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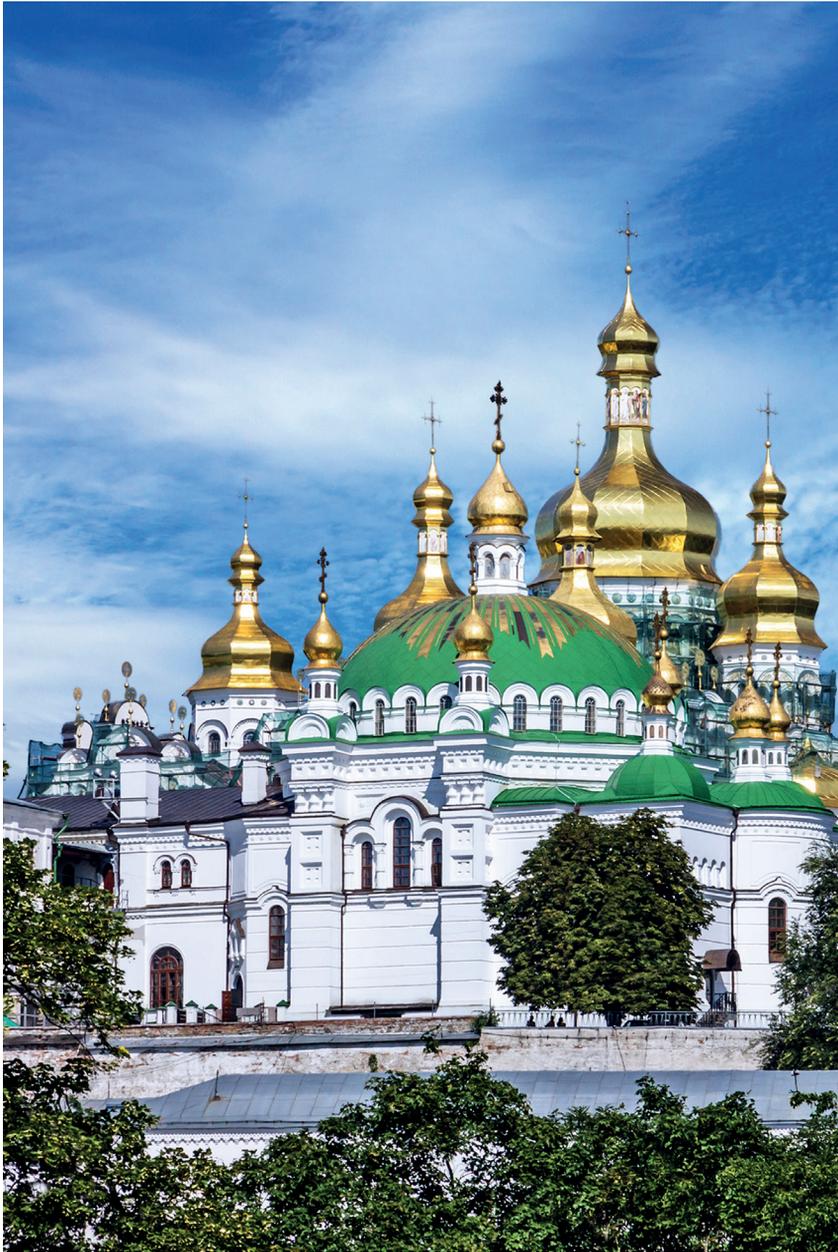
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# OBSAH

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THE CHURCH OF KIEV PECHERSK LAVRA, UKRAINE



# 01/ GENERAL INFORMATION ABOUT UKRAINE

Nowadays Ukraine is a unique country located in the south-eastern part of Europe. It is a country of endless possibilities and it is opened to implement ideas in different areas. The new generation is leading the country confidently to reach the heights in the main industries of our time. Ukraine takes the fourth place in the world in the number of citizens who are having a diploma of higher education: annually 640 000 people graduate from universities. Ukraine has achieved significant heights in IT

outsourcing market: over the past decade there was a remarkable increase of achievements in this industry by 25 %, every year there is a growing number of professionals, 16 000 students become IT specialists.

Ukraine is rich in natural resources: the country is a leading exporter of sunflower oil and grain in the world, 33 % of world reserves of black soil are located in the country. Also there are significant achievements in the aviation industry: The



Antonov An-225 Mriya (Dream or Inspiration) is the largest cargo plane in the world's history; annually 130 000 students study engineering and 5 000 – aerospace.

## **Ukraine takes the fourth place in the world in the number of citizens who are having a diploma of higher education: annually 640 000 people graduate from universities.**

Ukraine's geographic position is quite beneficial. The most important transportation routes lie on the crossroads of the ways linking Western Europe with the countries of the Caucasus and Central Asia. There are 5 pan-european transport corridors going through the country (Venice – Trieste – Ljubljana – Budapest – Uzhhorod – Lviv – Kyiv).

The country directly borders with seven countries. In the west Ukraine borders with Poland, Hungary and Slovakia, through their territories lies the shortest route

from Ukraine to Western and Central Europe. In the east and north Ukraine borders with Russia, in the south-west with Moldova and Romania. In the north Ukraine borders with Belarus, through its territory there is the connection with the Baltic countries. Also Ukraine has a sea border with Romania and Russia.

The total geographic area of Ukraine is 603 700 square kilometers. Ukraine is the largest country by its area among the countries located entirely in Europe. Ukraine has a mostly temperate climate, with the exception of the southern coast of Crimea which has a subtropical climate. Average annual temperature in January is  $-5^{\circ}\text{C}$ , in July  $+20^{\circ}\text{C}$ . Ukraine is a beautiful country with unique views. Most of its territory is occupied by fertile plains – steppes and plateaus. The north of the country is covered with dense pine, fir tree and oak forests. Mountains are located only in the west of country and in the Crimean peninsula. In the west the mountain ranges are a part of the Carpathian Mountains – the Ukrainian Carpathians, where the highest peak of Ukraine is located – Mount Hoverla (2,061 m). On the Crimean peninsula there are the Crimean mountains, where the highest peak is Mount Roman-Kosh (1545 m).



Ukraine's population is 42 650 186 people. The largest minority in Ukraine is the Russians. Also about 5 % of the population of Ukraine is represented by western (Poles, Czechs, Slovaks) and southern (Bulgarians) Slavs, by Romance speakers (Moldovans and Romanians), by Finn and Hungarians speakers (Hungarians and Estonians), by Turkic speakers (Tatars, Crimean Tatars, Gagauz and Azerbaijanis) peoples. To some ethnic communities in Ukraine belong Jews, Armenians and Greeks. However, the population of each of these nationalities in Ukraine does not reach 1 % of the total population of the country.

Geographical advantage lies in the country's transportation network: highways, railways, sea and river ports, air transport. Also oil and gas pipelines are located in Ukraine. Due to these advantages Ukraine is a beneficial strategic partner in the international arena.

The geographical position of Ukraine is directly connected with a variety of environmental conditions and natural resources. Ukraine is among the leading mineral countries. About 5 % of the planet's mineral resources are concentrated in Ukraine. The country has the world's richest reserves of

manganese and titanium. It takes the third largest place in the world of iron ore reserves. Ukraine is the industrial and agrarian country with a predominance of the production of raw materials. It is one of the leading exporters of some agricultural products and food. The national economy includes such industries: mining (coal, oil and gas, iron and manganese ore), some engineering, ferrous and nonferrous metals, Ukraine is a great producer of electricity. The production of launch vehicles, satellites and equipment for space exploration is set very well. Ukraine is a major producer of weapons such as tanks, military transport aircrafts, anti-aircraft missile systems, optical

**Ukraine is among the leading mineral countries. About 5 % of the planet's mineral resources are concentrated in Ukraine. The country has the world's richest reserves of manganese and titanium.**



equipment. The country has huge coal reserves, the largest of which is located in the east of Ukraine (in Donetsk). Coal, iron ore and manganese, brimstone, rock and potassium salts, non-metallic building materials, mineral water – all of them are of the greatest economic importance.

**After signing the Association Agreement Ukraine has reached a new level in its development. Currently Ukraine occupies 25<sup>th</sup> place among the trading partners of the EU.**

After signing the Association Agreement Ukraine has reached a new level in its development. Currently Ukraine occupies 25<sup>th</sup> place among the trading partners of the EU. The largest volume of exports to the EU accounted for production agriculture and food industry (28 %), ferrous metals (22.9 %), mineral products (16.2 %), electrical and mechanical equipment (12.2 %).

The major commodity groups of Ukrainian export are: ferrous metals; a major global producer of grain; electrical machinery and equipment; ores, slag and ash; energy materials; chemists; minerals and so on. The major commodity groups of Ukrainian import are: energy materials; oil and products of its distillation; boilers, machines, instruments and mechanical devices; pharmaceutical products; electrical machinery and equipment; polymers and plastics; paper and cardboard etc.

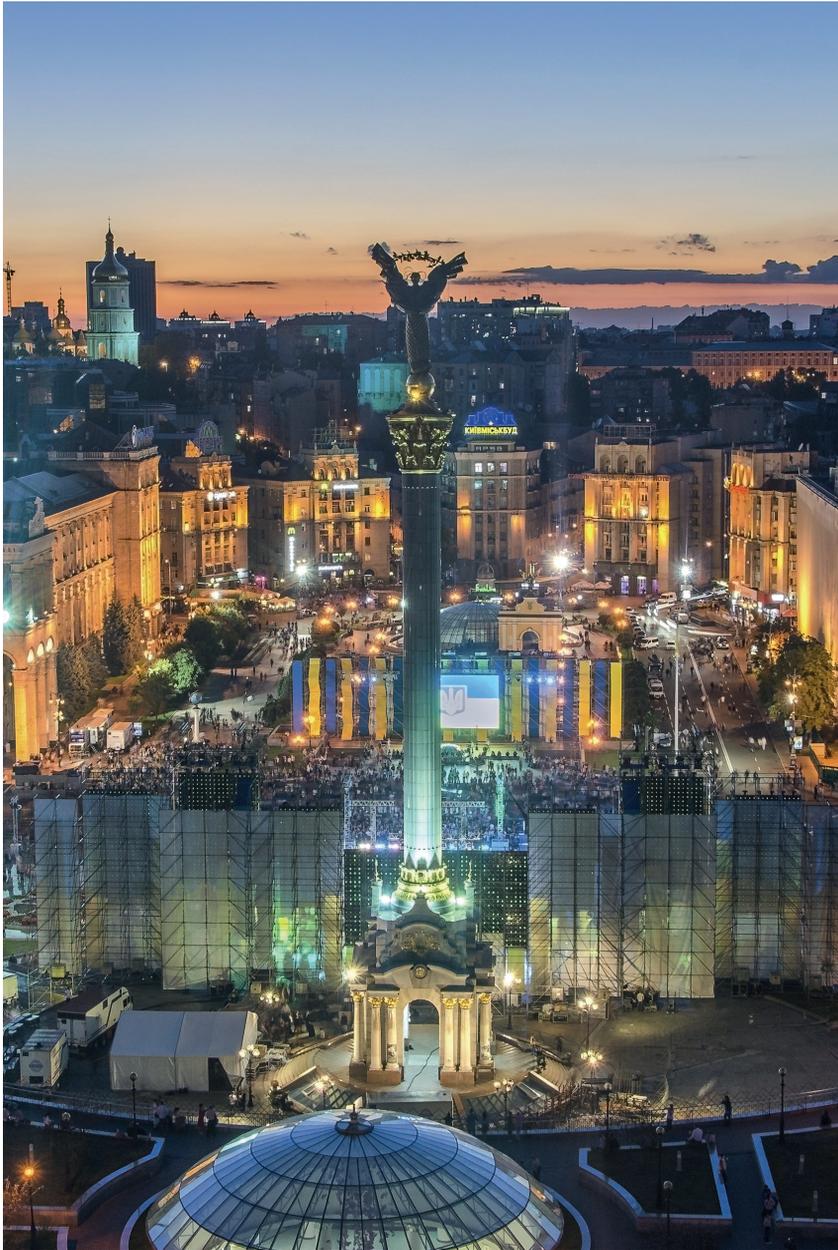
Ukraine is a secular state where the church is separated from state. The dominant religion in Ukraine is Eastern Orthodox Christianity, which is currently divided between three churches: the Ukrainian Orthodox Church of Moscow Patriarchate, the Ukrainian Orthodox Church of Kiev Patriarchate and the Ukrainian Autocephalous Orthodox Church.

The second largest number of believers is occupied by the eastern Ukrainian Greek Catholic Church that is very similar in liturgical and spiritual tradition of Orthodoxy but it is in communion with the Holy See of the Roman Catholic Church and recognizes the Pope as a head of the Church.



Besides the main religions in the country there are also other important groups, including: Christians Protestants, Evangelical Baptist Union of Ukraine, Ukrainian Union of Christians of Evangelical Faith – Pentecostals, Jehovah's Witnesses, Methodists and Seventh-day Adventists and others.

Ukraine occupies an important place among European countries and manifests itself as a reliable partner and an active participant in the international arena due to its geographical location and the presence of significant natural resources and cheap skilled labor.



AUGUST CELEBRATION OF THE INDEPENDENCE DAY, KIEV, UKRAINE



# 02/ ADMINISTRATIVE DIVISIONS/ CENTRAL AND LOCAL AUTHORITIES

According to the Constitution, Ukraine is a unitary state. Its territory is divided into 24 regions; the Autonomous Republic of Crimea is also a part of Ukraine. In addition, two cities with special status that are Kyiv, the capital of Ukraine, and Sevastopol, the administrative center of the Autonomous Republic of Crimea, are equated to the regions.

Since March 2014, some parts of the territory of Ukraine have been occupied by Russia, they are: Autonomous Republic of Crimea and Sevastopol. In addition, since April,

2014 Ukrainian sovereignty has not temporarily been applied to the part of the territory in Donetsk and Lugansk regions occupied by Russian and pro-Russian forces. On 17, March, 2015 the Verkhovna Rada (Parliament) recognized these territories as temporarily occupied ones.

The densely populated urban regions include the Eastern part of Ukraine (Donetsk, Lugansk, Kharkiv, Dnipropetrovsk regions), several Western parts (Lviv, Ivano-Frankivsk, Ternopil) and Odesa region in Southern Ukraine. The



biggest cities of Ukraine are Kyiv, Kharkiv, Dnipropetrovsk, Donetsk, Odesa, Zaporizhzhya, Lviv.

Each region has its own unique features. So, for example, the Western areas have historical ties with neighbouring countries such as Poland, Hungary, Slovakia, Romania, and so the population of the territories is taking a lot of dialect in speech that it is difficult to be understood by the residents of the other regions of Ukraine. Another distinctive feature of the West of Ukraine is the Ukrainian Carpathians, which occupy the territory of Transcarpathian, Lviv, Ivano-Frankivsk and Chernivtsi regions and is a great recreational area in both summer and winter. As for the industry, the most developed cities in the region are Lviv and Ivano-Frankivsk.

The northern regions of Ukraine border with Belarus and Russia. The largest and the most powerful city in this region is Kiev, the capital of Ukraine. Lutsk, Chernigiv and Sumy are regarded as industrial cities. Proximity to the Belarus border has imposed its mark on the region ethnic composition. There are a lot of the Belarusians among the population. There are also many Jews (Kiev region) and Poles (Zhytomyr region).

The Eastern Ukraine includes Kharkiv, Donetsk and Luhansk regions. However, at the moment, Luhansk and Donetsk regions are occupied by Russia. The central part of Kharkiv and Donetsk, as well as the South-Western part of Luhansk regions are among the most highly urbanized areas of Ukraine. This is due to the industrial production high concentration and of favourable conditions for the development of agriculture availability. The most developed industries are coal, chemical, petrochemical, metallurgy and mechanical engineering.

South Ukraine occupies the South Black Sea economic area of the state. It is composed of Autonomous Republic of Crimea (recognized as the territory temporarily occupied by the Russian Federation), Odesa, Mykolayiv and Kherson regions. Machine-building, recreation complex, multi-business food industry, high-value agriculture with high share of grain crops, orchards, vineyards, tobacco and oil-bearing crops are developed in the area. Black Sea socio-economic area has access to the Black and Azov seas, which is originality and uniqueness of its geographical position.

