamber Legal Committee hosted a productive discussion on key issues in judicial reform with Oleksiy Filatov, Deputy Head of Administration of the President of Ukraine, Head of Council of Judicial Reform. The future of procedural legislation and issues of representation of legal entities in courts were on the top of the agenda. *(above)*

- On February 24, Chamber Information Technologies Committee together with Hi Tech Office Ukraine held an exclusive meeting dedicated to discussion of digitalization of Ukraine and presentation of Digital Agenda - 2020. *(left and below)*



- On February 24, Chamber Healthcare Committee representatives participated in a meeting with the leadership of the Ministry of Health of Ukraine devoted to discussion of the Draft Regulation on Introduction of IRP & Reimbursement since April 1, 2017. *(below)*



Meeting With the Leadership of the Ministry of Health  
on the Draft Regulation on Introduction of  
IRP & Reimbursement





Food & Beverage Committee Meeting with Volodymyr Lapa, Head of the State Service of Ukraine for Food Safety and Consumer Protection



- On February 16, Members of the Chamber Food & Beverage Committee met with Volodymyr Lapa, Head of the State Service on Food Safety and Consumer Protection, as well as leading experts of the Service. Among the topics raised by the Chamber Members were facilitation of export/import operations and optimization of the Service's operations in terms of state control, the procedure of sanitary and epidemiological conclusions issuance, issues related to export to the Republic of Moldova and People's Republic of China, action plan of joint work on the Draft Law on information for consumers regarding food products, phytosanitary control of packaging materials as well as pending draft legislative and regulatory initiatives. *(above left)*
- On March 1, Members of the Chamber Infrastructure Committee met with Olga Balytska, Member of Samopomich Faction in Kyiv City Council. The meeting was devoted to discussion of innovations and practice of using of equity contribution in Kyiv in 2017 as well as estimation of the month of operation of a new order. *(below left)*
- Chamber Members met with Raivis Veckagans, Acting Head of Ukrainian Sea Ports Authority (USPA) where he presented key vectors of the USPA Priority Plan together with Nadiya Kaznacheeva, Deputy Minister of Infrastructure of Ukraine and Oleksandr Basyuk, Deputy Director of the Department on Sea and River Transport, Ministry of Infrastructure of Ukraine. *(below right)*



Infrastructure Committee Meeting with Olga Balytska, Member of Samopomich Faction in Kyiv City Council



Meeting with Raivis Veckagans, Acting Head of Ukrainian Sea Ports Authority





# AMCHAMS IN EUROPE

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## AmChams in Europe Executive Committee 2017



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AmCham Ireland



## CORPORATE SOCIAL RESPONSIBILITY



Chamber gathered its CSR Club Members to discuss possible ways for responsible business to get involved in counteracting human trafficking with Anastasia Deeva, Deputy Minister of Interior of Ukraine on European Integration and representatives of the International Organization for Migration.





- The Women's Executive Leadership Development Initiative participants opened spring with new format of events - Business Breakfast. Morning coffee was combined with useful lifehacks and expert discussions on the business topics, which are relevant for working women in Ukraine. WELDI participants raised the questions on the idea and principles behind the mentorship. *(above)*

- The Chamber in partnership with a Member Company Mastercard held yet another successful meeting focused on further advancement of women's leadership in the Ukrainian business community. Moderated by Tetyana Prokopchuk, Chamber Vice President of Policy, distinguished panelists included Marie L. Yovanovitch, U.S. Ambassador to Ukraine; Bella Stavchansky, Division President of High Growth European Markets Region at MasterCard Inc.; Lenna Koszarny, Founding Partner and CEO of Horizon Capital, Chamber Board Member; and Nadiya Polishchuk, Chamber Vice President of Operations. *(below)*



Chamber Business School is the personal development program for experienced CEOs and top-level management of Chamber Member Companies. During first 4 sessions, Anzhela Yastreba, leader of Ukrainian Coaching, professional coach, founder and CEO of the Academy coaching Mastery WPG, mentor of International Coaching Federation, told the participants about management and development of employees' loyalty; basics and definitions of coaching as well as how to increase effectiveness through management of thinking. *(below)*





# BUSINESS NETWORKING AND FAMILY FUN

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Chamber Members spent a great time together with their fellows from Chamber Member Companies in a very cozy atmosphere of the Red Doors Bar for the celebration of St. Valentine's Day.

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Chamber Members celebrated Maslyana with their families, enjoyed a wonderful Saturday fun for kids, a special hot beer for parents, a wide variety of pancakes, and the presents.

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# Crowdfunding culture takes root in post-Euromaidan Ukraine

Online fundraising emerged in Ukraine before 2014 but revolution provided huge boost

Ukrainians have been actively using international crowdfunding platforms such as KickStarter, IndieGogo and GoFundMe ever since crowdfunding first gained popularity worldwide. Domestic Ukrainian platforms were established as early as 2011, including the Ukrainian Philanthropic Marketplace and Spilnocosht, which provided new opportunities for civil society initiatives, social entrepreneurship, and people in need to

reach out to Ukrainian audiences.

Since the Euromaidan Revolution, crowdfunding in Ukraine has gained popularity as a fundraising tool for diverse issues ranging from humanitarian relief for people affected by the military conflict through platforms such as families.org.ua and People's Project, to community development and social innovation. The latest developments in the Ukrainian crowdfunding »





*Online appeal: Ohhio chunky knit was one of Ukraine's most high-profile Kickstarter campaigns raising over USD 300,000*

ing sector indicate various societal segments are consolidating to solve pressing issues, and that trust within society has grown. A new type community-enhancing crowdfunding has emerged which maximizes donor engagement for a positive impact on society.

Ukrainians remain active on international crowdfunding platforms such as KickStarter, Indiegogo and GoFundMe. International platforms are rewarding since they help target the Ukrainian diaspora as well as the broader international community. Kickstarter and Indiegogo are rewards-based platforms mainly used by startup businesses, although they also support charity campaigns.

GoFundMe, a donation-based crowdfunding platform, gained popularity in Ukraine for raising funds during Euromaidan and in response to the conflict in eastern Ukraine. KickStarter projects in Ukraine include everything from technological knowhow (Gooli) to support for up and coming artists (United People First). One the most successful Ukrainian Kickstarter campaigns to date was Ohhio chunky knits, which raised over USD 300,000, received extensive media coverage, and was a huge hit in the "Made in Ukraine" movement. Meanwhile, entrepreneurial and non-profit crowdfunding site Indiegogo has hosted a crowdfunding campaign of Ukraine's Hromadske Radio and campaigns for Ukrainian students raising funds to study abroad.

## Ukraine's growing community of new crowdfunding platforms

In recent years, several Ukrainian crowdfunding platforms have developed with an accent on diverse issues. These platforms tend to focus on support for humanitarian issues, non-profit projects, or social entrepreneurship. Donation-based crowdfunding helps raise funds for targeted assistance to people in need or to resolve specific pressing social issues. Several donation-based crowdfunding platforms appeared after Euromaidan, such as families.org.ua and People's Project, while others like Ukrainian Philanthropic Marketplace (UBB) and Tabletochki existed prior to 2014.

Community-enhancing crowdfunding employs philanthropy to bring value to a given community and contribute to the development of open society incentives that go beyond direct benefits to project creators and backers. Ukrainian community-enhancing platforms include Spilnocosht, Moy Gorod (for urban development projects in Odesa) and GoFundEd (new platform for educational projects).

Spilnocosht is a platform for community development projects in the spheres of urbanism, art, media, human rights, technology, and education. Founded in 2012, it was one of the first well-known Ukrainian crowdfunding platforms for social innovations and community development projects. Spilnocosht is an example of how community funding impacts complex transformation processes in Ukraine. For example, Hromadske Radio campaigns on Spilnocosht have demonstrated the public's willingness to pay for unbiased information and support reform in public broadcasting. Hromadske Radio's first campaign on Spilnocosht opened in 2013, before the start of Euromaidan. This campaign raised UAH one million and was a turning point in the Ukrainian culture of giving. Since 2013, Spilnocosht has hosted three campaigns for Hromadske Radio targeting the Ukrainian diaspora.

GoFundEd is a new crowdfunding platform for educational projects that allows teachers to raise funds for innovative projects

at schools designed to help kids develop key skills. As of January 2017, the platform has hosted 20 successful campaigns and raised over UAH 300,000.

Rewards-based crowdfunding platforms of the Kickstarter type, which offer pre-order options for backers and start-up funding for creators, are still developing in Ukraine. One example is Komubook, the Ukrainian platform for crowd publishing. In return for contributing funds for a book's publication, backers receive a copy of the book they support.

## Ukrainian platforms still gaining momentum

According to available data, Ukrainian Philanthropic Marketplace (UBB) is the leading crowdfunding platform in terms of funds raised for Ukrainian campaigns, with over USD 3.5 million generated over the five years since the platform's creation. This Ukrainian platform outpaces both of the international leaders in crowdfunding – Kickstarter and Indiegogo – in terms of funds raised for Ukrainian issues. However, the number of Ukrainian campaigns supported through Indiegogo is higher than through any other platform.

Spilnocosht and the newly established GoFundEd, which both represent a type of community-enhancing crowdfunding platform distinct to Ukraine, were able to raise smaller amounts and support fewer campaigns, but growth in this sector has been consistently strong over the past few years. Data on Ukrainian crowdfunding platforms shows that consolidation and mutual trust within Ukrainian society has grown considerably since the Euromaidan Revolution. Analysis also indicates that Ukrainians prefer to donate to pressing issues requiring an immediate response rather than supporting systemic changes offering complex transformations.

This tendency to fund pressing issues rather than longer term community solutions points to the need to develop a culture of giving within Ukrainian society. As this culture develops, experience suggests that specialized crowdfunding platforms will emerge to provide the necessary support.



About the author: **Khrystyna Rybachok** is a Political Scientist and Program Assistant at Pact in Ukraine (USAID/ENGAGE activity)



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# Investing in Ukraine via indirect routes

Merger and acquisition activity is on the rise in Ukraine but many investors seek to avoid tax traps

After three years of tumult, the geopolitical turbulence in Ukraine seems to be slowly subsiding. There are widespread indicators of macroeconomic stability, while GDP growth projection figures for 2017 have generally been above 2%. Even allowing for slight reductions in these forecasts owing to the possible impact of the trade blockade in eastern Ukraine, the return to growth first witnessed in 2016 looks set to continue.

This stabilizing business climate has inevitably sparked increasing levels of activity. Legal professionals in particular will have noticed a rise in transactions, with the most dynamic sectors for M&A and investment activity currently being IT, agriculture, energy, and logistics. The increased interest in IT is understandable – Ukraine is booming as an IT outsourcing market. The country's solid technical heritage and engineering background, coupled with a 5% flat tax on the income of IT developers, makes it an exceptionally attractive and cost-efficient jurisdiction for IT companies and startups. The rising profiles of agriculture, energy, and logistics are all likewise due to advantageous conditions and untapped potential, so these trends cannot be described as surprising. Perhaps more interestingly, a number of factors appear to be pushing the parties involved in this increasing M&A and investment activity away from direct transfers of ownership over Ukrainian target companies and towards alternative options.

## Indirect transfers

In order to avoid triggering a 20% VAT charge on asset transfers, many of Ukraine's recent M&A deals have been structured through the sale and purchase of shares in companies rather than assets. Even though this VAT cost is generally temporary and recoverable over time, most buyers wish to avoid

incurring any cash outflows unless the legal risks of participation in equity outweigh the potential tax benefits.

Some of these M&A share deals involve the indirect transfer of shares. This generally involves a Ukrainian target company owned by a foreign holding company. The buyer purchases the shares in this foreign holding company, which remains the owner of the original Ukrainian target. The Netherlands and Cyprus are particularly popular holding jurisdictions in such cases.

The appeal of foreign holding companies is self-evident. Unlike many countries, Ukraine does not currently attempt to tax such indirect transfers. In contrast, China has strict regulations designed to force shareholders to pay Chinese tax, even when they sell off a Chinese business indirectly using offshore jurisdictions.

Tax considerations are not always a decisive factor in Ukraine when companies choose to opt for indirect acquisition routes. As well as avoiding capital gains tax, companies are often also seeking to bypass Ukraine's prohibitive currency control regulations. Another incentive to structure investment indirectly through a foreign holding company is the appeal of foreign corporate laws, which tend to be more flexible than Ukrainian regulations. In many cases, parties want to enter into shareholder agreements that put their own tailor-made checks and balances in place when it comes to owning and managing the Ukrainian target. Currently this is not something that the Ukrainian law allows, although corporate law reform is underway.

## Currency control regulations

Previously during the direct sale of shares in a Ukrainian target entity, foreign corporate sellers and buyers would choose between making settlements through so-called investment bank accounts opened with a Ukrainian bank, and paying directly using a foreign bank account. Currency restrictions have made the first option impractical. If foreign corporate parties instead choose to conclude settlement abroad, there will be a problem with payment of Ukrainian capital gains tax on the disposal of shares.

Some people would argue that this does not really constitute a problem, because inconsistencies between tax and currency control regulations mean this tax may not be payable at all. This inconsistency stems from the absence of the necessary mechanisms in Ukraine's capital gains tax law.

## Shell companies

It seems that many Ukrainian businesses – and some of Ukrainian lawyers – are prone to oversimplifying the safety of using foreign shell companies for transactions in order to bypass tax obligations in certain jurisdictions. In reality, the risks involved may actually be growing. Following a series of high-profile tax scandals, public demands in a number of countries have pushed the issue of international tax policy reform to the top of the agenda. At first glance, there is little evidence that Ukraine is part of this international trend. However, in today's globalized world, it is unlikely Ukraine will be able to stay aloof for long. The country has signed up to the Inclusive Framework of the BEPS (Base Erosion and Profit Shifting), which obliges Ukraine to implement a series of measures including steps to prevent the granting of tax benefits in inappropriate circumstances such as the use of shell companies and other tax-motivated transaction approaches.

Recent international experience also indicates the likelihood of a coming tougher stance towards such loopholes in Ukraine. Not all Ukrainian officials and policymakers can read English, but they can and do read Russian. As a result, there is still a tendency to copy aspects of Russian laws and regulations. The implications for M&A tax avoidance are clear. In a recent Russian case involving a Cypriot shell company, the Russian tax authorities intervened to deny any tax relief by arguing that the only role of the shell company in the transaction was tax avoidance and that the shell company was not the beneficial owner of the income. Ukraine has similar international concepts of beneficial ownership in the country's existing tax laws. The issue is how these regulations are applied. It is likely that we will witness changes in application in the near future.



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# Tailor to the Ukrainian elite

Steve Kriplani says Ukrainian sartorial tastes have clearly benefitted from exposure to global trends

There was a time not so long ago when members of the Ukrainian business and political elite adhered to a dress code best described as “gangster chic”. Leather jackets and clunky jewelry were widely favored, with shiny pinstriped suits often accompanied by T-shirts or, if the occasion required a nod to formality, a turtleneck jumper. Over the past decade or so, this era of brash bling has given way to a far more businesslike approach to wardrobe issues. Imperial Tailoring Co. Ukraine CEO Steve Kriplani has observed this transformation with some satisfaction. His pleasure is more than the mere gratification of a man who understands the value of stylish attire. Mr. Kriplani’s tailoring business depends on continued demand for bespoke suits, and business is good.

“Crises tend to help our business,” he says. “The current economic difficulties in Ukraine have had the same effect as previous slumps in 1998 and 2008. Wealthy Ukrainians who previously overpaid for designer labels often come to us during hard times because they realize they can get suits made from the same materials and with higher quality tailoring at half the price. In many cases, they eventually end up bringing their old off-the-peg designer suits to us for alterations as well.”

## In Kyiv since 1995

Mr. Kriplani spoke to Business Ukraine magazine in the comfort of his cozy salon in Kyiv’s historic city center not far from Golden Gate. Plush leather interiors and dapper staff add to the old school ambience of what is one of Ukraine’s earliest post-Soviet fashion arrivals. The Indian-based Imperial Tailoring Co. first appeared in Kyiv in 1995 as part of a broad expansion throughout the CIS region. It is a family-run business begun in 1969 in Mumbai and now employing some 29 of Mr. Kriplani’s brothers and other relatives who manage a network spread across the post-Soviet world. Fittings take place on the spot, while tailoring work is handled at two company production units in England and Italy.