The territory of Central Ukraine is divided into the Right Bank and



Left Bank by the biggest river of Ukraine – the Dnipro River. The largest and the most developed cities are Dnipro, Kropivnitskiy and Krivoy Rig. Mechanical engineering, metallurgy and mining industries are developed in this region.

Now the process of local government reform is taking place, given the positive European and our own historical experience. It started in April, 2014, when the Cabinet of Ministers of Ukraine approved the concept of local self-government reform, which consists of three areas: the first one is basic: united community administrative-territorial structure of Ukraine base level formation. The second one is new districts creation that will decide just the issues of the district responsibility such as: communal property, secondary medicine, boarding schools, etc. The other powers of districts will pass to the united communities' competence. The third area is the final, these are regions. In fact the regions boundaries will not change, only management form will experience changes.

The purpose of local government reform is, above all, its capabilities through its own resources independent ensuring to solve the local importance issues. It is about empowering local communities

with greater resources and their internal reserves mobilization.

## State authorities

State power is exercised on the principles of its division into Legislative, Executive and Judicial.

The only legislative body of Ukraine is the Parliament – the Verkhovna Rada of Ukraine.

According to the law of Ukraine “On Judiciary and Judges Status” (dated 30. 05. 2016), local courts, courts of appeal and the Supreme Court constitute the judicial system. For certain categories of cases in the judicial system higher specialized courts will operate. The law also provides for local district courts, courts of appeal in the respective districts, etc. creation.

Legal disputes between business entities (companies, institutions, organizations and other legal entities and individuals – entrepreneurs) are heard by local economic courts.

Jurisdiction of commercial courts:

- Cases in disputes arising from conclusion, amendment, termination and execution of economic agreements, including the property privatization, and for other reasons except:



- ▶ disputes on public housing privatization;
- ▶ disputes arising in standards and technical conditions approval;
- ▶ disputes on prices for products (goods) setting, as well as tariffs on services (works), if these prices and tariffs cannot be set by agreement of the parties in accordance with legislation;
- ▶ disputes arising from public legal relations and attributed to the Constitutional Court and administrative courts competence;
- ▶ other disputes, which in accordance with the laws of Ukraine and international treaties of Ukraine were referred to the other organs competence;

- Bankruptcy cases;
- Cases upon the Antimonopoly Committee of Ukraine and the Accounting Chamber application on the issues referred by the legislative acts to their competence.
- Cases arising from corporate relations in disputes between a business entity and its participant (founder, shareholder), including participants who retired, as well as between participants (founders, shareholders) of economic entities associated with creation, operation, management and termination activities of this entity, except for labour disputes;

- Cases in disputes regarding the rights to securities accounting;
- Cases in disputes arising from business entities land relations, except of those that are within the administrative courts competence.

## Central Executive bodies

Central Executive bodies shall ensure state policy in the relevant spheres and sectors of public life, the Constitution and laws of Ukraine and President and the Government of Ukraine acts implementation.

The system of Central Executive bodies consists of:

- Ministries of Ukraine;
- other central executive bodies, namely, the services, agencies, inspections;
- central bodies of the Executive power with special status (the Antimonopoly Committee of Ukraine, the State property Fund of Ukraine, the State Committee of television and radio broadcasting of Ukraine, and many others).

The Cabinet of Ministers is the highest body in the executive bodies of Ukraine system. The Cabinet of Ministers of Ukraine directs and coordinates Ministries and other central executive bodies work.



## Local executive bodies

Executive power at the local level, i.e. in regions, districts, Autonomous Republic of Crimea, in the cities of Kyiv and Sebastopol, is exercised by regional, district, Kyiv and Sebastopol city State administrations, as well as central executive bodies local (territorial) bodies.

Municipalities and some state control services deal with entrepreneurship issues on the local level.

However, the law of Ukraine “On Amendments to the Tax Code of Ukraine and Certain Legislative Acts of Ukraine on Tax Reform” dated 28. 12. 2014 sets a limit on regulatory authorities inspections in 2015 and 2016. But they only refer to legal entities and physical persons-entrepreneurs with income of up to UAH 20 million for the previous calendar year. Exclusive grounds where these entities can be inspected are also named. They are possible only with the Cabinet of Ministers of Ukraine permission, the entity application regarding its inspection, according to a court decision or in accordance with the requirements of the Criminal Code of Ukraine.

This rule has exceptions. For example, the ban on inspections

does not apply to importers, manufacturers and sellers of excisable goods, as well as inspections in compliance with the Legislation on the issues of licenses availability, individuals' tax on income calculation and payment completeness, tax on single social payment and VAT refunds.

Thus, quite democratic and to some extent effective system of public authorities has been established in our state. The challenge is to continue public authorities' activity improvement and to seek their interaction most efficient mechanisms.



UKRAINIAN FLAG BLOWING IN THE WIND



# 03/ PRACTICAL INFORMATION FOR THE TRIP TO UKRAINE

To visit Ukraine is quite easy, because for staying here for 90 days citizens of the European Union, the United States, Canada, Japan and Switzerland do not need a visa.

It is possible to get to Ukraine by air, railway and road transport. 19 international airports function throughout the country, the largest of which are located in the following cities: Boryspil (near Kyiv), Lviv, Dnipro, Zaporizhzhya and Odesa.

It is allowed to bring up to USD 10 thousand or the equivalent in any currency without additional documents. Goods with a total value of less than € 300 may be exempted from customs duties and taxes. All customs declarations issued upon

arrival to Ukraine must be kept for the entire stay period and must be transferred upon departure.

So, what should an alien, who plans to invest in Ukrainian company or open his or her own business in Ukraine, start with? The first step will be market research and gathering information. For this you can contact consulting companies that are most common in the main business centres of Ukraine – Kyiv, Dnipro, Lviv and Odesa. Count on the fact that the services of such companies are paid.

The largest consulting companies are:

- International company *Colliers International* (since 1997 on the Ukrainian market). Sphere of ac-



tivity: consulting services in sales, commercial real estate rent, services and property management valuation, investment projects analysis.

- *EBS* is a leading consulting company that has been working in Ukraine since 1998 and was created as a single consultation Center, designed to support the new players on the market release, promotion of development, addressing the everyday tasks of Ukrainian companies and international investors.

## **19 international airports function throughout the country, the largest of which are located in the following cities: Boryspil (near Kyiv), Lviv, Dnipro, Zaporizhzhya and Odesa.**

- *DTZ* is a company founded in the United Kingdom in 1784. It has been operating in Ukraine since 1994 and is one of the leading consulting companies in the field of real estate. It provides a complete

integrated range of consultancy and brokerage services in its offices in Kyiv and Odesa.

- *STRATEGIC* Company was founded in 1995. Among its main functions are: formation of strategic ideas (vision, mission and values), effective business strategies development, access to international markets, company's transformation, team formation and change of organizational culture, companies merger.

- *M Consulting Group*. The firm's experts perform real estate independent assessment and companies assets valuation according to national and international standards (IFRS), organize projects monitoring and conduct accounting and financial documentation examination, audit businesses and independent control of construction, provide transactions legal support, property management and collaterals, as well as provide a full range of land surveying services.

You can also apply to audit firms that provide services for business practices of banking, finance, accounting, and more. There are representative offices of leading global companies, the so-called big four, in Ukraine. They are:

- *Pricewaterhouse Coopers* (PwC) has been operating in Ukrainian



PwC since 1993. The firm's offices, which employ more than 400 people, are located in Kyiv, Lviv and Dnipro. The PwC experts in Ukraine work is aimed at providing meaningful and effective consultations by summarizing international and Ukrainian experience and providing practical advice for business. Ukrainian Office is subordinated to the PwC Central Office in Central and Eastern Europe.

- Deloitte Touche Tohmatsu Limited is a British private company with offices in 150 countries worldwide including Ukraine. Office in Kyiv (Prime Business Center, Zhilyanska Street) was opened in April, 1993. Kyiv Office provides a full range of services throughout the territory of Ukraine in four areas: audit, tax, management consulting and corporate finance. Deloitte of Ukraine is a division of Deloitte CIS.

- Ernst & Young Global Limited (EY) conducts research in various sectors of economy from business to industrial activity. Company has been operating in Ukraine since 1991, and as of 2016 has one Office in Kyiv, located on 19A, Khreshchatyk Street. In 2006 Ukraine became an official member state of the international contest "Entrepreneur of the Year", conducted by EY. As of 2016 EY offices in Ukraine employ more than 500

professionals providing a full range of services to international and Ukrainian companies. EY of Ukraine is subordinated to the EY CIS Office in Moscow.

- KPMG is an international company, the main services of which are providing audit and advisory services on tax and financial matters to customers, including most of the largest Ukrainian and international companies, as well as a number of non-governmental organizations and financial institutions. KPMG started in Ukraine in 1992, now it has offices in Kyiv and Lviv. KPMG of Ukraine is subordinated to the KPMG CIS Office in Moscow, which is subject to KPMG Europe LLP since 2009.

However, if you still do not have a clear plan and simply want to learn more about opportunities in the field of investing, entrepreneurship or international cooperation, you can ask the Agencies for regional development (ARD), which function in all regional centers, for free information. ARD is independent from the Government, autonomous, and financially rich, intellectual, able to be an active player in predicting and designing regional development due to its credibility and knowledge to be useful for all players of the regional development.



## One of the barriers that can happen is the language: knowledge of English in Ukraine is not at a high level...

Perhaps your goal is to invest? Then we recommend you to read the information provided on the website <https://www.investukraine.net/>. As it is aimed at foreign investors, the entire interface is in English. It describes industries which are the most promising in terms of development, and therefore primarily need foreign investment attracting. They can be called business cards or competitive advantages of Ukraine on the world market, they are:

- agriculture;
- banking sector;
- financial services: insurance and leasing;
- IT services;
- health care, sport and recreation;
- real estate: investment in hotels, restaurants, residential complexes in Ukraine

One of the barriers that can happen is the language: knowledge of English in Ukraine is not at a high level; however, such trends can be traced:

- the youth speaks a foreign language better than the older generation;
- the level of speaking foreign languages in big cities is higher than in small towns.

So if you are planning to meet an enterprise representatives or Government authorities, in order to avoid misunderstandings and discomfort during negotiations, it still worth to hire an interpreter.

In order to choose the most optimal price and location of a hotel, we recommend to you use website <http://www.booking.com/>; and <https://www.tripadvisor.com/> can help both with accommodation choice and places to eat and have fun. By the way, as an option, you can consider not only hotels, but also a wide selection of apartments, which you can find on the website <https://www.airbnb.com/>. This option often turns out to be even better in price terms.

The national currency of Ukraine is hryvnia (UAH). Official payments in foreign currency are prohibited.



If you are planning to travel by train or by plane and you know that you will not be met, it is appropriate to carry the national currency, hryvnia, or exchange currency at once at the airport/ train station to pay a taxi to get to the hotel.

Traffic in Ukraine is right-handed, all roads are free, but their quality leaves much to be desired. Urban roads condition is more or less satisfactory; however, if you plan a trip to the regions, a sports car can hardly cope with this task. International insurance of motor transport owners "Green Card" is valid on the territory of Ukraine.

In the event of various contingencies you should have emergency phones in Ukraine:

*Fire safety:* 101.

*Police:* 102. In 2015 national police started functioning in Ukraine instead of militia; today it functions in 32 cities. Conceptual difference between the police and the militia is transition from the post-Soviet to the European management. Patrol service is patrolling the city 24 hours a day, and is the first to respond to violation. Currently hiking and car patrols have been created.

*Emergency medical care:* 103. In case of health problems it is better to seek help in private clinics, because the conditions and level of service are much higher than in public hospitals.

Therefore, foreigners who are citizens of countries with visa-free entry procedures are entitled to stay in Ukraine for not longer than 90 days within 180 days. The procedure of period of stay extension is quite documentary complex. You need a passport and its copy, translation, a permit for permanent or temporary residence copy; a document that confirms existence of financial support to cover the costs associated with the stay of a foreigner on the territory of Ukraine; document of ownership or certificate of state registration of the ownership right to housing and other documents stipulated by the Law of Ukraine. To avoid this procedure, you can leave the country and then come back, of course, if it does not interfere with your business activity in Ukraine.



THE PORTRAIT OF BEAUTIFUL PREGNANT SLAVIC WOMAN



# 04/

# CULTURAL HERITAGE AND TOURISM IN UKRAINE

Ukraine is a state with a centuries-old history and culture. Each region has its own attractions, i.e. Ukrainian land pearls. To this day medieval castles, palaces and manor houses, ancient monasteries and temples, many other unique architectural works of art, which glorified their masters forever, are preserved.

Ukraine occupies a leading position in Europe in the number of historical and cultural heritage, which cause considerable interest among local and foreign tourists.

Our country is visited by approximately 20 million tourists every year, primarily from Eastern and

Western Europe, the United States and Japan. One of the main factors of the recreational resources effective use and the flow of tourists increase is tourist infrastructure within the tourist destinations availability which requires improvements in our country, although in recent years a rapid development of tourist infrastructure elements has been observed, the basis for which is an efficient investment

The Carpathians, Transcarpathia, Bukovina, Crimea, coasts of the Dnipro River, and the cultural centres of historical and artistic attractions are very popular among the tourists.



Of course, we cannot ignore the capital of Ukraine – Kyiv. Ancient and young at the same time, with thousand years traditions and rich cultural heritage, Kyiv combines ancient architecture, monuments of history, art and modern urban infrastructure. Iconic famous attractions and monuments of architecture and history of the city are Kyiv-Pechersk Lavra, St. Sophia and St. Michael cathedrals, temples and monasteries. The most visited tourist places are also the Andrew's Descent and the old streets of Podol, the Dnipro slopes and dozens of green urban parks.

**Our country is visited by approximately 20 million tourists every year, primarily from Eastern and Western Europe, the United States and Japan.**

Lviv is a unique combination of the West and the East cultures. Today it is one of the most beautiful cities in Europe, the central part of which is in UNESCO heritage.

The best architects of the whole of Europe have been building the city for centuries. The most interesting tourist attractions of the city are: the Lviv Opera House, Ry-nok Square, Potocky Palace, Boim Chapel, Dominican Church, Italian courtyard, High Castle Park and others.

Kharkiv is the largest city in the Eastern Ukraine, and the second largest city in the country by population. Kharkiv, in response to its informal title of “the first capital”, is also known as the city of culture. There are many theatres, theatre centers, museums, galleries and libraries. The city hosts many festivals annually. By the number of historical monuments the city is the second in Ukraine after Kyiv and is included in the League of Historical Cities. The oldest preserved building of the city is considered to be slim Pokrovsky Cathedral, built on the former fortress territory in 1689. The most interesting cultural and historic monuments are: Uspensky Cathedral, the Three Saints Church, the Annunciation Cathedral, the Derzhprom Museum, and the Zerkalnaya Stuya that is the fountain, which is a symbol of the city.

Odesa is a great cultural center of the Black Sea area; it occupies the third largest place after Kyiv and



Kharkiv. The city was founded in 1794 by order of Empress Catherine II as a black sea port necessary to strengthen ties with Europe.

Sightseeing in Odessa is the best while walking around the city on foot. Most of the popular tourist sites are located close to the centre, in the so-called “old city”.

One of the oldest places in Odessa is Privoz, at all times it has been the largest market in the city. You cannot bypass Potemkin stairs (until 1955 Bulvarny stairs, previously the Richelieu stairs and in the XIX century the Giant stairs) which is a famous stairs in Odessa which combine the city center with the Harbour and the sea port. Primorsky Boulevard, Ekaterininska Square, and more can also be attributed to the places of interest.

There are more than 130 thousand immovable monuments of history and culture in Ukraine. Several Ukrainian sites such as St. Sophia Cathedral and Kyiv Pechersk Lavra in Kyiv; The historic center of the city Lviv; 4 objects of Struve Geodetic Arc; Primeval Beech Forests of the Carpathians are included to the UNESCO list of World Cultural and Natural Heritage.

Cultural monuments of Ukraine can be found throughout the coun-

## **There are more than 130 thousand immovable monuments of history and culture in Ukraine.**

try, among them are medieval castles and religious buildings of IX – XIII centuries and places of tremendous battles (for example, near Poltava is a Poltava battle of the Russian army under the leadership of Peter I against the Swedish King Charles XII in 1709 field). One of the oldest castles in the country – an Olesko Castle, located on a hill near the village of Olesko, is in Lviv Region. Other medieval fortifications masterpieces such as Uzhhorod Castle, the Castle of Kamyanets-Podilsky, the pearl of the Renaissance – a castle in the village of Pidhirtsi, Lutsk Castle, Palanok Castle in the town of Mukacheve, Medzhybizh Castle that at one time was one of the favorite buildings of the famous Hetman Bohdan Khmelnytsky and others are able to capture the imagination.