Mr. Kriplani himself has been in the Ukrainian capital for over a decade and says he



About the interviewee: **Steve Kriplani** is chief tailor and CEO at The Imperial Tailoring Co. Ukraine

has witnessed a striking evolution in local dress codes during his time in the country. “There have been big changes in the Ukrainian market. Clients today know what they want. They are generally much more knowledgeable and sophisticated when it comes to sartorial matters.” He puts these changes down to greater levels of international exposure as local elites have grown used to rubbing shoulders with their foreign counterparts. “Our Ukrainian clients have definitely become more familiar with global trends. They have also come to appreciate the golden rule that first impressions are lasting impressions.”

This growing Ukrainian appreciation for bespoke suits is reflected in the changing makeup of Mr. Kriplani’s client base. When the Imperial Tailoring Co. first began operations in Ukraine, its clientele came almost exclusively from the international community, with orders from diplomats and expat executives forming the bedrock of the business. Today, he estimates that around 80% of all clients are Ukrainians – mostly from the business and political communities. As well as hand-stitched, made-to-measure suits, this clientele will also soon be able to order bespoke leather footwear and tailor-made jeans. “We try to offer something new for our clients each calendar year,” offers Mr. Kriplani.

## Making the right political statement

Despite his generous appraisal of the improving dress sense displayed by Ukraine’s high rollers, Mr. Kriplani says many of the country’s leaders are still guilty of more than their fair share of fashion crimes. While he diplomatically refuses to name names, the Indian-born and London-trained tailor argues that deep pockets are often not enough to overcome bad wardrobe choices. “Even now, some Ukrainian politicians are expensively dressed but inappropriately dressed. They continue to opt for things like light colors and patterned jackets when this is not at all in line with protocol.”

At a time when Ukraine is seeking to make the right impression internationally, Mr. Kriplani believes poor sartorial selections can have a negative impact on the country’s image. “Wearing an inappropriate suit sends out the wrong message about Ukraine,” he says. “This is unfortunate when all eyes are on Ukraine and people are making judgments about the country.” Nevertheless, he is confident the long-term trend towards elegant and internationally appropriate outfitting is irreversible. “Our company was always convinced of the huge potential for quality menswear in Ukraine,” he offers. “Our business is still growing and we expect this growth to continue.”



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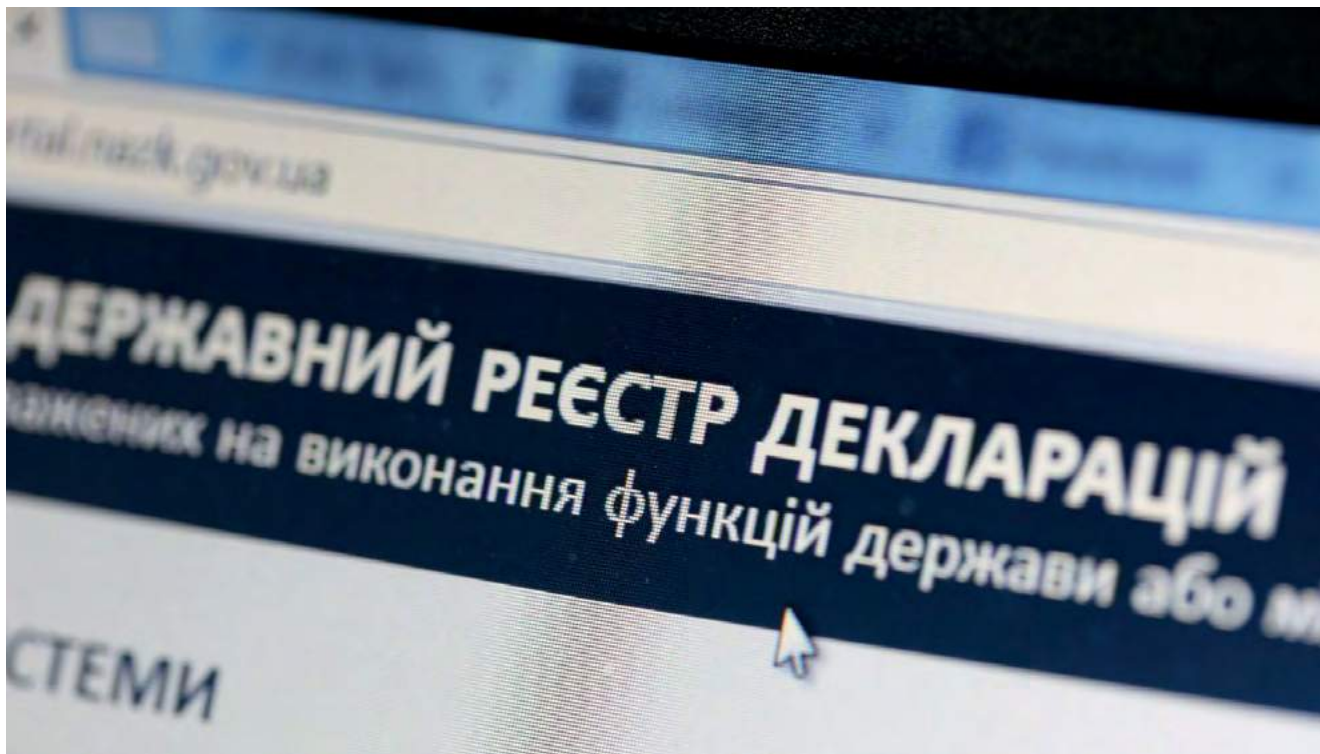
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# Transparently corrupt Ukraine's reform reality

Post-Euromaidan reforms: progress made but gap remains between exposure and accountability



For the past three years, Ukrainian society has undergone a range of systematic changes against a volatile backdrop of post-revolutionary political instability and ongoing hybrid war with Russia. There has been widespread criticism over the pace of Ukraine's post-Euromaidan reforms, but those involved in monitoring and implementation of the reforms will confirm that a number of highly ambitious changes have been introduced into Ukrainian society. As we look back on the progress since 2014, it would be fair to say that three years is long enough to launch a program of systematic changes, but it is not enough time to cement these changes.

The problem of pushback from members of the pre-revolutionary old guard is a major and growing problem. In recent months, reformers have found themselves expending more and more energy protecting the results they have so far achieved, while also preventing rollbacks. These defensive measures inevitably mean less time, energy and resources are available for new reform initiatives.

The threat posed by mounting opposition is certainly frustrating, but it also suggests that existing reforms are slowly but surely achieving the desired results. As implementation becomes more effective, we can expect the resistance to become increasingly harsh and innovative. The Ukrainian people won the initial battle for reform on Maidan in 2014, but the war against corruption continues. Powerful groups remain deeply invested in protecting the institutionalized corruption schemes that previ-

ously allowed them to gain almost unlimited power and vast wealth. Such forces will not go quietly into the night. On the contrary, they will oppose genuine reform efforts every step of the way. Although it is fair to say that more has been achieved in the past three years than in the previous two decades of Ukrainian independence, none of the current reforms can be considered secure or beyond the point of no return. As we pass the three-year mark of the post-Euromaidan reform drive, it is important to note what has been achieved so far, and it is absolutely crucial to identify the key challenges to further progress.

## Europe's most transparent and corrupt society

Critics of the Ukrainian reform process have widely embraced the mantra "nothing has changed". This is simply not true. However, while the changes taking place in Ukraine are often on a fundamental level, the fruits of these reforms have yet to make themselves known to the general public. As a result, today's Ukraine is currently stuck in a challenging transition period where painful reforms require numerous sacrifices, while the benefits they bring remain tantalizingly intangible.

Meanwhile, corruption is being exposed but not yet effectively addressed. This has led many pro-reform activists to joke that Ukraine is now both the most transparent and the most corrupt country in Europe. The transparency cited in this curious equation is one of the clear areas where post-Euromaid-





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► an Ukraine has progressed. Since 2014, Ukraine has made all manner of important information open to the public, including registers of immovable property, land, and other assets.