Ukrainian land is famous for its natural beauty – the Carpathian Mountains and forests, Shatskikh Lakes, sea views, salt caves and



lakes, known for its medicinal properties.

Ternopil Region, where the second longest cave in the world is situated, Askania-Nova Reserve (Kherson region), Lake Svityaz (Volhynia) and Synevyr (Transcarpathia), Crimean Marble Caves, Oleshky Desert (Kherson region) can serve an example of the wonders of nature. Today, Oleshky Desert is the largest sandy array in Europe, which consists of seven so-called arenas, Dnister Canyon (located in four regions of the country), and many other natural attractions.

**Unique in its kind wooden churches built by talented folk masters are considered to be another pride of our land; some of them were built without any nails in specific architectural styles unique to a particular areas.**

Ukraine is rich in famous holy places, namely temples, monasteries and nunnery, where the relics

of the Saints and other relics, wonder-working icons are preserved. The value of these objects is not determined by their location (metropolitan or provincial) and artistic level. This applies to both architecture and art and sculptural works on biblical scenes, created by famous artists and unknown masters. Burial places of the highest hierarchs of the Orthodox Church as well can act as important tourist attractions. For centuries, the Holy places have been not only native spirituality, culture, art, science and education carriers, but also centers of consolation and help for the Ukrainians. The most famous of them are: Sophia of Kyiv or Saint Sophia Cathedral, Kyiv-Pechersk Lavra, Pochayiv Lavra in Ternopil region, Krehivskyy Monastery. Unique in its kind wooden churches built by talented folk masters are considered to be another pride of our land; some of them were built without any nails in specific architectural styles unique to a particular areas. The largest number of them is located in Transcarpathian region (110 wooden churches, 43 temples of which were built in the first half of the twentieth century).

Travel to Ukraine can be combined with health benefits. It has long been known therapeutic spas, located in almost all re-



gions of Ukraine, among them are: Morshyn, Mirgorod, Skhidnytsya, Truskavets, Shayan, Solotvine resort and others. Resorts and recreations make up about 15 per cent of the territory in Ukraine.

Ukraine impresses tourists with its diversity, as it combines highlands – for those who prefer active rest alone with nature, and not less attractive sea coasts – for the lovers of delicate sand, surf and warm water waves. Tourists who are looking for extreme sports will not remain indifferent. There are unique gypsum caves in Ternopil and Marble Cave in Crimea which are often visited by tourists. And in the South-Western Crimea on the inner ridge of the Crimean mountains there are some ancient cave cities. Universal Nikitsky Cleft that is suitable for climbing all year round is available in Crimea. Granite rocks Beech with a height of 15 – 20 meters give space for training both for climbers and mountaineers.

For those who want to conquer the water element rafting on the Black Cheremosh in the Carpathians would be a great option. The Southern Bug River is probably the most extreme river in summer. When the rivers of the Carpathian Mountains become shallow, crowds of tourists go here.

Individual regions, such as Crimea, have subtropical climate, where popular seaside resorts, attractive mountain landscapes and historical sites are located. The Azov Sea coast has great opportunities for families with children. Mountain landscapes of the Carpathians attract skiing and hiking lovers. Sanitary sources of mineral waters are located there.

Anyone can find in traveling to Ukraine the holiday he is looking for, because the country is rich in historical, cultural, architectural and natural monuments. Ukraine can offer relaxation away from civilization, on the Earth with usually good-natured and sincere people that will give double more strength than the most expensive travel services.



NATIONAL UNIVERSITY OF KYIV-MOHYLA ACADEMY, UKRAINE



# 05/ EDUCATION, SCIENCE AND RESEARCH

## Education

One of the priorities in educational policy of the developed countries is to try to reduce the social and economic impact and environment of children on their educational outcomes. Equality in secondary education means that every child regardless of social background and environment has an equal chance to continue their education, and its learning outcomes are dependent on its abilities, inclinations and diligence. Thus secondary education can compensate for the social and

economic inequality that exists in modern societies, and to make these societies more fair.

Despite the fact that 70 % of Ukraine's population lives in cities, most schools were and remain rural. Since independence a number of rural schools decreased slightly, but still they take almost two-thirds of *all secondary schools*. Moreover, students in these schools enrolled less than a third of the possible numbers.



## **Despite the fact that 70 % of Ukraine's population lives in cities, most schools were and remain rural.**

The average number of students in a school decreased from 327 during 1990 – 1991 academic year to 218 during 2015 – 2016, and the ratio of students to teacher's ratio – from 13.3 students to one teacher in 1990 to 8.5 in 2015. This rate is lower than in most developed countries. At the beginning of the academic year 2015-2016 the number of teachers per one student is twice less in rural schools than in the urban ones. The average number of students in the Ukrainian village schools is about 100, while in the city the average number is more in 4,5 times. There are 18 teachers per one rural school and 41 teachers per one city school.

Throughout the period of the external evaluation the results of graduates from rural and urban areas differ considerably. Every year the graduates of rural schools show worse results – including those re-

ceiving less than 150 points out of 200 compared to urban students.

Unlike the higher educational system, which is rapidly expanding, professional education declined from 1990. In particular the number of schools was reduced and the number of those who studied there by 35 % and 50 % respectively. Such a significant reduction in the number of students of vocational schools along with a huge increase in the number of students in higher educational establishments means that applicants lost interest in vocational education.

As for higher education, stated by December 2015 in Ukraine there were 393 higher educational institutions (HEI) III – IV levels of accreditation. This number includes state funded and private universities and their affiliates, which are separate legal entities. Most of them have less than 1,000 of full-time students. A quarter of universities has less than 100 full-time students.

The demand for different specialties among graduates has a fairly constant structure. In 2015 most applications of full-time education were submitted to the social sciences (41 %), humanities (15 %) and engineering (15 %).



The total amount of applicants who entered the university for full-time education sponsored by state during 2012 – 2015 fell by 38 % – from 107,282 to 66,314 people. The decrease number of applicants for contract form of studies was even higher – 59 % from 98,555 to 40,548 people. The overall decline in full-time education – 48 %. This is due to the demographic crisis and the deterioration of secondary education, manifested in low testing results.

Traditionally, prevailing contract form of payment is in the social sciences, service industries and health care. Instead, the budget form of studies is mainly enrolled in engineering, IT, natural, physical, mathematical and pedagogical sciences. Almost equally there are contractors and state applicants in the humanities.

As stated August 17, 2015 nearly 5000 places of the so-called “state order” are remained not fulfilled. The poor quality of secondary education in mathematics and natural subjects, and the lack of necessary equipment in most technical universities resulted in low demand among students and “failure” of 3200 thousand places of state budget in the field of engineering and 0.3 thousand places in IT.

Ukrainian universities receive mostly state funding (69.9 %), this figure coincides with the average in developed OECD countries (69 %), but is lower than in EU – 21 (79 %).

Now it is very popular among Ukrainian students to study abroad. Students usually emigrate not because there are no opportunities for studying at home, but because the quality of education is lower than in other countries, so they are going to get education abroad with the intention to stay there permanently.

The number of Ukrainians who study in foreign universities during 2014/2015 academic year was 59,648 people. Among the most preferred countries for studies still remain Poland, Germany, Russia, Canada, Italy, Czech Republic, USA, Spain, Austria, Slovakia and Hungary. The growth from 2009 to 2015 was 129 %. If you compare 2014 and 2015, the increase is about 29 %, or 13,266 people. And 2/3 of this increase are Ukrainians studying in Polish universities.

Foreigners also study in Ukraine. Traditionally, the majority of foreign students are from the CIS countries, primarily Turkmenistan, Azerbaijan and Georgia. In general the CIS countries give the largest



increase of foreign students – 28 %. Kharkiv, Kyiv and Odesa universities take almost 70 % of foreign students in Ukraine. More than half of foreign students study at medical and economic programs.

### **Science and research**

An important tool to stimulate development of the country is innovation in the economy. In turn, development and innovation effectively provide scientific research and technical development (SRTD).

## **In general the CIS countries give the largest increase of foreign students – 28 %. Kharkiv, Kyiv and Odesa universities take almost 70 % of foreign students in Ukraine.**

In Ukraine, about half of the expenses for carrying out scientific works and technical developments are financed by the state, 30 % – by private sector and more than 15 % – foreign sources. Interestingly, since 2008 one can observe

a tendency of increase of the share of funding SRTD both by the private sector (from 27.1 % to 29 % in 2014) and by foreign financing (from 15.6 % to 21.6 % in 2014). For comparison, according to Eurostat, on average in EU in 2012 more than a half (55.0 %) of expenses SRTD were funded by business, about a third (32.8 %) – by the state, and 9.7 % were financed by foreign sources. In other developed countries the share of expenses on SRTD sponsored by business is even higher.

If we consider the expenses of SRTD by financing sources in sectoral breakdown it will show that through the financed budget the work is done in the public sector mostly. Expenditure on SRTD in the higher education sector is mainly financed by state funds as well. However, as compared to other sectors the SRTD expenses are small in the higher education sector, then in absolute terms sector of higher education and business sector are financed nearly the same from the budget. In general, the business sector receives more funds for the development of SRTD – primarily by Ukrainian and foreign customers, as well as by its own funds of organizations.

In Ukraine, a significant share of expenditures (on average 60 %)



for research and technological development comes to the field of engineering, and about 30 % – of natural sciences. Accordingly, the remaining expenditure of SRTD about 5 % goes to the research in the social sciences, and another 2 % – for research in the humanities.

Whereas the largest and fastest effect of SRTD is in the high-tech industries, so respectively the support of innovations will greatly contribute to economic development in these industries.

Ukraine should stimulate the growth of specific weight of SRTD in GDP, especially of the given fact that SRTD promotes economic growth of the country. The experience of foreign countries shows that it can be achieved by creating favorable conditions for the financing of the funds of SRTD from business sector. Taking into account the short-term needs of economic growth, it is also desirable to focus on SRDT in high-tech sectors of economy.



INDUSTRIAL ZONE IN KIEV, UKRAINE



# 06/ ECONOMY/ GENERAL INFORMATION/ INDUSTRY

Recent years, Ukrainian economy operates in extremely unfavourable conditions. Russian aggression in Ukraine caused unprecedented human and social losses and incurred serious destructive processes, including destruction of infrastructure on the territory of armed hostilities, disruption of established industrial relations and critically important supplies of resources, partial loss of foreign markets and export potential.

A real sector of economy was greatly influenced by the crushing blow from the military conflict – located in the Eastern regions coal mining, metallurgical industry, machine-building and chemical industries, which provided a sig-

nificant part of domestic industrial production and export have suffered dramatic losses, a number of transport and logistics facilities was destroyed. There took place a great shrinking of industrial production in the regions affected by the military conflict.

However, despite this, in 2016, after a four year fall, the level of industrial production in Ukraine increased in 2.4 % compared to 2015. The greatest growth was shown by the processing industry, having ramped up production for 3.5 %. The scale of the supply of electricity, gas, steam and conditioned air was also increased, but to a lesser degree – in 2.6 %. At the same time, the mining indus-



try showed the worst result, a decrease in 0.3 %.

Almost all known branches of industry are well developed in Ukraine. Engineering and metalworking (31.2 %) are standing out from all industrial branches by the share of production. The next one is food industry (12.8 %), metallurgy (12.4 %), fuel (12.3 %), light industry (6.5 %), electricity (6.3 %), chemicals and petrochemicals (5.5 %), construction materials (4.4 %), timber, woodworking and pulp and paper industry (3.2 %) and other industries.

## **Russian aggression in Ukraine caused unprecedented human and social losses and incurred serious destructive processes...**

Engineering industry in Ukraine has traditionally been considered the leading sector and the driving force of economy. Mechanical engineering of Ukraine covers more than 20 specialized industries, 58 sub-industries. In fact, all existing types of machinery are represented in the country. According to the official data, 11,267

of enterprises are registered in the structure, among them 146 large ones, 1834 – the average ones, and 9287 – small ones. About 15 million people are employed in the structure.

Traditionally it turned out that most of the industry is located in the central and eastern part of the country. Kyiv, Dnipropetrovsk and Kharkiv are the largest machine-building clusters. An engineering development trend in Ukraine shows that not all industries adapted to new economic realities. In external markets the greatest demand belongs to boilers, cars, electrical devices, nuclear reactors. Their total share in the structure of industrial export to the EU is 40 %. Technical barriers in the trade between Ukraine and foreign partners became a significant impediment for expansion of capacity and improvement of the structure of mutual trade turnover in the engineering industry.

The food-processing industry continues to be an integral part of the industrial-scale production of Ukraine. The highest level of the industry's development is located in Odesa, Vinnytsia, Cherkasy and Ternopil regions. Baking industry (18.1 %), sugar industry (14.9 %), meat industry (12.7 %), butter and cheese industry and milk industry



(11.1 %), milling industry (7.8 %) and others command a large part in the structure of the food-processing industry.

After the political events that began in late 2013, a number of new, substantially different problems appeared in Ukrainian food-processing industry solving of which directly affects the economic situation of the country. The classical problems of the food-processing industry are the following:

- the production output in the food-processing industry of Ukraine from year to year is being gradually reduced, this is all because the outdated production technologies, lack of modernization of premises and equipment, crisis situation in the county's economy;
- the level of infrastructure development is significantly lags behind the production output of own raw materials for food production

After the introduction of embargo by the Russian Federation there has been noticed a great reduction of export of Ukrainian cheese. The volume of exports of cheese from Ukraine was decreased almost in 5 times during the last 2 years. CIS market was a key one for milk and milk products, including cheese. Thus, today cheese producers

## **Mechanical engineering of Ukraine covers more than 20 specialized industries, 58 sub-industries. In fact, all existing types of machinery are represented in the country.**

must find other sales markets, and this, in its turn, is a fairly significant problem, which undermines the economy of the food-processing industry. On the other hand, Ukraine increased exports of sugar. The main reason for the increase in exports is full use of quotas on duty-free supplies to the EU in January – February 2016. The rapid growth of export supplies of Ukrainian sugar to the EU market is also connected with the low price of this product in Ukraine.

Iron and steel industries take up a substantial part of Ukrainian industry. This area suffered more from the powerful blow and damage inflicted by the military-political and economic conflict with



Russia, and especially the war in Donbas. Because almost the whole industry is located in the East of Ukraine (Zaporizhzhya, Dnipropetrovsk and Donetsk regions). The production of ferrous metals (43.0 %), mining and ore beneficiation (17.3 %), tube making (10.8 %) and others dominate in the sectoral structure.

## **The Cabinet of Ministers of Ukraine intends to change the model of economic development of Ukraine.**

The war in Donbas causes damage to facilities, disorders in energy and transport infrastructure of metallurgical production. At certain periods the delivery of raw materials to factories and shipping finished products turned out to be unsolvable problems. Despite difficult economic conditions, Ukraine retains 10th position in world steel producers ranking. In 2016, domestic factories produced 22.2 million tons, showing an increase in 5.6 % compared to 2015.

Fuel industry holds pride of place. Coal mining (86.3 %) takes the

leading place in the sectoral structure, it is followed by the industry of coal beneficiation, crude-oil production and oil products (by 5.4 %), natural gas production takes up 2.0 % in the structure. The situation in this branch of industry is difficult because the territories of the self-proclaimed administrations of “Donetsk People's Republic” and “Luhansk People's Republic” there was extracted almost half of Ukrainian coal, including almost 100 % of anthracite. Among 90 mines which are subjects to the Ministry of Energy and Coal Industry of Ukraine, only 35 are located on the territory controlled by the Ukrainian government, while the other 55 (including mines that produce coal of anthracite group) are located on the uncontrollable territory of Donetsk and Lugansk regions. In general, according to the data given by the Ministry of Energy and Coal Industry of Ukraine on the uncontrollable territory of Donetsk and Lugansk regions, there are around 85 mines of all forms of ownership that is 57 % of their total amount in Ukraine. Out of which at 60 mines, steam coal was produced, including almost 100 % of anthracite. Because of the military actions in Donbas, coal production in Ukraine was decreased almost in two times, if taking into account the needs of thermal power generation in coal, it led to a coal



dependence of Ukraine, which takes a turn for the worse before and during the heating season. The situation is complicated by the fact that all production of anthracite coal group (where 45 % of Ukrainian TPPs are involved) remained on the uncontrollable territories.

The blockade of coal supply, organized in Donbas, makes Ukrainian enterprises spend currency earnings for import of coal and forces them to buy it from Russia, which continues military and economic aggression against Ukraine. Coal blockade may result in a loss of currency earnings of Ukraine according to the results of the year at least at the level of 3.5 billion dollars.

Over the last 5 years the industry's full-time employees decreased in 26.5 %. The most significant decrease was observed in the period of 2013 – 2015 – in 25 %, which is conditioned by ramifications of a crisis, political instability, annexation and occupation of the great parts of the territory of Ukraine. The greatest reduction in the number of employees occurred in the mining industry and quarry development – in 41 %. In the processing industry the decrease of the number of employees happened more than in 25 %. The smallest reduction took place in

the infrastructure industries, but the reduction in the number of employees was in 17 – 18 % which is quite significant.

Since 2016 the domestic industry began to show signs of recovery. Historical trends are being traced.

- The first one is that industrial clusters are being restored and re-emerged.
- The second one, enterprises are being actively seeking new partners and new markets.
- The third one, industrial production and culture of Ukraine are becoming more integrated into the global rules of trade, they move towards international standards of quality management and logistics, makes the laws on the debt market.

At this point of time the project of innovative development of industry of Ukraine until 2025 is being discussed. The Cabinet of Ministers of Ukraine intends to change the model of economic development of Ukraine. The key priorities of this development should be an increase in the share of manufactured goods in the structure of export, reducing power consumption of production and access to new markets.



AUGUST HARVEST NEAR OF CITY OF KALUŠ, UKRAINE



# 07/

## ECONOMICS/ GENERAL INFORMATION/ AGRICULTURE

Ukraine is a country with strong agricultural potential and vast prospects for agriculture development. It has favourable climatic conditions and quality of land resources, the presence of which indicate agricultural production effective development possibility.

Agriculture of the country today is the only big industry, which grows even in the current difficult economic and political environment. Agriculture is spread throughout the country; its development determines the high level of Ukrainian lands economic development.

It is the production of this sector is the main engine of Ukrainian exports and a source of foreign currency inflow. The share of agricultural products exports in 2016 amounted to 40 per cent of the total exports of the state. The share of agriculture in GDP amounted to 10.43 per cent.

Wealth of natural resources, first and foremost, needs recognition for the achievements in agriculture. Aggregate Ukrainian black soils area is comparable to the area of the UK. Particularly fruitful are the Southern and Central parts



of Ukraine where about 50 per cent of the territory is “pure” black soil. The number of black soils in Ukraine is the largest in the world and amounts to 28 million hectares. The main characteristic of the black soil is humus, which is a mold, formed as a result of nutrients between microorganisms and plants exchange. Black soil can be used for growing cereals, vegetables and forage crops, gardens and vineyards cultivation. Black soil is the best type of soil for growing vegetables, fruit and berries.

## **The number of black soils in Ukraine is the largest in the world and amounts to 28 million hectares.**

The structure of agricultural production in Ukraine is diverse. The leading crop in agriculture is cereals: winter and spring wheat, rye, winter and spring barley, corn, oats, buckwheat, millet.

The main grain culture of Ukraine is winter wheat. Industrial crops are quite diverse: sunflowers, sugar beets, flax, hops and tobacco. Sunflower takes about two-thirds of the

whole area of industrial crops (2.1 million hectares). In terms of production potatoes takes the second place after the grain. Vegetable growing is prevalent throughout the territory of Ukraine. Mainly cucumbers, carrot, red beet, cabbage, tomatoes, onions, peppers, eggplant are grown. Different areas of Ukraine specialize in a variety of fruit cultivation. Basic arrays of apple and pear trees are located in Forest-Steppe and Polesie, cherries, plums, apricot, sweet cherry, peaches, nuts are in the Steppe.

Farming in Ukraine is traditionally specialized in the production of meat, and meat products, milk, eggs and other food products. In 2016 there was a decrease in the number of livestock and poultry: the number of cattle decreased by 2.4 per cent, in particular, 2,191.8 thousand cows, 7,491.5 thousand pigs, 1,704.5 thousand heads of sheep and 234,428.9 thousand heads of birds of all kinds are now on hold. In farm animals sales volume the largest share was occupied by poultry – 67.5 per cent and pigs – 26.5 per cent.

In Ukraine in 2016, the consumption of pork and products from it amounted to 815 thousand tons, beef – 390 thousand tons, poultry meat – 1250 thousand tons.



The leading import items of meat are pork and poultry, which was imported mainly from Poland and Germany. The share of imports in domestic food consumption amounts to 7.5 per cent.

Over the past period, there was a diversification of markets for agricultural products and foodstuffs. Exports to the CIS countries has decreased, exports to the US, to Asia to EU countries has increased. The top ten countries – the largest importers of Ukrainian agricultural products are China, Egypt, India, Turkey, Spain, Iran, Netherlands, Italy, Poland, and Belarus.

The most important factors to a positive balance of agricultural products remain volume of grain crops, poultry, eggs and egg products export. In animal products exports structure, the largest export is poultry, casein and albumin, fats and oils of animal origin, milk condensed, eggs of birds. Poultry products are delivered mainly to Netherlands, Iraq and Egypt.

A significant problem of the Ukrainian agriculture products export is the animal products almost complete absence. Of course, a small share in exports is primarily due to the low levels of industry as a whole.

The lack of dairy industry in separate regions deepens the crisis in the cattle industry, because it creates problems with the products sale and does not stimulate the cattle increase. The same applies to fruit and vegetables produce. Ukraine produces a sufficient amount of this product, but not enough storage and technological machines for improvement is the problem.

2 million tons of fruit is produced in Ukraine; however, only about 300 fruit depositories operate. Total harvest of fruit, berries and nuts in all categories of farms of the country in 2016 amounted to about 2.2 million tones; the lion's share is represented by apples (1.2 million tons). In 2016 Ukraine fully provided itself with vegetables – about 9 million tons of vegetables at consumption need of 6.7 million tons, or 160.2 kg per person.

However, in winter period, the domestic market is dominated by imported produce. Our importers are mostly Ecuador, Poland, Turkey, Egypt, and in smaller quantities are Holland, Spain, and Italy. Leaders of imported fruit are citrus, bananas, grapes and kiwi fruits and among vegetables are tomato, cucumber, pepper and borscht set depending on the Ukrainian harvest.



Greenhouse vegetables supplies to Europe has significantly increased, zucchini, eggplant, and peppers export to EU has been launched; the volume of apples, pears and quince exports on foreign markets amounted to 328 thousand tones.

Berries production in Ukraine increases annually by 4 per cent. Return on investments in the berry production is high, and the internal and external market remains unsaturated. Strawberry (common garden strawberry) continues to hold the leading position in Ukraine. The annual consumption of this berry is 60-70 thousand tones, and production is growing 2 – 5 per cent per year. In terms of production, the state ranked seventh in Europe, growing 6 per cent of total world harvest. In 2016 Ukraine exported more than 6.5 thousand tones of frozen raspberries. Strawberries, raspberries, blackberries, blueberries and cranberries are among the most popular.

Ukrainians spend more than half of their income on food – this is the worst rate in Europe. Ukrainian citizen spends an average 108 EUR on food and essential commodities monthly at a salary of 150 EUR. The largest demand is observed on the following food: eggs,

sugar, bread, pasta, potatoes and chicken.

An average Ukrainian consumes 61 kg of meat, 290 eggs, 240 liters of milk, 160 kg of vegetables, 50 kg of fruit and 130 kg of potatoes per year.

The development of agriculture in Ukraine is attractive to foreign investors, due to the existing favourable climatic conditions, natural resources, as well as labour costs and low rental of land. For example, an average rental price of land in Ukraine is UAH 727.6 per hectare per year. The highest rental price is in Poltava region, where an average rent of hectare of agricultural land is UAH 1,327 per year. The cheapest places to rent land is in the Transcarpathia region – the average lease payment is 296.6 UAH/ha. For comparison, the highest rent of agricultural land in Europe was recorded in Denmark, Ireland and the Netherlands (more than USD 600 per hectare annually) and the lowest in Lithuania and Slovakia (USD 54 and USD 26 /ha, respectively). In most other countries, the rent is about USD 200/ha.

About 71 per cent of Ukraine territory (42.7 million hectares) is agricultural lands, of which annually 32 million hectares are cultivat-



ed. More than 10 million hectares (25 per cent) of these lands belong to the state. Ukraine has about 23 million private landowners and land users and about 4.9 million users of public lands. The main mode of rights on agricultural land transmission is lease (about 4.7 million lease contracts with an average duration of 7.6 years have been signed)

According to the Land Code of Ukraine foreign companies and Ukrainian companies with foreign capital (even if it is 0.01 %) cannot acquire ownership of the land for agricultural purposes. At the same time, despite significant limitations in matters of land purchase by foreigners, the land legislation of Ukraine establishes no limitations in the land use by foreigners on the temporary use rights. Among such rights are:

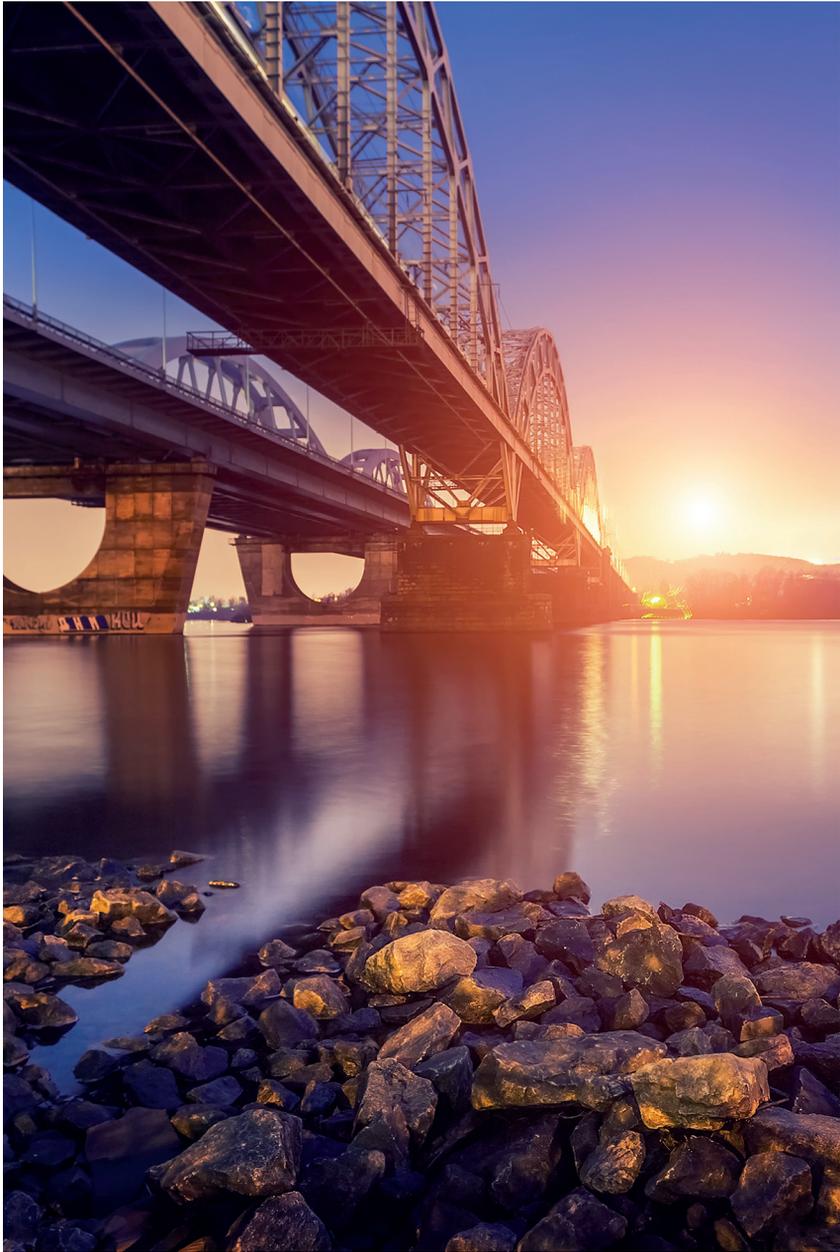
- rent of the land;
- right to use the land plot for construction;
- right to use the land plot for agricultural purposes.

Terms of land use on the rental right and the terms of use of state and municipal land plots on the right of use for construction and agricultural needs may not exceed 50 years. The term of land use

## **The development of agriculture in Ukraine is attractive to foreign investors, due to the existing favourable climatic conditions, natural resources, as well as labour costs and low rental of land.**

rights of private property to use for construction and agricultural purposes is not limited.

Agriculture development emerges as a vital factor of all sectors of the Ukrainian economy formation, as it creates jobs and reduces poverty. It is a branch of material production which is essential in providing the population with products and industry with raw materials.



THE BRIDGE OF RAILWAY LINE IN KIEV, UKRAINE



# 08/

## TRANSPORT INFRASTRUCTURE

Transit position of Ukraine is one of the many traits of the national market for foreign investors and producers' attractiveness. Interstate transit through Ukrainian territory is a significant national resource that is not fully used.

To date, the state of Ukrainian transport networks cannot be considered satisfactory. It is necessary to recognize the most of the transport infrastructural facilities to be out of date which do not meet modern requirements.

One of the most urgent issues for Ukraine is the issue of international transport corridors landscaping.

7 international transport corridors and 6 lanes of Organization for cooperation of railways pass through the territory of Ukraine.

Transport system of Ukraine is represented by practically all types of ground (train, car), water (sea, river), air (aviation, helicopter) and pipeline transport.

Pipeline transport in Ukraine is one of the most developed. Today, Ukraine is the world's largest natural gas transit country. The total length of pipelines of Ukraine reaches more than 36 thousand km. Trunk gas pipelines make up the basis.



Gas transportation system has a direct relationship to the systems of pipelines in Russia, Belarus, Poland, Slovakia, Hungary, Romania, and Moldova and is actually integrated to the European gas network. The system provides the flow of natural gas to domestic consumers and about 80 per cent of Russian gas to other European countries exports. Oil transportation system is a network of pipelines with approximately 4.8 mil km length. The equipment of the oil transportation system is maintained in a safe condition, but is morally outdated, needs replacing or upgrading, as well as additional operating costs.

## **Pipeline transport in Ukraine is one of the most developed. Today, Ukraine is the world's largest natural gas transit country.**

The problem of the transport infrastructure low quality exists in all its components. The situation is complicated by the lack of interaction between different branches of the transport sector, the low influx

of investment, outdated system of regulation and fixed assets high degree of wear and tear.

## **The network of roads of national importance of Ukraine**

In Ukraine, the pace of road network development lags behind the pace of motorization. Today Ukraine has a low density of roads indicators in comparison with the developed EU countries.

Today there are only 280 km of high-speed roads that meet all international standards: these are the highway Kyiv – Borispol and Kyiv – Odesa roads in Ukraine. In terms of motorization rate of the country increasing it is one of the reasons for the large number of accidents, due to which the state has an annual economic loss 9 billion USD and about 8 thousand people die.

Currently, the road transport system of Ukraine includes more than 9.2 million vehicles. The volume of transported cargo by road transport is on average 120.5 million tons each year.

The most popular among road transport are high quality bus transportations, which currently do not meet the needs of consumers in full. Passenger turnover in road transport



amounts to 38 per cent of all transport modes.

### **Rail road's network**

Ukraine has one of the largest and longest railway networks in Europe. Rail transport in Ukraine is the leading industry in road-transport complex of the country, which provides 82 per cent of freight and almost 50 per cent of passenger traffic carried by all modes of transport. The volume of transported cargo by rail transport is on average 289.6 million tons each year.

Large volumes of rail traffic permit to "unload" other transportation industries. However, a large part of the railway system is extremely worn out and is morally obsolete.