The largest breakthrough was the launch of e-declarations for public officials in autumn 2016. This process of electronic disclosure of income and assets is applied to everyone from the President on down. While the media and the public expressed outrage at some of the more outlandish declarations of wealth from public servants on relatively low official salaries, the e-declaration system is a progressive step towards ensuring effective control over politicians and civil servants. Ultimately, many hope these transparency measures will help to break the vicious circle of impunity among corrupt officials.

## Purging procurement abuses

Another important step towards eliminating institutional corruption was the launch of the electronic procurement system ProZorro. This highly transparent system has closed loopholes for embezzlement in the sphere of public procurement, allowing the Ukrainian state to make huge savings while also opening up the entire procurement field to competition. Losses from rigged procurement tenders were previously one of the largest single drains on Ukrainian budget funds.

The success of ProZorro has relied heavily on the efforts of civil society and sympathetic government members backed by Ukraine's international partners. This is no surprise – similar alignments of civil society, reformist government members, and international allies are behind most of Ukraine's truly successful reform initiatives.

## Anti-corruption institutions

New institutions are now in place to manage independent and impartial investigations into high-profile corruption cases. Most observers see this as a prerequisite for further systemic reforms, based on the assumption that many existing state organs are too badly compromised by corruption themselves to be able to play a meaningful role in transforming Ukraine's institutional framework. As of March 2017, the National Anti-Corruption Bureau (NABU) is investigating 272 cases, most of which are against heads of state-owned enterprises, judges, prosecutors, and MPs.

The most widely discussed case is against Ukraine's tax chief Roman Nасиров, who stands accused of embezzling around USD 74 million. He is the most senior official yet to face criminal charges. The case against Nasirov is a watershed moment and litmus test for Ukraine's entire post-Euromaidan reform process. It has sparked renewed optimism in reformist circles, while also provoking what many see as fresh attempts to undermine the efficiency and credibility of NABU.

## Tackling energy sector corruption

The energy sector has experienced unprecedented anti-corruption measures in the form of price hikes that have closed the gap between the prices paid previously by industrial and domestic consumers. This is a prime example of ordinary Ukrainians feeling the pinch of reforms without enjoying the benefits. Rising utilities bills have hit cash strapped Ukrainians hard, while the undeniable budget gains brought about by the end of massive subsidies have yet to make themselves felt at grassroots level. Nevertheless, the cleanup of the notoriously corrupt gas sector is a massive undertaking that has broad ramifications for the Ukrainian economy and Ukraine's political culture.

## Empowering communities via decentralization

Decentralization has been one of the buzzwords of the post-Euromaidan era, and the delegation of powers from the center to local communities is indeed continuing across Ukraine. This process has gone hand in hand with fiscal decentralization, with efforts also underway to empower communities and change the mentality of people used to delegating responsibility for municipal issues to faceless authorities in faraway capitals. More than 20% of Ukraine's local communities have undergone amalgamation since 2014 and now benefit from greater resources. As of the end of 2016, local budgets had increased by 47% compared to 2015. This was well above the projected budget increase of 11%.

## False dawns and failures

Any assessment of Ukrainian reforms must do justice to the progress made, but it must also acknowledge the failure to proceed on a number of strategically crucial fronts and recognize the alarming fact that in some areas the situation has actually deteriorated.

Electoral reform was announced as one of the top priorities for the newly established ruling coalition in late 2014, but there has been no progress since. Civil society activists have engaged in a lively and detailed debate on the subject, but the country's politicians have almost completely ignored these efforts. Activists seek open party lists and proportional representation in order to combat corruption and foster genuine democratic principles within the Ukrainian party system. These demands have met with a blanket of inactivity. The mounting stagnation at Ukraine's Central Election Commission (CEC) reflects this apparent lack of political will to change the status quo regarding the country's election system. The terms of office of twelve of the fifteen serving members of the CEC expired three years ago but there has been no reboot. Meanwhile, the current head of the CEC is under NABU investigation but has not even been suspended from office.

## Anti-corruption anticlimaxes

Attempts to reform the office of the prosecutor general present an equally

**“Since the Euromaidan Revolution Ukraine has become one of the world's most transparent societies, but it also remains among the most corrupt”**



bleak picture. Efforts to overhaul local-level prosecution teams led to changes in managerial personnel amounting to around 3% of totals, while similar processes at the regional and national level have stalled entirely. Current Prosecutor General Yuriy Lutsenko introduced the so-called “integrity declarations” as a measure to allegedly help him clean up the system. This particular experiment ended with no dismissals and just five punitive reprimands. One particularly notorious prosecutor, whose 85-year-old grandmother was on record as owning a luxury Audi Q7 automobile, also escaped dismissal and received a reprimand instead. Such high-profile failures to tackle the roots of corruption throughout Ukraine’s institutions have done huge damage to the credibility of the government’s reformist credentials while fueling cynicism.

## Key battlegrounds in 2017

Protecting Ukraine’s reformist achievements looks likely to be a key objective in 2017. Recent trends strongly suggest that attacks on reform successes will intensify in the coming months as these changes begin to make themselves felt. Efforts to undermine NABU offer the most obvious example of this practice at work - efforts to question NABU’s unique jurisdiction over high-profile corruption cases at the legislative level are very common.

The Ukrainian parliament recently witnessed absurd scenes when MPs attempted to appoint their delegate to a future NABU external auditing commission. This is the only body with theoretical grounds to dismiss NABU Director Artem Sytnyk, making the position of auditor a politically charged appointment. There was considerable international pressure to adhere to principles of transparency and support the candidate selected via open competition and backed by the Ukrainian parliament’s own anti-corruption committee in December 2016, US prosecutor Rob Storch. However, MPs from the People’s Front and Petro Poroshenko blocs voted for previously unknown British candidate Nigel Brown, who seemed as confused as everyone else by his appearance on the scene. The farce ultimately ended in failure, with the mysterious Mr. Brown unable to attract sufficient votes.

This episode highlighted the Ukrainian political system’s improved ability to resist stage-managed political charades, but it also pointed to the continued readiness of many in power to abuse their positions in order to obstruct reforms. The future of the NABU remains central to Ukraine’s reform efforts – if it is able to consolidate its authority, further successes in the fight against institutional corruption will be possible. However, the pantomime surrounding efforts to appoint a NABU audit team suggests that political opposition will intensify as long as NABU continues to prove itself genuinely effective and independent.

## Targeting NGOs

This is not the only field where the old guard appears to be taking revenge. At the end of March 2017, parliament adopted amendments to the law “On Corruption Prevention” aimed at obliging members of anti-corruption NGOs to submit electronic asset declarations in the form established for civil servants, as well as introducing criminal liability. Since the provisions of the law are vague and define neither anticorruption activities nor the scope of persons to which the law is applicable, it creates clear discretion for law enforcement agencies and courts to interpret the clauses as they wish. Many fear they could now prosecute participants of anti-corruption rallies and contractors of anti-corruption NGOs for the non-submission of e-declarations. In addition, placing an obligation on the members of anti-corruption NGOs is clearly discrimination in violation of article 24 of the Ukrainian Constitution.

*About the author: Olena Halushka is Head of International Relations at the Reanimation Package of Reforms group that unites 73 Ukrainian civil society organizations*



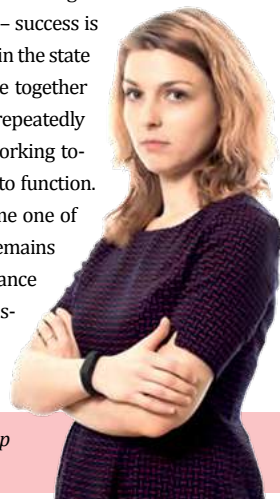
## Wanted: independent anti-corruption courts

Perhaps the most important reform objective for the coming months will be the creation of independent anti-corruption courts. Deep judicial reform is central to the national transformation first envisaged on Maidan, but the process will necessarily take a few years before implementation is complete. This is time that today’s Ukraine simply does not have. The country urgently needs to deliver tangible results in the fight against high-profile corruption. Existing courts are already blocking NABU cases on a regular basis. Without functioning and uncorrupted courts, there can be no meaningful reform of the country’s justice system or successful prosecution of existing corruption cases involving influential figures.