The most important railway lines in Ukraine are: Kyiv – Moscow, Moscow – Kharkiv – Sevastopol, Kharkiv – Donetsk – Rostov, Donbass – Krivoy Rig, Kyiv – Simferopol, Kyiv-Kharkiv, Kyiv – Odesa, Odesa – Lviv, Kyiv – Lviv – Chop, Kyiv-Kovel – Brest. The most intense in terms of passengers and cargo transportation are such train directions as Donbass – Krivoy Rig, Kyiv – Fastiv – Koziatyn, Zhmerynka – Lviv, Lviv – Chop and Donbass – Kharkiv.

Management of transportation, industrial and economic activi-

ty of rail transport in Ukraine is performed by the State Administration of Railway Transport of Ukraine (Ukrzaliznytsia). Currently State Enterprise Ukrzaliznytsya is under corporatization and mechanism for foreign investor participation in the authorized capital legalization are worked out, which should allow the company to bring out the positive dynamics of profitability and turn a monopoly into a public limited company where the state and a foreign investor will have common share.

The Ministry of Infrastructure of Ukraine prepared the draft Strategic Plan for the railway sector development by 2020. It is noted that the main objective of the project is to determine change of business model of the Ukrainian railways stages, given the need to attract significant investment in infrastructure and rolling stock restoration, as well as the Ukrainian to the European rail system integration.

### **Air corridors (routes) and civilian airports**

Most of the air transport accounts for less than ten airports. The most downloaded airports in Ukraine are: Boryspil International Airport which is the largest passenger airport in Ukraine and serves about 52 per cent of the Ukraini-



an airports' passenger traffic, Kyiv International Airport, Odesa International Airport, Lviv Danylo Halytsky International Airport, Kharkiv International Airport and Dnipropetrovsk International Airport.

Almost all the other air transport infrastructure is stagnating and often do not meet international standards. Air transport capabilities for domestic equipment remain unfulfilled. Industry problems are compounded by the fact that monopoly exists not only among airports, but also among airlines and their alliances. In Ukraine passengers and cargo air transportation services are provided by 20 domestic and more than 30 foreign airlines.

De facto, passengers' transportation services are provided by about 10 airlines. The largest among them are: International Airlines of Ukraine, AeroSvit, Windrose and Dniproavia.

Passenger turnover on average is about 10 million people per year. Volume of transported cargo is 0.1 million tons.

Ukraine possesses a considerable potential for aviation equipment construction and production. Ukraine is among a few countries

in the world, possessing the full cycle (macrotechnology) for aviation equipment construction and occupies a leading position on the world market in the sector of transport and regional passenger aircraft.

### **River and sea ports map**

There is a powerful port complex, capable of processing up to 230 million tons of cargo per year in Ukraine. However, due to the low level of logistics and insufficient interaction between different modes of transport most of the regions do not have the ability to use this competitive advantage effectively. Water transport turnover for freight is an average of 5.5 million tons per year.

At the moment, the process of privatization of ports in the framework of the Strategy of development of sea ports of Ukraine for 25 years is taking place. The purpose of the Strategy is to ensure proper maintenance, effective management and use of strategic objects of the port infrastructure, attracting the long-term private investment for the development of facilities of the port infrastructure and a network of clusters development.

This Strategy should provide 210 million tons of cargo annually processing, attract private invest-



ment in the amount of 26 billion UAH for the port infrastructure facilities development, create capacity for at least 250 million tons of cargo per year in the seaports processing and provide effective development of ports' infrastructure facilities.

Capacity and capability of the sector infrastructure is extremely extensive: 13 continental ports, 25 thousand employees, 3 navigable rivers, two of which are in the TOP 5 largest rivers in Europe, 16 river ports and terminals, 60 million tons of throughput per year.

Transport infrastructure development in Ukraine remains unsatisfactory and is an obstacle to the preconditions for the improvement of relationships both inside the country and at the international level development, ensuring high-quality of transport service to businesses and population, export potential of the transport industry development, improvement of Ukrainian image as a transit country. Therefore, transport networks development and transport infrastructure capacity realization are converted to one of the key elements of the state economic growth strategy and its economic security ensuring.



THE BUILDING OF COMMERCE COURT, ODESSA, UKRAINE



# 09/ LEGAL AND LEGISLATIVE BASIS FOR BUSINESS

Nowadays the legal regulation of business in Ukraine is held by general and special legal acts.

One of the main legal acts which regulates the system of business is the Law of Ukraine “On business entities” which was adopted in 1991 and which was repetitively improved. By this legal act, lawmakers fixed the principles on which the whole work of the enterprise is based. Namely, a free choice of the type of business activity,

free-will involvement to the business activity of the property and assets of legal entities and citizens, independent formation of activities and selection of suppliers and consumers of the produced goods, setting prices in accordance with the legislation, free employment, involvement and usage of technical, financial, labor, nature and other kinds of resources, the use of which is not forbidden or limited by the legislation, free distribution of profits, which are left



after making payments foreseen by the legislation, independent implementation of external economic activities by an entrepreneur – legal entity; the use by any entrepreneur an appropriate part of foreign currency earnings as in its discretion it may think fit. The state guarantees to all entrepreneurs regardless of the chosen organizational forms of business activities, equal rights and creates equal opportunities for the access to the logistical, financial, labor, information, and other natural resources.

## **The state guarantees the inviolability of assets and secures the protection of property of entrepreneur.**

The state guarantees the inviolability of assets and secures the protection of property of entrepreneur. In order to create favorable organizational and economical conditions for the entrepreneur's development, the state: provides a land plot, transfers to the entrepreneur a state property (industrial and non-residential premises, not finished buildings and outdated equip-

ment), which is required for doing business.

The next element of legal base for business is considered to be the Tax Code which fixes taxes and fees for the enterprises which are engaged in business activities on the territory of Ukraine. According to the Tax Code of Ukraine the state sets “tax holidays” at the operating enterprises.

The main task of the Tax Code is to solve key problems concerning the budget and anticorruption actions. Simplifying of tax system, changing the investment climate for foreign investors, reducing the pressure on the Ukrainian business are the main tasks of the Tax Code of Ukraine.

A lawmaker also foresees in a current version of the Tax Code a tax privilege. A tax privilege is given by:

- tax deduction (discount), which reduces the tax base to extra tax charge and collection;
- reduction of tax obligations after its charge
- establishment of reduced tax rates and fees
- exemption from taxation and fees.



There is also a number of other legal acts in the sphere of business, among them are:

- Amended Law of Ukraine “On property” provides with independent economical self-determination of citizens, the use of natural, economic, science and technology potentials of the country in order to improve the level of life, in particular, private property issues are outlined in the Law;
- the Law of Ukraine “On business entities in Ukraine” is aimed at providing more freedom to enterprises, identifying their rights and responsibilities when carrying out economic activity, regulating relationships among enterprises and organizations, public authorities.
- The Law of Ukraine “On Business Associations” defines types of business entities, the rules for their creation, and also rights and obligations of the actors and founders.
- The Law of Ukraine “On Monopoly Restrictions and Prevention of Unfair Competition in Enterprise” defines legal bases for restriction and prevention of monopoly abuse, prevention of unfair competition in business and implementation of state control over the observance of standards of anti-monopoly law.
- The Law of Ukraine “On peasant (farmer) facilities” in the new edi-

tion outlines economic, social and legal basis for the creation and operation of peasant (farmer) households, which are a form of business activity in Ukraine.

Furthermore, the main law act of Ukraine is the Constitution of Ukraine, which declares Ukraine as a state governed by the rule of law and establishes supremacy of law on the whole territory and in all spheres of social life.

## **Cancellation of regulation restrictions and ineffective procedures lead not only to the reduction of administrative pressure on business but also it gave an opportunity for business to focus on the main business activity.**

There is a simple and effective mechanism for decreasing a pressure on business and for achieving



economical development, it is called *deregulation*. It foresees cancellation of excessive regulation restrictions and not effective procedures of control, abolishment of excessive licensing, old systems of certification, monitoring, performance an expert examination and other limitations and restrictions for business.

Cancellation of regulation restrictions and ineffective procedures lead not only to the reduction of administrative pressure on business but also it gave an opportunity for business to focus on the main business activity.

There were adopted the following legal acts:

- the law on *Simplification of Doing Business* within which there were cancelled 16 ineffective regulatory restrictions, and the system of land rent was harmonised and there was created a single-window system to open business only within two days.
- amendments to the law on licensing due to which a licensing of 26 types of economical activity was cancelled,
- The government decree on deregulation by which there was abolished the need for ineffective certificates in the agricultural sector and the monitoring of subsoil use,

which opened significant opportunities for corruption;

- The law on the protection of investors' rights which brought the standards of our legislation in line with the European legislation and provided an adequate protection of minority shareholders.

Experts believe that the unfavorable situation in business climate depends for the most part on the high level of corruption in Ukraine. And that is why, lawmakers and the Cabinet of Ministers of Ukraine step by step try to improve this situation. The Verkhovna Rada of Ukraine adopted the Law of Ukraine "On the Principles of State Anti-Corruption Policy in Ukraine (the Anti-Corruption Strategy) for 2014 – 2017". There were created anti-corruption bodies – the National Anti-Corruption Bureau, Anti-Corruption Prosecutor's Office, the National Agency for Prevention of Corruption. These bodies should improve the fight against corruption, which in its turn will improve the investment climate in the country.

Regarding the favorable climate in business environment, it should be mentioned that the state at the legislative level is actively changing the Soviet approach to work of institutions which carry out control over the business. From the



repressive bodies the state is going on to the format of services departments, which in their turn are intended to reduce the impact of regulatory bodies on business entity and minimise a contact between an entrepreneur and public authorities.

By the same token, the lawmakers liquidated the tax police, on the bases of which there should appear a financial police, which is empowered to support rather than to repress.

The changes at the legislative level have affected also a privatization processes, there was introduced an efficient, transparent and open system of privatization. It is possible to attract new investors who are willing to invest in Ukraine.

What concerns the examples of the changes happening in legislation we can outline the decision of Luxoft to buy Ukrainian developer IntroPro, which is on a list of the twenty largest IT-companies of Ukraine. And a large investment bank Morgan Stanley bought Luxoft shares, having invested 140 \$million. In an interview with the director of the company it was mentioned that the legal base for business is favorable, but there are still lots of things to be improved. This fact may witness about the

above mentioned, that the Ukrainian legislation is being actively changing and the climate in the business environment is being improved.



FREIGHT CRANE AND CONTAINERS IN PORT



# 10/

## FORMS OF BUSINESS IN UKRAINE

The most common legal form of business in Ukraine is limited liability company (LLC) and individual entrepreneur (IE).

There are over 2 million enterprises and entrepreneurs active in Ukraine. During the year the number of enterprises in Ukraine decreased by 110 thousand. In January 129.2 thousand IE closed down. This was announced by Prime Minister Volodymyr Hro-

isman. According to him, 112.4 thousand of the closed IEs did not conduct any activities and did not pay taxes and contributions to the Pension Fund.

On December 27, 2016 a law changing the order of charging fees for Individual Entrepreneurs was endorsed by the President. The tax system did not undergo any significant changes, which apply only to single taxpayers of the first group.



## To improve conditions for business development in Ukraine, the government plans to reduce the number of approval documents...

As before, we have a general taxation system and a simplified one. The simplified system has 3 groups for IE. The first and the second group set a precise amount of tax per month (10 % of the minimum subsistence level for the first group and 20 % of the minimum wage for the second), regardless of income, and the third group set tax of 5 % of revenue. Major changes also refer to Unified Social Tax payment. From January 1, 2017 IEs of the second and third groups pay Unified Social Tax in the amount of 704 UAH per month, even if you have no income. Previously, entrepreneurs having received income for a certain period paid 5 % tax and Unified Social Tax (USX) in the amount of no less than the minimum premium (22 % of the minimum wage). That is, if there was no cash flow, payment was not

necessary. Therefore, many entrepreneurs kept IEs open and paid taxes only when they received a real profit.

Thus, since 2017 entrepreneurs pay taxes and fees in the following amount:

- Basic system: tax – 18 % of the profits (if any), USX – 704 UAH per month;
- Unified Tax, 1st group: tax – 160 UAH per month, USX – 352 UAH per month, total – 512 UAH per month;
- Unified Tax, 2nd group: tax – 640 UAH per month, USX – 704 UAH per month, total – 1344 UAH per month;
- Unified tax, 3rd group: tax – 5 % from revenue (if any), USX – 704 UAH per month.

Before the implementation, this innovation led to the mass shutdown of the so-called “dormant” IEs by the people who used them inconsistently.

Mass shutdown of IEs is carried out in each region of Ukraine, but mostly in Kiev (17,176), Kharkiv (12,390) and Dnipropetrovsk (11,196) regions.

Mostly closed IEs are retail (43,3 ths) and wholesale (almost 9<sup>ths</sup>) en-



trepreneurs, as well as those providing warehousing (10,8<sup>ths</sup>) and transportation services (more than 7<sup>ths</sup>).

Experts predict that the number of registered private entrepreneurs will decrease in the future.

To improve conditions for business development in Ukraine, the government plans to reduce the number of approval documents (tax, customs and currency restrictions) and convert the process of obtaining at least 80 % of approval documents and licenses into electronic form, according to Stepan Kubiv, Minister of Economic Development and Trade.

There are currently 15 thousand Soviet all-Union State Standard canceled and terms of registration reduced.

According to the Minister, the Government took a number of steps to remove the barriers that stand in the way of Ukrainian business development. It is referred to the reduction of agricultural activities subjected to licensing. 30 of 56 remained in business. In addition, the registration period of 5 business days was reduced to one day.

The EU4Business initiative program operates in Ukraine: the pro-

cess of creation of centers for small and medium businesses functions in 15 regions of Ukraine at the expense of the EBRD (European Bank for Reconstruction and Development). 40 million Euros are provided for this program, whereof 28 million Euros are allocated for business consulting, information and training support of entrepreneurs. Another 12 million Euros will be allocated for direct financing of enterprises.

In addition, EBRD supports the programs of direct funding of free trade areas with the EU. The Project is to be implemented by 2024. Its budget is 60 million Euros of investment funds and 10 million Euros of grant funds.

Recently Ukraine became a member of the European Union's Program "Competitiveness of small and medium enterprises (COSME)", which is to be launched by 2020. The Project budget is 2,3 billion dollars and provides easier access to grants direct financing, access to the EU market, creation of enabling environment for competition and formation of entrepreneurial culture in Ukraine.

## **Business for foreigners in Ukraine**

Article 26 of the Constitution of Ukraine gives the same rights,



freedoms and responsibilities to foreign citizens and stateless persons, who come in Ukraine on legal grounds, as the residents of Ukraine. Therefore, a foreigner, who has residence registration or residence permit, may engage in commercial activities on the territory of Ukraine.

The most commonly used forms of business among most foreign investors in Ukraine are:

- joint stock company
- limited liability company
- foreign representation.

There are also other forms of businesses that are allowed by the legislation of Ukraine: joint ventures, subsidiaries, partnerships, limited liability companies, double liability companies, and unincorporated joint activity, but they are rarely used.

There are no restrictions in the choice of economic activities for a foreigner, but if a foreign citizen wants to register a limited liability company (LLC) in Ukraine, first he or she has to issue a temporary residence permit of the foreigners who arrived in Ukraine and receive an identification number in the State Fiscal Service (Tax Service) – this procedure takes 3 – 4 days.

Finally, the procedure of registration of LLC by foreign citizens does not differ from the registration procedure by LLC founders, citizens of Ukraine. It is necessary to prepare a package of constituent documents (protocol charter, pay registration fees, fill in a registration card). This procedure may be quite difficult, especially for foreign citizens.

In this case, it is better to turn to a legal firm, where you will receive necessary help and save time.

For that purpose you need to provide a number of documents, such as:

- Copy of a founder's passport;
- Copy of founder's identification number;
- Copy of director's passport and identification number.

It is required to consider the fact that if a foreign founder intends to hold the post of director of the company, he or she must obtain a work permit in the relevant employment service. This permit is issued within 15 days after submission of documents for up to 1 year. However, a foreigner who is the founder and the head of LLC at the same time has the right to obtain a work permit as the doc-



uments for authorization are submitted on behalf of a registered legal entity. In this case, a citizen of Ukraine, for instance, an authorized person, must be the head of LLC.

### **Benefits from firm registration for a nonresident founder in Ukraine**

After an enterprise is registered, a non-resident of Ukraine can receive a work permit, and then carry out the procedure of replacing the director. Thus, the entire registration period for non-residents may take up to 20 working days for accelerated registration. It is important to mention one peculiarity: if a foreign resident founder forms authorized capital of the enterprise that is opening at least \$ 100 000 worth by registering foreign investments, he or she has the right to receive permanent residence in Ukraine.



STATE INSPECTION OF TAX SERVICES, LVIV, UKRAINE



# 11/

## TAX SYSTEM AND KINDS OF TAXES

Tax Code of Ukraine regulates business which appears in taxes and collecting managing sphere, particularly denoting the full list of taxes and collecting, carried out in Ukraine, their administrating order, tax payers and their rights and duties, the capacity of supervisory committees, authorities and duties of their officials during tax administrating, and also responsibility for violation of the tax laws. Nowadays Ukrainian legislation allows the following types of taxation system for enterprises with limited liability (LLC):

- general system of taxation;
- simplified system of taxation;
- privileged system of taxation.

Each of them is controlled by the rules of Tax Code of Ukraine. We will look at their main peculiarities hereby.

### **General system of taxation of LLC.**

For LLC, which have chosen general system of taxation, the main payment is income tax. The base of taxation is the income of a company, which presents itself the difference between incomes and outcomes. The tax rate for LLC, according to the latest renews in Ukrainian legislation, is calculated at 18 % rate. The times of payment can be different, depending on the value of revenue per year, namely:



- if less than 20 million hryvnias. In this case, companies bring in tax payments once a year, according to the filing of annual declarations;

- if more than 20 million hryvnias. This time, enterprises must bring in tax payments every quarter.

Do not forget, that those LLC, which are on general system of taxation must pay the following collectings (besides tax income):

- Dividends tax. It is 5 % for the companies with general system of taxation (18 % for the payers of the single tax). Military collecting is additionally taken from all dividends charged (1.5 %)

- value added tax (20 %)

- upkeepings from salary. These include: single social contribution (SSC), income tax of individuals (ITI), and military collecting

- environmental tax. it applies only to certain LLC, e.g., for polluting air, etc.

Simplified system of taxation.

The distinctive feature of simplified system of taxation for LLC is that the whole income is taken as the base for taxation that is receipts and what not. The single tax has a certain rate, that must be

checked annually, because it can vary. The rate of the single tax depends directly on the group, where LLC is referred to. There can be 2 types of the group and each has its own peculiarities:

- group 3. LLC refers to this group if year income does not exceed 5 million hryvnias. There are no limitations what concern the quantity of the employees. The non-payers of value added tax contribute 5 % from income, the payers – 3 %.

- group 4. To this category can refer only those companies, which were compact fix tax payers in the past. The rate size of the tax of 1 hectare of agricultural lands and/or water fund lands depends on the sort of lands and their location.

### **Privileged system of taxation of LLC.**

According to the renewed Tax Code of Ukraine some enterprises have rights for tax privileges. To these can be referred:

Subjects of small business have “0” rate tax on income. For the period till 31. 12. 2017 “0” rate tax on income is applied for the enterprises which:

- have annual income up till 3 million hryvnias

- the size of the salary charged for every month of the reporting pe-



riod (income) of the workers is no less than two minimum salaries (it is 6400 hryvnias since 2017)

- established in accordance with the law after 01.01.1017
  - ▶ acting at the moment, that have declared annual size of incomes that are no more than 3 million hryvnias during the last subsequent 3 years (or in the time of all previous periods, if less than 3 years passed since their formation) and where the average quantity of workers was from 5 to 20 persons.
  - ▶ which had been registered be value added tax payers by 01.01.2017 and where the last calendar year the amount of revenue (goods, jobs, services) amounted to 3 million hryvnias and the average quantity of workers wa from 5 to 50 persons

Subjects of software industry have 5 % tax rate on income. Besides, LLC of this kind are free from value added tax payments.

A subject of software products is an entity, who meets simultaneously such criteria for the previous 4 subsequent years:

- the majority of the subject's incomes from the implementation of economic activity is no less than 70 % of incomes from all kinds of

economic activity of implementation of goods, works, services;

- the original value of the subject's fixed assets and/or non-material assets is more than 50 minimum salaries, established by law on the 01.01. of the reporting year (minimum salary on the 01. 01. 2017 is 3200 htyvnias)
- the subject does not have a tax debt

Kinds of activity, which give the right for privileges in taxation:

- the production of software programming, including the production and realization (selling, renting, licenses) of the software system packages, office and games programs, the publication of the ready (unsystematic) software programming for certain consumers on their personal account: operational systems, business and other applications, the output of computer games for various customers;
- software programming and all the activities in writing, modification, testing and providing of technical support; documentation of software programming, which includes the development of structure and content and/or writing of the system commands, necessary for creation and performing;



- consulting on informatization, including the planning and development of company systems, which combine completing equipment, software programming and communicational technologies, consulting as to configuration of computer technical means and using of the software programming technologies;

- management activities of computer equipment, including local management services and computer system activity of the clients, also data processing and other related services, operation on long-term (permanent) basis of data processing means, which belong to other users;

- the creation and implementation of informational technical complexes, systems and networks;

- data processing, posting information on webs and activity connected with them.

There are the same conditions of taxation for Stock Companies (SC) in Ukraine as well as for enterprises of other legal forms. The peculiarities of taxation refer only to dividend payments and security transactions of SC.

The peculiar thing of dividends tax payment is that SC should transfer tax of 30 % of the gross amount for residents before divi-

dend payments or simultaneously with it. Thus accrued income tax is reduced by the amount of dividends tax, included in the budget. If dividends are paid out not from income but from other private sources, thus in the absence of the object of taxation on profits of SC is the payer of dividends.

Dividends for non-residents are paid from the income, which is left at SC's disposal after taxation. The sums of non-residents' incomes, got in the form of dividends, are taxed at 15 % rate of gross amount.

Direct investments are not taxed, which is additional stimulus for investing money into the shares of subjects of management actions. Operations of issue, placement and sales at the expense of the securities issued in circulation SC (and other business entities) are not subject to VAT.

Following operations also are not taxed with value added tax:

- transfer of main funds as a contribution to the statutory fund for forming SC whole property complex in exchange to issued (by SC) corporate rights;

- selling for compensation total gross assets (taking into account the value of goodwill); in other words - the selling of enterprise



as a separate object of business or including its gross assets to those of other enterprise (such operations are performed, particularly, during the accession and merge of SC);

- the return of main funds put into the statutory fund of the enterprise, in case of getting out from the number of founders or members of legal or natural persons or when a company is being liquidated;
- granting of commission (broker) and dealer services in trade or management securities..

For securities transactions is charged state duty. In particular, 0.1 % of nominal emission value is paid for the registration of the information about security papers emission.

So, the system of taxation in Ukraine is definite and clear enough, so to conduct any type of business there are no barriers.



UKRAINIAN COINS



# 12/

## BURDEN OF TAXATION IN BUSINESS

On last Friday in 2016 the President of Ukraine Petro Poroshenko signed the law about making changes to Tax Code to improve investment climate in Ukraine. So, the following legislative changes are waiting for business in 2017:

### **Income tax**

The rates of this tax don't change. The basic rate is 18 %. Special tax rates are foreseen for legal entities, who perform insurance activity, bookmaker activity, the activity concerning issue and holding of lotteries, gambling, and also for non-residents and persons equated to them. In the same time, tax

holidays have been introduced till 31. 12. 2021 ("0" rate tax income) for the enterprises which have annual income up till 3 million hryvnias and the size of the workers' salary per month (income) of the reporting period is no less than 2 minimum salaries with conditions according to the criteria:

- established in accordance with the law after 01. 01. 2017;
- acting at the moment, that have declared annual size of incomes no more than 3 million hryvnias during the last subsequent 3 years and where the average quantity of workers was from 5 to 20;



- which had been registered by 01. 01. 2017 as the value added tax payers in the order established by law and who had the amount of revenue from production realization (goods, works, services) the last calendar year up to 3 million hryvnias and the average quantity of workers was from 5 to 50 persons.

## **On last Friday in 2016 the President of Ukraine Petro Poroshenko signed the law about making changes to Tax Code to improve investment climate in Ukraine.**

In the same time the criteria of the tax payer membership to the category of big tax payers has been changed: in particular, from 12 to 20 million hryvnias increased the rate of payments to the state budget for payments that are controlled by State Fiscal Service, and criteria revenues from all activities in the last subsequent 4 tax quarters from 500 million hryvnias to 1 billion hryvnias.

## **New rules for individual entrepreneurs (IE)**

The tax system has undergone slight changes, which refer only to the single tax payers of the 1<sup>st</sup> group. The basic changes refer to the payment of the single social contribution.

Concerning taxation. As it existed earlier, there's general system of taxation and it is simplified. The simplified system has 3 groups for individual entrepreneurs (IE). The first and the second groups have a clear sum of tax per month (10 % from minimal living wage for the 1<sup>st</sup> group and 20 % from minimal salary for the second one), regardless the size of income; and for the 3<sup>rd</sup> group the established tax is 5 % of income. What concerns single social contribution (SSC), there is a fundamental change. Till 01. 01. 2017 IEs (regardless taxation system) if they had income for appropriate month, must pay SSC in size of no less than minimal insurance contribution (22 % from the size of minimal salary).

Since 01. 01. 2017 IEs must pay SSC regardless the income of appropriate month. Slightly has changed the order of calculation depending on the tax system. For entrepreneurs on general system and for those of simplified system (the



2<sup>nd</sup> and the 3<sup>rd</sup> group), the size of SSC is preserved no less than minimal insurance contribution (22 % from the size of minimal salary), that is 704 hryvnias per month since 01. 01. 2017.

For IEs of simplified system of the 1<sup>st</sup> group the size must be no less than 0.5 of minimal insurance contribution that is 352 hryvnias per month. So, regardless availability of incomes IE must pay SIC, which is 352 hryvnias since 01. 01. 2017 for IE of simplified group (1<sup>st</sup> group) and 704 hryvnias for other entrepreneurs. Thus, from 2017 entrepreneurs will pay taxes and fees in the following amounts:

- general system: tax – 18 % of income (if available), single insurance contribution – 704 hryvnias per month;
- single tax, 1st group: tax 160 hryvnias per month, SIC – 352 hryvnias per month; total amount – 512 hryvnias per month;
- single tax, 3rd group: tax 5 % of income (if available), SIC – 704 hryvnias per month.

So, entrepreneurs, who don't operate but remain registered, are forced to stop business, otherwise – to pay 704 hryvnias per month, and this sum will also be changed alongside with minimal salary changes.

## **Tax on income for individuals (TII)/ important innovations for business.**

Set tax rate of half the total rate (18 %) (i.e. – at 9 % rate) in the form of dividends on shares, investment certificates and corporative rights which are paid by non-residents, institutions of shared investments and subjects of business, who are not tax payers of income tax. The same rate of income is established for passive incomes in the form of dividends from sources abroad.

The amount of daily payments, which don't demand a documentary confirmation and are not taxed by TII, will be the following in 2017: for business trips within Ukraine is 0.1 of minimal salary, established on the 01.01 (320 hryvnias), for business trips abroad is 0.375 of minimal salary (1200 hryvnias or approximately 40 Euros).

The list of outcomes of the individual entrepreneurs from the business introduction is expanded namely the sums of taxes and fees, which are connected to business of such entrepreneurs (except the value added tax for individuals, who are registered as VAT payers; and excise tax, the tax of individuals' incomes; property tax); the sums of Single social contribution



in the sizes and order, established by law; payments, which are paid for licenses for certain kinds of economic activity; obtaining a permit or other approval document related to the business activities of individual entrepreneur.

Besides, individual entrepreneurs are given the right of amortization of the basic means, which are used in activities (except real estate and automobiles).

## **The experts are welcoming the initiative of finance police creation, which will appear instead of tax police and economical departments of Ministry of Internal Affairs and Service of Security of Ukraine.**

Among the most important changes it is necessary to define the change of the system of value added tax administering, providing

of the full electronic room of a taxpayer, ordering of tax explanations, due to which the explanations of Ministry of Finance will have the priority before the tax positioners which will make less abuses from their side. Besides, the experts are welcoming the initiative of finance police creation, which will appear instead of tax police and economical departments of Ministry of Internal Affairs and Service of Security of Ukraine. The reform foresees the creation of a new institution like National Academy of business of Ukraine, the staff of which will be selected again.

The acceptance of the bill №5130 by the Verkhovna Rada of Ukraine in 2016, which establishes the minimal salary up till 3200 hryvnias means that the tax base will have grown, although the tax rates won't be changed.

The problem is not that minimal salary has been increased, but how they did that. It has been increased in two times, and living wage approximately in 12 %. In this case, minimal salary, as a social guarantee, loses its meaning and becomes an element of taxation system.

Pushing from the level of minimal salary in 3200 hryvnias, the sum of single social insurance contri-



bution (SSIC) is 22 % from “minimum” – 704 hryvnias per month, regardless income obtained. Earlier the size of collecting was 352 hryvnias. Even for those, who do not show the incomes of self-employment the payment of single tax and social contribution are obligatory. According to the server Opendatabot three weeks before the end of 2016 approximately 120.000 persons (in total there are 680.000 persons) had closed their small businesses.

Business has reacted differently to increasing minimum salary. Large companies and even entire industries have already been paying more, but small business is preparing for the worst. Because single social contribution has risen twice, companies are forced to decrease staff and production, and won't offer the required volume of goods, thus the import will rise and also the demand for foreign currency. Plus, the citizens will hurry to convert additional incomes into foreign currency. Business supports the increase of salaries, but considers that it can be based only on the results of economical increase and, in any case, occurs gradually.



ACCOUNTANCY, AUDIT AND SUBJECT'S TAX LIABILITIES



# 13/ ACCOUNTANCY, AUDIT AND SUBJECT'S TAX LIABILITIES

As it is well-known, the enterprise activity results are reflected in financial report. Nowadays data reliability is very important. Among other things, since 2015 accountancy financial result has become a reason for income tax.

Studying the problem of making and presenting of financial report, first of all, it is important to determine who is obliged to make and to present it in accordance with Ukrainian legislation. Thus, financial report is presented by:

- all legal entities created in accordance with Ukrainian legislation (regardless organization or

legal form of business pattern and form of property);

- representatives of foreign subjects of economic activity.

Concerning Annex 2 Paragraph 2 Article 2 of the Order No 419, financial report and consolidated financial report are made in accordance with:

- national provisions (standards) of accountancy (further – P(S)A) or
- international standards of financial report (further – ISFR).

Financial report has to be made in accordance ISFR by:



- Public joint-stock companies;
- Banks;
- Enterprises providing financial services except of insurance and pension maintenance;
- Enterprises proving additional support in the sphere of financial services and insurance;
- Enterprises involved in non-state pension maintenance;
- Insurers;
- Loan companies.

Besides, financial report has to be made in accordance ISFR by enterprises which apply international standards by their own decision.

All legal entities provide financial report in accordance with national P(S)A.

Business entities having branches make and present consolidated financial report except of financial reports about own economic activity.

Joined enterprises, except of own activity report, provide summary financial report. It includes the data about all enterprises belonging to unity if it is required by regulations of such unities in accordance with legislation.

Annual financial report of enterprise is to be presented to:

- administrative organs managing these enterprises;
- work collectives on their request;
- owners (founders) in accordance with regulations;
- organs of executive power in accordance with legislation.

Enterprises paying income tax present financial report to organs of the State Fiscal Service of Ukraine together with income tax declaration. They do it in the order stipulated for tax declaration presentation procedure. Besides, all enterprises (except of budget establishments) are obliged to give (send by registered letter) financial report for the actual location of registration file at the year-end.

Deadlines to give financial reporting:

- Regular – no later than February 28 of the following after accounting period;
- Consolidated and Summary – no later than April 15 of the following after accounting period.

Some business entities are obliged to provide financial report and to present annual financial reporting together with audit conclusion



for the public (to show on own web-site and publish in periodical or nonperiodical editions) no later than April 30 of the following after accounting year. Such entities are: public joint-stock companies, enterprises – emitters of mortgage bonds, bonds of enterprises and certificates of funds of real estate activities, and also professional operators of stock market, banks, insurers and other financial establishments.