The solution favored by activists, reformists within government, and Ukraine’s international partners is the establishment of special anti-corruption courts designed specifically to handle landmark cases investigated by NABU against high-profile public servants and state officials. It is critically important to manage the selection process for these bodies in order to safeguard judicial independence and impartiality. A selection panel should represent a range of interests, including having one-third of its members recommended by Ukraine’s international partners who will then be able to form a blocking minority. These anti-corruption courts would help close the circle of independent anti-corruption institutions, providing Ukraine with the untainted foundations necessary to move forward with reforms without relying on the corrupted institutions inherited from the post-Soviet era.

## Long reformist road ahead

The past three years have been a very challenging time for everyone involved in Ukraine’s reform process, but there have been bright moments among the many setbacks. One lesson is clear – success is only possible when civil society, agents of change within the state apparatus, and Ukraine’s international partners come together to create tangible results. These three forces have repeatedly demonstrated the ability to achieve their goals by working together. It is vital that this effective alliance continues to function. Since the Euromaidan Revolution, Ukraine has become one of the world’s most transparent societies, but it also remains among the most corrupt. Further resilience and vigilance will be required before we can move from merely exposing corruption to actually removing it from the heart of Ukrainian society.









# Real estate investment in Kyiv should you buy old or new?

## Property investment guide: the pros and cons of classical and modern apartment purchases

Kyiv is a place for resilient, determined property investors who are willing to invest time in learning the nuances of the city's local market and to employ an investment strategy that is adapted to local realities and investment opportunities. For many investors, a key decision is whether to seek out property in old buildings or new development projects. This choice is often the key fork in the road before investors chose their ultimate investment path. Anyone thinking of investing in the Ukrainian capital city's real estate market needs to do their homework on the many nuanced differences between old and new properties.

### The basics

There are two basic types of old buildings of interest on the Kyiv real estate market: Tsarist (also known as "Tsarsky" or "pre-Revolutionary") buildings, and Stalinist ("Stalinkas") buildings. Tsarist buildings were generally built in the late 19th to early 20th centuries. This category includes a range of architectural styles such as Neogothic, Neoclassic, and Art Nouveau. Tsarist properties are usually five stories tall. The apartments in them have high ceilings (up to 4.5 meters). They come with thick brick walls. Most were originally

quite large, with a typical layout featuring four to six rooms and totaling up to 150 square meters in size. These buildings can be quite beautiful, especially when contrasted with the mass of identikit Soviet-era buildings in Kyiv. Due to their age, Tsarist buildings generally lack elevators. However, some renovated Tsarist buildings have had elevators installed. Many of the city's Tsarist-era creations enjoy legal protection as architectural monuments. Stalinkas date from the 1920s to the 1950s. They can be much taller than Tsarist buildings (eight or more stories tall), but individual apartments tend to be slightly smaller, featuring three to four rooms and up to 85 square meters of total floor space. However, they generally feature the same high ceilings as their Tsarist predecessors. These solidly built and functional buildings often have a classic, square-shaped design with spacious corridors, stairwells and apartments. Stalinkas are not as beautiful as Tsarist buildings, but apartments in them are still valued for their spaciousness and construction quality. Most Stalinkas are located in Kyiv's central districts. The city's main street, Khreshchatyk, is a classic example of Stalinist architecture.

New apartment buildings in Kyiv tend to be high rises that range from economy to luxury (or elite) class. Pricing for such apartments is based the build-





ing's location and other factors such as amenities and views. With very few exceptions, apartments in new buildings are usually sold completely unfinished ("shell and core"). Apartment renovations will often continue for three or four years after a building is completed. It is therefore crucial to determine the status of nearby units before buying an apartment in a new building in Kyiv. Otherwise, you could be looking forward to hearing renovation works for a long time. In addition to modern utilities and infrastructure, there are many pluses to living in new buildings. These typically include underground parking and grocery stores, dry cleaners, and cafes that are often on the first floor of the building.

## The politics of prices

Many property investors in Kyiv limit themselves to the city's central districts (Shevchenko, Pechersk, Podil, and the upper and central parts of Holosiiv district). These districts have the highest rents and the greatest potential for price appreciation. It is possible to find Tsarist buildings in neighborhoods outside the center near to the Lybidska, Demiiska, and Lukyianivska metro stations. However, at this time, there is no critical mass for the renovation and gentrification of these relatively distant historic gems.

Residential real estate prices can be especially confounding for those unfamiliar with Kyiv's market. Price information is highly asymmetric and the market is generally inefficient. For example, in the heart of downtown Kyiv, there is not a major gap between sale prices for apartments in Tsarist buildings and Stalinkas. Instead, the price usually has more to do with how motivated the seller is.

It is simply not possible to calculate prices in Kyiv based on some kind of spreadsheet template as you probably could do in some more transparent markets. This represents both an opportunity and a challenge. In practice, it is often best to discuss prices downtown in anecdotal terms, while also researching specific cases of recent sales. For example, Kyiv's Golden Gate area is one of the prime locations for upmarket and luxury rentals, given that approximately 60% of embassies and international organizations are located in the vicinity. In this neighborhood, an investor with high appetite for risk recently purchased a 108 square meter apartment in a Tsarist building for about USD 1,200 per square meter. The buyer now plans to privatize the attic space and create a mansard, almost doubling the apartment's size while spending an additional USD 900 per square meter on a massive renovation before letting it out as premium rental apartment.

Sale prices of apartments in new buildings in the heart of Kyiv usually range from about USD 4,000 to USD 6,000 per square meter for business and luxury class units. However, few units are selling at such prices these days. You may occasionally see deals on a nice business class apartment in the very center for USD 3,500 per square meter. Some lower-floor units in new buildings at the lower end of the business class segment may sell for around USD 2,500 to USD 3,000 per square meter. Such bargains generally come in new building developments located outside the narrow area that represents the desired location for upmarket and luxury rentals. Virtually nothing new is under construction inside this prime area at present.

If you do discover an opportunity to buy into a new apartment building at pre-construction prices, then make sure you do your homework on the reputation of the developer.

## Size matters

If you are buying to rent, it is crucial to have a clear understanding of local availability and pricing policies in different segments of the rental market. Small and cozy 30 to 40 square meter studio apartments are generally not available for rent in the newer buildings in the Kyiv city center, but they are available in older buildings in the central districts. Studio apartments in centrally located new buildings tend to be a bit larger. One-bedroom apartments are widely available in both types of buildings. Rents for such one-bedroom apartments tend to be 10-15% higher in new buildings, with the exception of central Pechersk, which has many new luxury apartment complexes that carry much higher luxury price tags. The rental premium enjoyed by new vs. old properties increases significantly in the two- and three-bedroom apartment category, where top-end rents for luxury apartments can be 25-33% higher than luxury rentals in older buildings.

If you are considering buying an apartment as a future rental property, then keep in mind that as a rule, apartments that are very small (less than 55 square meters) tend not to provide the best rental yields on Kyiv's market. However, they typically enjoy greater liquidity given their lower price, which could be helpful when you move to sell them. For larger apartments in Tsarist buildings and Stalinkas, it is possible for buyers who carry out Western-style renovations to attain yields of 10% and higher. However, this requires a lot of time. You will need to search the market and sift through large volumes of false or misleading information online.

If your intention is to let out your investment property for rental income, then before undertaking any renovation, it is a good idea to consult with a broker who has extensive experience with the type of tenants you wish to attract to see if there is a market for your planned property. For example, the very center of Kyiv currently has a deficit of apartments that are suitable for expats. There is plenty of construction work underway in Kyiv, but most of this new housing is located well outside the prime rental market and of little interest to expat audiences. Meanwhile, numerous empty apartments in Tsarist buildings and Stalinkas in the city center would be potentially attractive rental options for expats.

## Patience vs Profits

Is buying an apartment in a new Kyiv building a better investment than buying an apartment in an old building? If you can persevere and find the right deal, and if you can avoid the many potential renovation pitfalls, then buying an apartment in an old building in the heart of Kyiv and renovating it in a style suitable for an upmarket rent offers the best total return. This is because purchase prices are significantly higher in new buildings than for older buildings, but the rents these newer properties can expect to generate are usually not sufficiently higher to offset your total investment. In fact, if you buy a new apartment outside downtown Kyiv, the rent you will be able to charge could end up being even lower than for a property in an old building in the city center. The key is to ask yourself what level of risk you are prepared to tolerate as an investor. You must then reconcile your tolerance with your return requirements and the realities of Kyiv's market. Once you have made these calculations, you will be ready to begin your Ukrainian property treasure hunt.



About the author: **Tim Louzonis** ([tim@aimrealtykiev.com](mailto:tim@aimrealtykiev.com)) is a co-founder of AIM Realty Kiev, a real estate agency that specializes in real estate for foreign expats. Tim is a long-time expat with Ukrainian roots; he first came to Ukraine as an exchange student in 1993 and returned in 2008.





# Ukrainian Middle East Business Forum

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## Israeli Cultural Center Unveils New Premises

The Israeli Cultural Center hosted Ukrainian and Israeli dignitaries in March as the organization unveiled its new Kyiv premises. The Israeli Cultural Center has been present in the Ukrainian capital since 1992. It offers a window into Israeli culture and society, organizing everything from photo exhibitions and talks from prominent Israeli cultural figures to Hebrew language classes.







## Chic Networking at Kyiv's Top Party Spot

A busy night was always to be expected when one of Ukraine's most popular social events, Fry-day Afterwork, paid a visit in late March to Kyiv's hottest party spot, CHI by Decadence House. Hundreds of business professionals enjoyed an evening of social networking with complementary drinks from AZUL sparkling wine and free rides from taxi service Uklon.







# The Untold Story of Ukraine's War

New book aims to return Ukrainian narratives to center of debate over Putin's hybrid war

For some, it is a conflict sparked by Vladimir Putin's dreams of a new Russian Empire. For others, it is a war caused by Western encroachment into Russia's traditional sphere of influence. Both approaches to the conflict in Ukraine have one thing in common – they downplay Ukrainian voices and place the war in an exclusively geopolitical context. As a result, the country at the heart of the fighting often finds itself portrayed as a passive pawn in Great Power politics rather than a nation experiencing historic changes and fighting for its continued independent existence.

Veteran Ukraine watcher Taras Kuzio believes this neglect of Ukrainian perspectives has contributed to widespread misinterpretations of what is really going on in Ukraine.

His new book, "Putin's War Against Ukraine," aims to provide much-needed insight into the conflict from a uniquely Ukrainian point of view. Kuzio spoke to Business Ukraine magazine about international awareness of Ukraine's struggle for independence and the problems of making Ukraine's voice heard on the global stage.

*Your book "Putin's War Against Ukraine" focuses attention on the refusal of many in Russia to acknowledge a separate Ukrainian national identity. How important has this been in generating domestic Russian support for Putin's hybrid aggression in Ukraine?*

Russians do not believe the war in the Donbas is an act of Russian aggression. Three

quarters of Russians believe what they see on Russian television. This means a narrative led by talk of an illegal coup, "fascist" Euromaidan, nationalist repression of Russian speakers, and so on. The same number believe Ukraine is guilty of downing MH17. Ukrainian polls show the opposite: three quarters believing that the war is a product of Russian military aggression or Russian backing for separatists. The vast majority of Ukrainians now believe Russia wants to destroy their state.

Like most nations, Russians are historically inclined to believe they are the innocent party. This remains the case today - they believe Putin is defending Russian-Eurasian civilization against Western aggression. They regard





the West as guilty of propping up a failed Ukrainian state and of financing and orchestrating the Euromaidan Revolution.

Russian and Ukrainian historical narratives are diametrically opposed to each other on many fundamental issues. For example, on the question of whether the Tsarist and Soviet regimes pursued Russification policies against Ukrainians. Ukrainians say they did, while Putin denies this and fosters nostalgia for the Soviet regime. It is therefore not surprising that Russians fail to see their actions as aggression. Many Russians genuinely believe the Ukrainian people are eager to reunite with Mother Russia but cannot do so due to opposition from a confusing coalition of Jewish-Ukrainian oligarchs, the CIA, the EU, and Ukrainian nationalists. In the final analysis, Russian nationalists do not view their coming to Ukraine to fight alongside separatists as going to a foreign country. For them, the Donbas is “Russian land” and they are there to defend their “brothers”.

*Russian aggression in Ukraine has plunged Moscow into a bruising confrontation with the entire Western world while bringing few tangible positives. Why is the Kremlin prepared to make such seemingly dispro-*

*portionate sacrifices in order to defend its position in Ukraine?*

Putin is a very angry man looking to reverse the tide of history. He believes the West destroyed the USSR in an act of regime change. He was initially inclined to entertain ideas of cooperation, but Ukraine’s 2004 Orange Revolution served as Putin’s 9/11. From 2005 onwards, he turned sharply to the right. In February 2007, Putin delivered his famous anti-Western speech at the annual Munich Security Conference. Later that same year, Russia launched a massive cyber attack on Estonia. In 2008, Russia invaded Georgia. Two years later, he unveiled the CIS Customs Union to compete with the EU.

Putin believes he is at war with the West. In his worldview, Russia is the victim of two decades of Western aggression, including regime change in post-communist countries. He wants revenge. This is one of a number of reasons behind his readiness to fight in Ukraine. Crucially, Putin also believes he has no choice. To him, this is a life and death struggle. Additionally, Putin’s authoritarian regime needs external and domestic enemies, while Russian great power nationalism requires resurgent Russia to act as a superpower. This means having a sphere of

influence in the former USSR and intervening militarily abroad.

*The Kremlin’s ‘Novorossia’ project envisioned Russia taking de facto control over approximately half of Ukraine in alliance with local pro-Russian forces. This local support largely failed to materialize. What led the Kremlin to overestimate the level of backing it could expect to receive among Russian-speaking Ukrainians?*

Russians think they know Ukraine, but in reality, they do not. Their reliance on stereotypes and historical baggage cloud their judgment and prevent them understanding today’s Ukraine. They see what they would like to see, not the reality. I have often joked that there are actually greater numbers of experts on Ukraine in Washington DC than in Moscow.

Rather than studying the changes taking place in post-Soviet Ukraine, too many Russians prefer to believe Ukraine is an artificial state serving as a puppet regime for Western interests. They also tend to regard all Russian-speaking eastern Slavs as “Russians”. This is why Russia consistently attempts to portray all opposition in Ukraine as coming exclusively from the more predominantly

» Ukrainian-speaking west of the country. They adopted this approach in 2004, when they were convinced Russian-speaking Viktor Yanukovich would defeat the “West Ukrainian-American candidate” Viktor Yushchenko. In 2008, Putin told NATO that eastern and southern Ukraine were “Russian” because, from his perspective, the population of these regions were Russians. In 2014, policymakers in the Kremlin expected these “Russians” to support Putin’s “liberation”. They were wrong, but even now, they still cannot understand the concept of a Russian-speaking Ukrainian patriot.

***In your book, you define the current conflict as a continuation of Ukraine’s historic struggle for independence. This independence movement stretches back at least 100 years. Why do you think Ukraine’s independence narrative remains relatively unknown to international audiences?***

Knowledge of Ukraine today is actually far greater than at any time in history. There have been four editions of Orest Subtelny’s “Ukraine. A History”, two of Paul R. Magocsi’s “A History of Ukraine”, and one edition of Serhii Plokhy’s “A History of Ukraine.”

Nevertheless, there are two problems undermining greater awareness of Ukraine’s experience. Ukrainian intellectuals, academics and journalists remain isolated from the West. Relatively few read Western publications or know English. The second problem is that North American centers of Ukrainian studies have ossified. After 1991, they never adapted to the emergence of an independent Ukraine. Their research and publishing in the last twenty-five years has not broadened to include politics and international relations. Instead, it has continued to focus on language, Cossacks and the Holodomor.

***The war in Ukraine has focused international academic attention on the country for the first time since 1991. Has this renewed interest resulted in greater academic understanding of the underlying Ukrainian context behind the current conflict?***

In Canada with its large Ukrainian diaspora, there is no funding for Ukrainian political studies. My own recent four-year research project received support from the US Ukrainian Studies Fund. There has been a vacuum of information giving a Ukrainian viewpoint on the crisis. Since 2014, nearly 300 academic and think tank publications have appeared on the crisis, but Ukrainian voices have not played much of a

role in this wide-ranging discussion. Far more academics and experts from Russia have participated. They have long-term networks and contacts in the West and they know English. This has left the floor open to Russophiles and self-styled realists who blame the West for the crisis. It has also encouraged discussions focusing on geopolitics, sanctions, the KGB origins of Putin, and other factors. As a result, there has been barely any focus on Russian-Ukrainian national identity issues.