Financial report can be full and short. Full report is given by all enterprises except of budget establishments, representatives of foreign subjects of economic activity and subjects of micro-entrepreneurship. Subjects of micro-entrepreneurship and representatives of foreign subjects of economic activity are required to present short financial report.

Audit carried out in enterprises can be divided into two types: obligatory and initiative (of own volition).

Obligatory audit of financial reporting is carried out in enterprises which have to present financial reporting for the public under Ukrainian legislation. They are the following: joint-stock companies, banks, insurance companies, loan companies, credit reference agen-

cies, investment funds, stock exchange and other financial establishments.

**Besides, all enterprises (except of budget establishments) are obliged to give (send by registered letter) financial report for the actual location of registration file at the year-end.**

In accordance with Article 8 of the Law of Ukraine “On Audit Activity” dated 22. 04. 93 No 3125-XII to carry out audit is obligatory for:

- Confirmation of reliable and full financial reporting and consolidated financial reporting of open joint-stock companies, companies – emitters of bonds, professional operators of securities market, financial establishments and other business entities whose financial reporting is subjected to official publishing in accordance with Ukrainian legislation except of establishments and organi-



zations fully funded from state budget;

- checking of financial state of bank founders, enterprises with foreign investments, open joint-stock companies (except of physical bodies), insurance and holding companies, joint financing institutes, trust companies and other financial mediators;
- emitters of securities while obtaining licenses to carry out professional activity on securities market.

Under Ukrainian legislation to carry out audit is obligatory in other cases. Initiative audit can be carried out.

- to confirm financial indicators of utility plants;
- to provide bank with audit summary (to obtain bank loans);
- for buying-selling of businesses;
- when financing projects;
- to confirm financial reporting at court;
- to confirm liquidating balance in case of business liquidation;
- for competitive bidding;
- in volition of managers;
- other cases.

The result of such initiative audit is Financial Summary (Financial Report).

With regard to audit by taxation service, since January 1, 2017 taxation inspections have lost their right to carry out documentary and factual audit of tax-payers. But it does not mean that audit will not be carried out any more. From January 1, 2017 documentary and factual audit can be organized and carried out (including issue of audit order, assignment registration (certificate), making of act (certificate) and taxation announcement-decision, demands (decision) to pay consolidated social tax on the basis of its result) only by organs of the State Fiscal Service of regional and central level.

Moratorium on business audit in 2017 concerns those organizations, enterprises, and physical bodies whose income for the previous year was less than twenty million Ukrainian hryvnias. Audits of such bodies are carried out by decision of a court, on demand of owner himself and with the permission of the Cabinet of Ministers and in accordance with the Criminal code. But it does not touch upon those who import and sell goods subjected to excise duty in the territory of Ukraine. Also the controlling organ has a right



to audit if it deals with the fulfillment of taxation code norms and all code provisions.

Not presenting financial report to organs of the State Fiscal Service during a year is a ground for court to pass a sentence on termination of business operations.

Responsibility for intentional tax evasion is foreseen in Article 212 of the Criminal Code of Ukraine and depends on tax-exempt minimum of citizens' income. But in case of tax evasion tax-exempt minimum is tax privilege which depends on living wage.

Thus, criminal responsibility is foreseen for concealment of such amounts of taxes (according to 2017):

- intentional tax evasion in significant amounts (1,000 and more tax-exempt minimums, amount of tax evasion – from 800,000 Ukrainian hryvnias.) – fee is from 17,000 to 34,000 Ukrainian hryvnias or revocation of a right to occupy particular positions or to conduct particular activity for the period of 3 years.
- intentional tax evasion in large amounts (3,000 and more tax-exempt minimums, amount of tax evasion – from 2,400,000 Ukraini-

an hryvnias.) – fee is from 34,000 to 51,000 Ukrainian hryvnias or revocation of a right to occupy particular positions or to conduct particular activity for the period of 3 years.

- intentional tax evasion in especially large amounts (5,000 and more tax-exempt minimums, amount of tax evasion – from 4,000,000 Ukrainian hryvnias.) – fee is from 255,000 to 425,000 Ukrainian hryvnias or revocation of a right to occupy particular positions or to conduct particular activity for the period of 3 years including deprivation of property.



SHEHYNI, UKRANIAN CONTROL POINT ON THE BORDERS WITH POLAND



# 14/CUSTOMS SYSTEM IN UKRAINE

Currently the customs system in Ukraine is being actively reformed. The improvements are targeted towards the creation of efficient service department on the basis of existing punitive agency.

With regard to innovations within the customs system we would like to specify the following positive things which are causing, have caused or will cause the increase of export and import flows in Ukraine. Since May 2016 the Unified Automated Information System has been established and it is successfully operating within the State Fiscal Service of Ukraine. It unifies all hardware and software complexes necessary for automation of customs procedures implementation. It includes the Automated Customs Clearance System “Inspector” embracing all

inspection procedures inside the country as well as at its customs borders.

The system ensures to obtain all detailed information starting from types of inspection executed during the first border crossing to release turnover of any product. This system is functional analog of leading European customs clearance systems such as the German ATLAS and the Polish CELINA being models to follow when any customs IT system is under development.

Today the Automated System of Risk Analysis and Management encompasses more than 100,000 reference points, regional and central risk profiles. Information from neighbouring countries allows the customs officers to assess com-



prehensively any threats to emerge during customs procedures. A wide range of records of customs payments, modules of customs clearance of citizens, etc. are implemented within the Automated Customs Clearance System.

The next element of simplification and harmonization of customs procedures is known to be reform called single-window concept. Since August 1, 2016 the Government Decree on implementation of single-window scheme at the customs has been put into effect. It means that customs officers together with other representatives of state agencies controlling import, export and transit are to work in coordination and apply the unified electronic system.

The presence of this element in the customs system will shorten the period of inspection, reduce costs and minimize corruption by times. The Decree was adopted in August 2016 but the single-window system will work on the territory of whole Ukraine from the mid-2017.

Implementation of automated distribution of customs declarations between inspectors will help to abolish petty corruption at the customs.

In 2016 the positive equity of foreign economic assets balance accounted 337.3 billion US dollars. According to data, in 2016 the volumes of export of goods and services from Ukraine accounted 44.885 billion US dollars, of import – 44.548 billion of US dollars.

In 2016 the most imported goods to Ukraine were the following:

- crude oil and petroleum products;
- natural gas;
- coal;
- drugs;
- cars;
- mineral fertilizers;
- cables.

In order to release import products in the territory of Ukraine, the importer has to make the following customs procedures:

- to inform preliminary the customs organs about the intention to import a good (goods) from abroad;
- to undergo through customs clearance (to provide customs agency with customs declaration and documents, to sample goods if it is required);



- to pay taxes and other fees in accordance with Ukrainian legislation;
- to make all necessary measures which are stipulated by Ukrainian legislation for nontariff import regulation (to obtain license for import of goods, to pay antidumping fee, check the compliance of product specifications with requirements of Ukrainian legislation).

The list of documents which are necessary to provide for customs clearance is individual in every case. It depends on customs code of goods which is determined under the Ukrainian Classification of Goods for Foreign Economic Activity.

To clear goods and transport vehicles in customs regime the following document are required:

- Customs payment order.
- Payment order confirming the payment of services of customs terminal.
- Contract, specification, additional agreement.
- Original invoice.
- Certificate of product origin.
- Swipe card of subject of foreign economic activity.
- Certificate about declaration of currency values.

- Book of international road traffic.
- Travel warrant CMR.
- Export declaration of country of origin.
- Permitting documents (quality certificate, sanitation and epidemiological certificate, registration certificate of Ministry of Health of Ukraine, State Standard, etc.) if required.
- Documents confirming product value and code (price-lists, catalogs, technical specification, preliminary conclusions about product value and code, etc.).
- Payment order for quarantine inspection, approved by State Quarantine Service.
- In case of involvement of broker organization to customs clearance the contract on goods declaration is required.
- Agreement on packing utilization by licensed company and prepayment order.

As a rule, the order of goods exporting is different. First thing that an exporter has to know is EU entry customs declaration.

EU entry customs declaration contains detailed information about cargo (travel warrant, invoices, etc.) which is imported to the territory of the EU. Such declaration



is given beforehand or before the moment of direct crossing the border with EU country by goods. The transporter presents the document to customs service of EU country through which the goods are imported to the EU.

The terms of presenting the declaration vary depending on the way of products delivery:

- Sea container shipping: 24 hours before loading goods in foreign port.
- Sea shipping of bulk cargo: minimum 4 hours before its arrival to the port of destination.
- Short see shipping: minimum 2 hours before arrival of cargo to the port of destination.
- Short-haul air transportation (lasting more than 4 hours): mini-

**The efficient transparent and uncorrupted customs system is one of the most significant conditions any country should provide for investors.**

mum 4 hours before arrival of plane in the first airport in the EU.

- Road cargo transportation: minimum 1 hour before cargo arrival to the EU.

The next document is cargo customs declaration. Cargo customs declaration (Single Administrative Document – SAD) is given by customs agency of EU county or its representative in electronic form (every EU country has its own electronic accounting system) or it is given as a document directly to the customs service.

This declaration contains information about goods designation (export, import, transit, storage in storehouses at the customs, temporary import, processing, etc.) regardless the way (sea, air or road transportation) these goods were transported to the territory of EU country. This declaration is a universal document which ensures optimal information disclosure about products. Also it reduces the number of administrative procedures and helps to unify the customs information processing procedures.

In order to export goods to EU country and perform foreign economic activity in its territory it is necessary to register and obtain registration code of economic ope-



operator (economic activity operator) called EORI code (number in the system of EU Economic Operators' Registration and Identification number). EORI – is a unique identification code issued by customs agency of EU country to all operators of economic activity which are involved to economic and commercial relations regulated with EU customs legislation.

The efficient transparent and uncorrupted customs system is one of the most significant conditions any country should provide for investors. As any person or enterprise faces the work of customs most of all.

The EU-Ukraine Association Agreement requires unconditional implementation of provisions of customs legislation of the EU (during 1 – 3 years). Particularly, 70 – 80 % of provisions of the EU Customs Code should be implemented in the customs legislation of Ukraine. And it means that customs legislation is to change almost completely. Today customs system is still being reformed. Changes which are to be implemented due to the EU-Ukraine Association Agreement must be realized on the legislative level and they have to fix the existence of the following elements:

- Public evaluation of customs agency officials
- Establishment of communications with business.
- Establishment of efficient functioning structure of Ukrainian customs.
- Corruption counteraction.
- Simplification of customs procedures.
- Automation of customs system.

As Ukraine is moving towards strengthening the cooperation with the EU with confidence, these changes of customs system of Ukraine will be made in the near future.



MINT OF NATIONAL BANK OF UKRAINE, KIEV, UKRAINE



# 15/ THE BANKING SYSTEM OF UKRAINE

About two years ago fast decrease of all indicators of Ukrainian economy led to a critical situation, and everyone was expecting default. However, it did not happen, the Ukrainian economy stabilized and began to attract investors again. It is not surprising, considering that Ukraine has a large market of cheap highly skilled labor force, capacious consumer market, abundant natural resources, favorable geographic location and great potential in almost all areas of goods and services production. That is why *in 2016 investments in Ukraine were four times greater*

*than the investments in the previous year.*

Investors who decided to invest in Ukrainian companies should possess information about all peculiarities of doing business in Ukraine, including the conditions of banking services.

The banking system of Ukraine, as well as the whole economy, went through a crisis period and now is at the stage of recovery. A positive result of the crisis was a big “cleansing”, which Ukrainian banks needed for a long time. Dur-



ing the last two years the National Bank of Ukraine deprived of the license 82 commercial banks, 100 banks remained on the market (25 of them – with foreign capital). Thus the negative economic processes in the country have revealed all weaknesses of the banking system and have withdrawn unreliable banks from the market. At the same time the most powerful banks only strengthened their positions and become more powerful.

## **Confidence in banks is growing, as evidenced by the increase of banks deposit portfolio by 6.7 % YTD.**

Thus, according to the annual Forbes bank project *the most powerful banks in Ukraine in 2016 became CitiBank, ProCreditBank, CreditAgricole, RaiffeisenBankAval and ING BankUkraine*, all banks are with foreign capital. It shows, on the one hand, that Ukraine is still attractive for foreign investors (even for those who have survived the economic crisis of the last two years); and on the other hand, adds a few points of reliability to banks that are supported by ma-

ternal capital from abroad. Their level of viability “A” rated as the strongest. A number of indicators was used to determine rating assessment, including liquidity, capitalization, profitability, valuation of support of shareholders, continuity of payments and the risks of their origin countries.

*The losses of Ukrainian creditworthy banks significantly decreased this year, to be exact in 3.3 times compared to the same period of the last year. If last year the amount of loss was 30.2 billion UAH (\$1.1 billion), so this year it is only 9.3 billion UAH (\$356.8 million). Only about 30 % of banks are unprofitable, while the rest 70 % are profitable. This is a very positive trend that allows to predict that next year the banking system of Ukraine can be expected to be break-even.*

*Confidence in banks is growing, as evidenced by the increase of banks deposit portfolio by 6.7 % YTD. National Bank of Ukraine also abolished the limit of cash withdrawal from deposit accounts in the national currency, and twice raised the limit on accounts in foreign currency and precious metals, that demonstrates weakening of administrative regulation.*

*The transparency of the banking system significantly increased. If*



earlier the bank was officially registered on one person, but the real head of the bank could be the other one, now the National Bank and Antimonopoly Committee carry out a thorough review of the banks founders and the origin of their funds. In the previous year were liquidated banks which had serious financial problems, but now the banking system is checked even on the reliability of reputation. There was a significant increase of banks standards that guarantees a good reputation in the future.

In general we can see that the banking system of Ukraine has become much more democratic, open and secure, and also more resilient to economic shocks. The main indicators of its work stabilized and raised above a critical limit. This is confirmed by international rating agencies. In particular, Moody's agency changed the outlook of this year on the banking system of Ukraine from "negative" to "stable".

*What is necessary to know for the foreign investor about the features of banking service in Ukraine?*

In Ukraine both physical entity and legal entity – non-resident may open a current or deposit account in national or foreign currency. To

do this the person who wants to open an account must submit certain documents to the bank. Standard *documents for opening a foreign currency account by legal entity non-resident* is a statement, a copy of the certificate of legal entities registration, a copy of the certificate of representatives registration, copy of the statute, a copy of the power of attorney to the representative in Ukraine and the card with the signature and stamp. In case the investor is a participant of the contract on the products distribution, he must also submit a certificate of registration at the tax authorities. Some banks may require additional documents to open an account.

Interest rates on deposit accounts in USD for legal entities up to 10 %

**In general we can see that the banking system of Ukraine has become much more democratic, open and secure, and also more resilient to economic shocks.**



per annum, the average rate hesitates at the level 6 – 7 %.

*Any international payments by commercial transactions can be carried out only through banks.* Foreign investor can invest in the Ukrainian company both in local currency and in foreign currency. All payments for goods and services in the country are carried out in local currency. Investor can transfer his income from investments to his foreign account by himself from the opened account in the Ukrainian bank. Or he can get the money immediately to his foreign account from Ukrainian partner. Transfer of funds can be made from both Ukrainian currency and foreign currency accounts.

## **All payments for goods and services in the country are carried out in local currency.**

It is necessary to consider that when the export transaction is conducted with cash on delivery or import operation being prepaid, money or goods should be received no later than 90 calendar days to Ukraine.

A significant advantage for foreign investors is that the transfer currency to his foreign account belongs to exceptions and it does not need a license of NBU.

However, before transferring the funds a representative of foreign investor in Ukraine (or its affiliate company) buys the foreign currency in the interbank market. To do this, it (the representative) submits to its bank application for purchase of foreign currency with a defined set of documents. If the bank has not received ban on the operation from the National Bank of Ukraine within three days, it can purchase foreign currency on behalf of the client in the amount specified in the application.

There is also a requirement in Ukraine that 65 % of currency received from abroad must be sold on the interbank foreign exchange market. However, this rule does not apply to funds received for foreign investments.