The only way this can change is for the old guard in Ukrainian studies to be replaced by a new generation of younger experts and academics who are not opposed to addressing contemporary politics. The younger generation of scholars use social media - some of the older generation in Ukrainian studies do not even use email, never mind Facebook and Twitter. In Ukraine itself, there needs to be a conscious education policy of expanding knowledge of English and encouraging interaction of Ukrainian academics with the Western world.

In addition, the Ukrainian diaspora has never invested in journalism. Canadian newspapers, for example, have never had permanent representation in Kyiv. In the whole of North America, only a handful of academics and experts write op-eds and blogs on Ukrainian politics. This has also created a dangerous vacuum at a time of massive Russian investment in media, disinformation campaigns, and social media.

***The war with Russia has thrust Ukrainian nationalist groups to the forefront of the country’s national identity debate. Their efforts to glorify Ukraine’s WWII insurgency have sparked an international backlash over Nazi collaboration and involvement in atrocities against Ukraine’s Jewish and Polish communities. What drives such seemingly self-defeating veneration of historically toxic figures from Ukraine’s past?***

Ukrainian nationalism, including the history of groups like OUN and UPA, cannot simply be removed from Ukrainian history. Finding the right approach to this period in Ukrainian history is the job of academics and intellectuals. It inevitably turns political when the president or political parties become involved in politicizing history. This took place under President Yushchenko, who promoted the glorification of Ukrainian nationalists, and President Yanukovich, who returned to Soviet-style denigration of Ukrainian nationalists while reintroducing Kremlin myths relating to the 1930s famine and WWII. We should not overstate nationalist influence

in today’s Ukraine. Based on the presidential and parliamentary election results of 2014, Ukrainian nationalist groups are not increasing in popularity. Opinion polls consistently show that there has been a growth of Ukrainian patriotism but not of ethnic nationalism. Very high numbers of Ukrainians are negatively disposed towards Putin and the Russian government, but far fewer Ukrainians hold negative views towards the Russian people.

On a final note, journalists should be careful when wading into historical debates. The OUN collaborated with the Nazis in 1939-1941 – roughly the same period and length of time as the Soviet government itself collaborated with Hitler under the terms of the Molotov-Ribbentrop Pact. At other times, Ukrainian nationalist groups were in conflict with Nazi Germany. In 1938-1939, the Nazis supported the Hungarian conquest of Carpatho-Ukraine (formerly Czechoslovak Trans-Carpathia). Ukrainian forces fought against Hitler’s allies on that occasion. From summer 1941, the Nazis arrested, imprisoned and executed thousands of OUN members, including Stepan Bandera himself, who spent the war in a Nazi concentration camp. Two of Bandera’s brothers died in Nazi captivity. From 1942, the OUN and UPA fought against the Nazis.

***Many observers believe the current conflict with Russia has broadened understandings of what it means to be Ukrainian. They claim that previous ethnic and linguistic definitions have given way to a more inclusive sense of civic Ukrainian identity that is accessible to ethnic minorities - including ethnic Russians. To what extent does your research in the Donbas support or refute this argument?***

Ukrainian identity has always been tolerant and inclusive. There has never been a problem speaking Russian on the streets, in parliament, or on TV. The majority of magazines and newspapers published in Ukraine today are in Russian. In the 1990s, Ukraine peacefully resolved the Crimean question – unlike Moldova, Georgia, Russia, and Azerbaijan with their separatist regions. Since 2004, largely because of the Party of Regions entering the national stage and their use of Russian political technologists, there has been a marked politicization of the Russian language question and other flash-point issues such as NATO membership. This is despite the fact that the issue of language has always been - and still is - very low on the list of priorities for most people.

In any war, those with mixed identities have to choose which side they support. It is no longer



viable to sit on the fence. In 2014, the majority of Russian-speakers in Ukraine faced this choice and decided to support Kyiv instead of Putin. Today, two-thirds of the Ukrainian soldiers serving in the conflict zone are Russian-speakers. Women's groups throughout the east and south offering assistance to the soldiers are Russian-speakers. I have met ethnic Russians and Russian-speakers in Right Sector and the Azov Battalion. Ukrainian nationalists look at national minorities exclusively from the viewpoint of their loyalty to the independent Ukrainian state. Indeed, one of the two Right Sector deputies elected to the Ukrainian parliament in 2014 was Jewish.

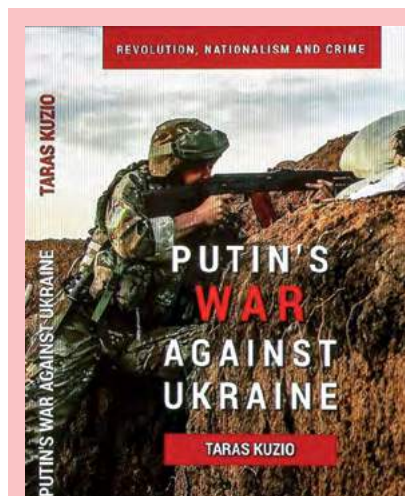
All of the above has led to the spread of Ukrainian civic identity into the east and south and the greater acceptance of Russian-speakers as part of the Ukrainian people. While Ukrainian soldiers and volunteers have moved into the east, middle class Donbas refugees have moved to the west of the country, where they have also had no problems integrating into Ukrainian society. The conflict has brought Ukrainians together in different ways and changed the way the country sees itself.

**You predict the current hybrid war with Rus-**

**sia will last for many years - perhaps for as long as Vladimir Putin remains alive and in power. How can Ukraine hope to win a long-term confrontation against an adversary that enjoys overwhelming advantages in almost every sphere?**

I do not believe Putin has overwhelming advantages in all spheres. Ukraine is too big to invade and occupy. The Ukrainian armed forces are also far more powerful than those of Georgia, for example. Ukraine should take five steps. The first is to stop calling the war an ATO (Anti-Terrorist Operation) and declare it to be a war of Russian aggression – as Ukrainians already believe it is. The second step is to declare the DNR and LNR (self-styled separatist regions in eastern Ukraine) and Crimea as “temporarily Russian-occupied regions”. The third step is to undertake a PR campaign in the West to frame the conflict as part of Putin’s broader war with the Western world. Within this campaign, the Trump administration should be encouraged to demonstrate that the US President is not “pro-Russian” by supporting the delivery of military equipment to Ukraine. The fourth step is to end economic relations with the DNR-LNR and Crimea, thus further isolating these regions. This policy has widespread support among

Ukrainians. The final task for President Poroshenko is to consult with the Ukrainian public about the future of the DNR and LNR. Does the population believe these regions are worth fighting for, or would they rather dump them into Putin’s lap?



About the author: **Taras Kuzio** is author of the newly published “*Putin's War Against Ukraine. Revolution, Nationalism and Crime.*” The book is available in E-Kindle and paperback format on Amazon.

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# The rise and fall of Novorossia

Russia's imperial ambitions came undone because Kremlin underestimated Ukrainian national spirit

Russia's hybrid war against Ukraine is now entering its fourth year, but there was a time when few expected it to last even four weeks. The virtually bloodless seizure of Crimea, which fell to Russian troops in early 2014 without a fight, led most observers to conclude that Ukraine was effectively defenseless and at Moscow's mercy. This was certainly the consensus view in the Russian capital, where many of the bolder spirits began speaking of celebrating the traditional May holidays in Kyiv itself. Such swagger seemed perfectly reasonable – Ukraine was still reeling from months of anti-government protests that had spread chaos across the country before culminating in the flight of President Yanukovich and the collapse of his entire administration. The interim Ukrainian government that hastily replaced Yanukovich lacked constitutional legitimacy and was in no position to risk a military confrontation with the might of the Russian Federation. A clear window of opportunity had opened for Moscow to reassert itself in mainland Ukraine. Encouraged by the stunning success of his initial gamble in Crimea, Putin decided to raise the stakes even higher and take arguably the biggest risk of his entire political career.

The subsequent Kremlin operation that unfolded in March and April 2014 envisaged the conquest of half Ukraine through a series of localized uprisings supported by hybrid Russian forces. These newly acquired territories were to become "Novorossia", or "New Russia". Leaked telephone conversations and hacked emails of senior Kremlin advisors including Vladislav Surkov and Sergey Glaziev have since provided considerable detail on Russia's efforts to seize control of regional administrations in key Ukrainian cities throughout the south and east of the country including Kharkiv, Dnipro, Odesa, and Kherson. These leaks tally closely with events taking place on the ground in Ukraine during the turbulent and traumatic spring months. For a few precarious weeks, Ukraine's chances of survival as an independent state appeared to be rapidly receding. However, the much-feared Russian march to the Dnipro never quite materialized. Instead, Russian uprisings were stifled across southeast Ukraine and the Kremlin found itself restricted to a small bridgehead within the boundaries of Donetsk and Luhansk oblasts in Ukraine's easternmost borderlands. Three years on, they are still there, stuck in a quagmire of their own making. Why did Putin's ambitious plans for a new empire in mainland Ukraine fall so dramatically short of expectations?

## Underestimating Ukraine

Perhaps understandably, Russian planners underestimated Ukraine's capacity to fight back. Ukraine had just 6,000 combat-ready troops available in spring 2014. This was a ridiculously threadbare force - incapable even of protecting the country's borders, never mind defending its towns and cities. From the Kremlin's perspective, the coming campaign looked like a foregone conclusion. What Moscow failed to anticipate was the wave of patriotic emotion that surged across Ukraine in the wake of Russia's hybrid assault. Thousands of Ukrainians took up arms in the spring of 2014, forming volunteer battalions that bolstered the country's paper-thin defenses and stopped the Russian advance in its tracks. Behind them stood an army of civilian volunteers who provided improvised logistical support in the form of everything from food and uniforms to ammunition. This military miracle saved Ukraine and placed the Kremlin in its current predicament.



It is hardly surprising Russia failed to predict the backlash its attack would provoke. Ever since the collapse of the Soviet Union, the Kremlin's Ukraine policy had been driven by a toxic and self-defeating blend of wishful thinking and colonial condescension. This approach became ever more entrenched during the reign of Vladimir Putin, who made no secret of his desire to reassert Russian hegemony throughout the former Soviet Empire. In the context of this revanchist worldview, Ukraine's separation from Russia was artificial, while the entire settlement of 1991 was a grave historical injustice. In 2008, the Russian leader reportedly told US President George W. Bush that Ukraine was "not even a country". Over the years, Putin also repeatedly stated the claim that Ukrainians and Russians were "one people". These beliefs were by no means limited to the upper echelons of the Kremlin. Many in Russia still struggle to accept the reality of Ukrainian independence, seeing the country as a core component part of a greater "Russian World" centered on Moscow. This makes them prone to blaming any manifestations of Ukrainian independence on a radical nationalist minority. Russian policymakers have consistently refused to acknowledge the changing tides of opinion in Ukraine as a new generation has emerged with no personal experience of the shared Soviet past. Famously, they have attributed Ukraine's two post-Soviet popular uprisings to Western influence, despite the decisive role played by millions of ordinary Ukrainians in both the 2004 Orange Revolution and the 2014 Euromaidan Revolution.

These comforting fictions led Russia into the disastrous miscalculations of the Novorossia campaign. Based on its own carefully curated vision of Ukraine, there was every reason to expect a warm welcome when Kremlin agents seized control of entire regions and began calling for Russian military support. When this welcome did not materialize, Russia placed the blame on a motley crew of phantom fascists, CIA agents and other international villains. In reality, the Kremlin had simply failed to appreciate the strength of Ukrainian national spirit – especially among the country's millions of Russian-speakers and those with no Ukrainian ethnic heritage. This failure was the direct result of decades of Ukraine denial throughout Russian society.

The resulting conflict has plunged the world into a new Cold War and caused untold suffering to millions of Ukrainians, but it has also consolidated Ukraine's sense of national identity. Putin's Novorossia project was supposed to end what many in Russia see as the aberration of Ukrainian independence. Instead, it has cemented the country's place on the European map.



# WEST UKRAINE'S LIFESTYLE GUIDE

# Lviv Today

№98/February 2017

THE HEART OF EUROPE - THE SOUL OF UKRAINE



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# Boosting Brand Ukraine in Five Simple Steps

Ukraine's international visibility is gradually increasing. Three years of revolution and conflict have catapulted the country into the international headlines and introduced Ukraine to hundreds of millions around the globe. This exposure is starting to produce positive results. For example, Ukraine recently ranked as the fourth best-performing brand in the *Nation Brands 2016* survey carried out by UK-based consultancy Brand Finance. Nevertheless, a huge task lies ahead before Ukraine overcomes its long-term image woes. This has very real implications for the country's economy. Poor brand recognition and negative brand associations continue to serve as major obstacles preventing greater international investment.

Post-Euromaidan Kyiv is now belatedly trying to sell itself on the international stage. For more than two decades following the Soviet collapse, Ukraine had neglected to develop a global brand presence, leaving the country as a grey zone that many outside observers continued to regard as part of Russia. To make matters worse, today's Ukraine must now also overcome a concerted Kremlin campaign to portray post-Euromaidan Ukraine as a failed state. This is a difficult task for a cash-strapped country preoccupied with an ongoing hybrid war and a post-revolutionary national transformation. However, an improved image will pay dividends on a wide variety of fronts. It will boost the economy, strengthen international support for Ukraine, and help to consolidate the country's sense of national identity. The following simple steps are a good place to start.

## 1. Showcase Ukrainian Expertise

Everyone is talking about fake news these days, and Ukraine is a world leader in debunking Kremlin fakes. Kyiv should be hosting major international forums highlighting the work of Ukrainian groups like StopFake who have pioneered the art of exposing Russian information war techniques. Likewise, Ukrainian troops have unique experience of fighting against Russian hybrid forces. The



country should make a show of sharing this knowledge with the international military community. Ukraine must portray itself as attractive partner rather than a charity case.

## 2. Invite the World to Ukraine

One of Ukraine's main problems is the fact that relatively few people have actually visited the country. Almost without exception, those who do come are pleasantly surprised by the charming, attractive, and quintessentially European country they encounter. Bringing more people to Ukraine via things like student exchanges, press tours, and subsidized tourism initiatives is a fast track to improved international perceptions of the country. Word of mouth is the best possible advert.

## 3. Stay on Message

Ukraine's government has communication problems. It struggles to get its message out domestically, and this is often doubly true when it comes to international audiences. Different government departments some contradict each other, while important policy explanations all too often get lost

due to an unfortunate tendency towards pompous preening and bureaucratic bungling. Ukraine's international brand would benefit enormously from greater communications discipline and wider adherence to clear and uncomplicated messaging on key issues among state officials at all levels.

## 4. Promote Brand Ambassadors

Despite growing brand awareness, Ukraine continues to suffer from negative associations with everything from poverty-stricken pensioners and prostitutes to Chernobyl and the war with Russia. Efforts should be made to identify positive brand ambassadors and systematically promote them on the international stage. There is certainly no shortage of candidates. Ukrainian designers are the toast of the fashion world. The country's IT and agriculture sectors can compete at the highest international level. Ukraine has wonderful theatre troupes and contemporary artists. It boasts an inspirational civil society sector that has achieved miracles in recent years and continues to amaze. This new generation of Ukrainian talent needs to become the public face of the country.

## 5. Let WWII Wounds Heal

Ukraine's independence struggle is one of the longest in world history. Indeed, for many Ukrainians, the current conflict with Russia is a continuation of this historic quest for genuine national sovereignty. It is therefore perfectly understandable that patriotic Ukrainians should seek to rehabilitate national heroes sullied during past periods of foreign dominance. However, in practical terms, the recent glorification of Ukraine's atrocity-tainted WWII independence fighters has been a PR disaster that does huge damage to Ukraine's international brand. In a generation or two, we may reach the point where Europeans are ready to engage in academic debate over the choices facing those caught between Stalin and Hitler. Until that moment arrives, Ukrainians would be wise to seek out their national icons among the many heroes of the current conflict.

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