This indicates that Ukraine wants to attract foreign investments and create favorable conditions for this, gradually softening the requirements for foreign investors. It is clearly seen the course on the European Union in creating an appropriate norms, requirements and standards not only in the bank-



ing system but also in the economy as a whole. The global rating agencies also couldn't ignore this: according to the results of 2015 Ukraine has taken rather high the 52<sup>nd</sup> place on the level of investment potential in the Global Competitiveness ranking. At the same time the Bloomberg agency has given Ukraine the 41<sup>st</sup> place in the TOP 50 of the most innovative economies, predicting it the rapid development in the coming years.



LACONCRETE PRODUCTION ORIENTED LABORATORY, KIEV, UKRAINE



# 16/ LOW PRICE AND HIGH LEVEL QUALIFICATION OF LABOUR

In recent years, the economic crisis has led to such tendencies as mass poverty of population, cutting of wages, increase of death rate, and brain drain. In the context of official wage rate our country is the last one.

Generally, average monthly pay of employees in Ukraine decreased from 308 euros in 2013 to 193 euros in 2016 that is by 1.6 times. Wage in Ukraine is even lower than minimum wage in many foreign countries. If minimum wage in Ukraine is 52 euros, in Lithuania, Estonia, Poland it is 350 – 430

Euros, and it reaches 1500 euros in some EU countries (France, Ireland, Germany, Belgium, and the Netherlands). Minimum wage in Bulgaria averages 172 Euros, and the highest monthly minimum wage is applicable in Luxembourg (1923 Euros).

It means that monthly minimum wage in Ukraine is by 3.3 times smaller than the lowest wage and by 37 times than the highest minimum rate in Europe. It is necessary to emphasize that the changes in wage rates in our country did not approximate Ukraine to Europe-



an countries but even distanced it from European standards in recent years.

**General literacy rate is 99.8 %.  
Ukraine possesses high scores on UN Development Program Education index and ranked 29, and it is higher than in Great Britain.**

Such deplorable condition is observed with the assumption that Ukraine is ranked third according the level of education. We are behind Northern Korea and Latvia. General literacy rate is 99.8 %. Ukraine possesses high scores on UN Development Program Education index and ranked 29, and it is higher than in Great Britain.

Complaints against unsatisfactory wages or low monthly pay of employees in Ukraine are usually associated with the period of independence. Formation of the low cost labour force model is largely caused by specific types and technologies of economic activity that

stipulates for extensive character of employment and low efficiency of labour. At the same time the state policy affected greatly.

Mainly low cost labour force model is considered to set difference in wages. First of all, it brings to inadequate ratio between wages from performing intellectual and physical, qualified and unqualified work. Wage of unqualified workers in better and worse days is on the level necessary for their physical existence. But qualified labour concerning the conditions of its performance has to be higher. General low wage rates leads to wage-levelling and caused by economizing qualified labour force cost.

Also the current situation is characterized by higher-than-anticipated growth of consumer requirements and wage demands on the part of population together with absence of purposeful actions concerning structural changes in economy on the part of state and employers. The population compares the today's welfare not with the Soviet past but with living standards of developed countries and that is why the people are so critical of existing standards of monthly pay and their motivation to economic activity is very low. Despite of the past talks about necessary



transition to innovative development model, the state and employers continue to follow the low cost labour model which causes preservation of out-of-date material and technical basis of production and archaic structure of economy and, as a result, one of the lowest in Europe levels of productivity. As the Soviet academician S. Strumilin said that insufficiently considered economizing wage is the most unprofitable way of saving.

Consequently, Ukrainians gladly leave their motherland in search of better workplaces and higher wages. At the same time it causes particular challenges to country's economy. If emigration, for example, to Russia is temporary, people move to the EU with intention to stay there forever. A range of experts consider that Ukraine only wins from "brain drain" because later workers return to the country having improved.

But still regarding migration of highly qualified labour force the most of experts estimate it as a negative phenomenon because it causes a considerable threat to country's economic (useful inventions and discoveries will bring profits to other countries), scientific (new "Einsteins" will not bring benefits to the native system of science and education) and social

(due to migration of highly qualified labour force the nation loses a great potential and is deprived of valuable human resources) development.

**Leaving abroad gives a possibility for talented people to apply their skills and knowledge more properly as well as to accumulate financial resources and develop business ties that they hardly could do staying in the homeland.**

Leaving abroad gives a possibility for talented people to apply their skills and knowledge more properly as well as to accumulate financial resources and develop business ties that they hardly could do staying in the homeland.

Today in the leading world countries IT-experts are in great demand. And foreign companies



provide good conditions of work with the purpose of labour piracy. “Emigration of programmers increased dramatically – small and medium companies leave abroad”, – says Yuriy Antoniuk, senior director of EPAM Ukraine. According to him, Ukrainian state has not created favourable conditions for start-ups development yet, and it cannot happen independently.

## **The living standards of population depend on efficiency of state policy in the sphere of payment for labour.**

In the view of Dmytro Ovcharenko, the Managing Partner of SBT Systems Ukraine, Ukraine needs proper legislation and judicial system for IT development as it will help to defend companies' patented technologies rights.

At the same time Mykola Roienko, the President of Miratech company admits that current level of state financing of research studies is insufficient for active development of information technologies in the country. According to him, in aver-

age a researcher obtains 2,000 euros to conduct his studies. “Science is on starvation diet”, – said Mykola Roienko.

Also he informed that Ukraine is one of the most attractive countries for foreign companies in the market of IT-outsourcing. “De facto Ukraine has become top outsourcing destination – 9 out of 100 biggest world IT-companies work in Ukraine”, – said he.

“Despite of these problems investors want to work in Ukraine. It is important to further the industry”, – said Oleksandr Medovyi, the Director General of Altexsoft.

Certainly, not only scientists and IT-experts emigrate but also builders, engineers, doctors and specialists of many other fields.

“The Czech Republic is the second country after Poland for residents of Ukrainian borderlands where they leave for in search of higher wages. And they do not go for short-term or seasonal trips but usually they stay there for six months or for a year”, – says Zenovii Bermes, the Head of the Association of Employers of Lviv region to DW. “In Transcarpathian region searching of a job in the Czech Republic is a mass phenomenon, in Lviv region the figures are less but



people also go. They leave abroad legally and illegally obtaining Polish visas. They go not in search of higher payment or improvement of family living standards as Czechs, Germans and Italians did in their times but for banal survival. There is no alternative in Ukraine”, – says Bermes.

A development engineer's monthly pay in Ukraine averages 7,000 hryvnias, and in the Czech Republic it starts from 1,000 euros (approximately 30,000 hryvnias). Thus, there is a great financial incentive for specialists. Besides, in the regions of western Ukraine unemployment rate is higher in comparison with official 9 %. “We can state about 20 %. And a great number of the unemployed live thanks to border movement”, – adds the Head of Association. He admits that in the contemporary world there is a struggle not for oil or gas but a struggle for human resources: “As we see, the Czech Republic joined the struggle for Ukrainian human resources and not only for a number of people which released during economic crisis but for highly qualified labour that is in great demand.” Really, some investors come to western Ukraine and use low cost Ukrainian labour force working on customer-supplied raw materials but soon they will face labour shortages.

Thus, as a social and economic category wage, on the one hand, is a basis for workers' welfare, and, on the other hand, it stimulates workers to highly efficient labour in case of science-based organization and, as a result, it affects the growth rate of socio-economic development of state. The living standards of population depend on efficiency of state policy in the sphere of payment for labour. The development of market relations in Ukraine requires the departure from dogmas, stereotypes, wage-levelling which existed in the Soviet past and transition to the use of market mechanisms and new philosophy of payment which have to provide respectable payment for labour and promote poverty eradication.



MEDICAL INSURANCE AND SOCIAL SECURITY



# 17/

## MEDICAL INSURANCE AND SOCIAL MAINTENANCE

Currently minimum monthly pay of employees in Ukraine is 3,200 hryvnias. Average monthly pay is 5,700 hryvnias. Taking into consideration average monthly wage we will calculate all types of social collections that company and worker pay:

- Taxes paid by enterprise from worker's wage: 33.2 % - pension fund (1892 hryvnias), 1.5 % - fund of temporary inability to work (85.5 hryvnias), 1.3 % - unemployment fund (74.1 hryvnias), from 0.8 % to 2.4 % - fund of job-related accidents (for further calculations from this tax we will use the figure of 1 %).
- Taxes collected from monthly wage of employee: 2% - pension

fund - 114 hryvnias, 1% - unemployment fund - 57 hryvnias, 15% - individual income tax - 855 hryvnias.

In general 38.4 % are paid from labour compensation fund and 18 % from worker's wage.

These collections are compulsory but additionally company can pay for employees' *medical insurance* voluntarily in order to inspire and encourage them.

First of all, we want to emphasize that in Ukraine compulsory medical insurance system has not been implemented yet. Nowadays there is a free-will form of medical insurance for population. Mainly the



services of medical insurance are used by employees of large companies as these companies pay all necessary fees themselves.

According to the National commission regulating the sphere of markets of financial services, market of free-will medical insurance is very slow – in Ukraine during 9 months of 2016 only 9 % (1758.6 mln hryvnias) from general net premiums were paid to the category of “medical insurance” (continuous health insurance). The category “insurance of medical expenses” makes up only 2.68 % (compared to 6.31 % and 1.57 % in 2012 correspondingly) of net premiums.

## **Mainly the services of medical insurance are used by employees of large companies as these companies pay all necessary fees themselves.**

The tendency that citizens do not use such institute as medical insurance is explained by the fact that currently the population cannot afford the facilities of insurance companies.

Nowadays in Ukraine there are many insurance companies that provide services for population concerning free will medical insurance. The largest companies are the following: *AXA Ukraine*, insurance company *Providna*, *PZU*, insurance company *TAS*, *Oranta* and *Uniqa*. But also it is necessary to emphasize that mainly these companies started providing medical insurance in 2015 – 2016. And basically their activities will increase massively after implementation of compulsory medical insurance.

Regarding medical reforms the profile ministry and the Cabinet of Ministers of Ukraine support the idea that compulsory medical insurance for Ukrainian citizens should be provided by a foreign company. It means that foreign investors will be involved in the sphere of compulsory medical insurance and they will provide the population with this service.

The interest of investors concerning this problem proves that a wide range of world famous insurance companies have declared their desire to provide the population with compulsory medical insurance in Ukraine. Considering that annual cost of medical insurance averages 200 American dollars it is very profitable sphere for foreigners who want to invest in Ukraine.



Having analyzed the state of medical insurance in Ukraine we are confident to say that soon this reform will be finalized and foreign companies will have a good opportunity to invest in this sphere in our country.

Main principles of *social maintenance reform* in Ukraine are stipulated by the Concept of social maintenance of population of Ukraine which is approved by the Verkhovna Rada of Ukraine. The Verkhovna Rada has also passed two pension laws – “On compulsory state pension insurance” and “On non-state pension maintenance”, – which have to change the system of pension maintenance radically and bring it to international standards and experience of developed countries with market economy.

With regard to reform of pension system the Cabinet of Ministers of Ukraine implemented three-tier system of pension maintenance. The first tier is pay-as-you-go pension scheme, second tier – storage system, third level – system on non-state pension maintenance. Thus, pension of an individual has to comprise of three parts and monetary funds for each structural part are accumulated and paid in accordance with special conditions.

**Having analyzed the state of medical insurance in Ukraine we are confident to say that soon this reform will be finalized and foreign companies will have a good opportunity to invest in this sphere in our country.**

The system of non-state pension maintenance is a component of storage pension maintenance system which based on the principles of voluntary part of individuals and legal entities. And the Government of Ukraine lays the largest account on this tier of pension system. Moreover, this tier can be interesting for a potential investor from abroad as well.

As nowadays in Ukraine among existing non-state pension funds there are no companies which could provide the population with their services, it means that all in-



vestors will be from abroad. And we hope that in 2017 these companies will come to Ukrainian market and the pension reform will be finalized as it is one of the requirements to obtain next tranche from the International Monetary Fund.

The participation of life insurance companies which activity is foreseen on the third tier due to worsening of conditions of pay-as-you-go pension scheme will not cause the sharp leaps of market increase – it is stage-by-stage process. The same peculiarities are typical for the whole pension reform. Regarding competition the winner will be the fastest and most qualitative one who will be able to explain the information about reform and possibilities of its third tier for the population. Here conditions are practically the same for foreign companies with own network of life agents as well as for domestic companies with network of risky agents with existing customer base.

In Ukraine there is a range of social annual programs directed towards the help of vulnerable groups of population, namely:

- “Program of financial assistance for displaced people” – in 2014 the Office of the United Nations High Commissioner for Refugees gave

3.5 mln hryvnias for support of forced internally displaced people, in 2015 the amount was 5 mln hryvnias, 2016 – 7 mln hryvnias.

- Program “Modern methods of rehabilitation of disabled children” – the program which gives possibility for recreation therapists to undertake an internship in the USA.

- Annual programs of Fund “Stephania” – rehabilitation center for the homeless, 24 hours' heating station attached to the day center opens in cold period, assistance for families with many children, support of displaced people.

In Lviv the Program of social maintenance of internally displaced people was prolonged for 2017.

This program includes measures on the local level with the purpose to provide internally displaced people with financial support. In particular it concerns disabled people (including disabled children) mother/fathers (guardians) which take care of three and more small children under 18 years, people of working age which do not work or do not have a possibility to work due to long-lasting disease, in some cases – other internally displaced people which are registered in the organs of social maintenance of the Depart-



ment of Humanitarian Policy of Lviv City Council.

Kramatorsk training and production facilities of Ukrainian Blind Association obtained from Oshchadbank a loan within the framework of the Program of crediting of social enterprises under the auspices of Western NIS Enterprise Fund.

The enterprise where 60 % of workers are people with visual impairment is specialized in the production of corrugated board and its products. Obtained money will help to increase the volumes of production facilities and competitiveness of enterprise, and then it will give the possibility to pay stable wages and to provide workers with material support and treatment, accommodation, recreation facilities, and also to create conditions for social and cultural development. The positive fact is that banks promote crediting of different social enterprises.

2017 has to become an important year in the sphere of medical insurance and social maintenance of population. The Government of Ukraine is ready to cooperate with international companies in order to enhance social maintenance of population. The Government of Ukraine declares fully open access

for investors to Ukraine and this news is very encouraging.



MEETING OF VERKHOVNA RADA OF UKRAINE, KIEV, UKRAINE



# 18/ GOVERNMENT SUPPORT OF INVESTMENT PROJECTS

Government support of foreign investments is guaranteed by the Law of Ukraine On Protection of Foreign Investments in Ukraine. According to Article 5 of the Law of Ukraine On Protection of Foreign Investments in Ukraine No. 1540a-XII of 10. 09. 1991, foreign investors have the right to re-invest in the enterprise or field of activity of the enterprise in Ukraine. Also, according to Article 4 of the above Law, foreign investors have the guaranteed right to obtain profits transferred abroad or other funds obtained through lawful activities, in both national and foreign currencies. Chapter 2 of the Law of Ukraine On the

Regime of Foreign Investments No. 93/96-VR of 19. 03. 1996 provides government guarantees to protect foreign investment. According to Article 7 of Chapter 2 “Government Guarantees of the Protection of Foreign Investment” of the Law, a number of legislative acts provide the procedure for investment and other economic activity of foreign investors on the territory of Ukraine.

The national regime of investment activity provides that foreign investors have same scope of rights and obligations as the national economic entities. According to Article 6 of Chapter 2 of the Law of



Ukraine On Foreign Economic Activity No. 959-XII of 16. 04. 1991, he national investment regime regulates all business activities of foreign economic entities provided such activities involve investment in Ukrainian economy. Exceptions to national investment procedures can be established by international agreements between the Ukrainian government and foreign governments.

According to Article 3 of the Agreement between the Governments of Ukraine and the Czech Republic, which was signed on 17. 03. 1994 and entered into force on 02. 11. 1995, the national investment procedures do not apply to granting foreign investors the right to land ownership and participation in the process of privatization.

According to Article 8 of the Law of Ukraine On the Regime of Foreign Investments, foreign investors are guaranteed protection against changes in legislation for a period of ten years. However, this does not mean that Ukrainian legislation can not be changed. However, the article provides for a situation whereby in case of change of legislation the foreign investor is entitled to apply for those government guarantees of protection of investment that are contained in

the Law of Ukraine On the Regime of Foreign Investments No. 93/96-BP of 19. 03. 1996. Such application may be submitted by the foreign investor within ten years after the entry into force of the amended legislation.

In view to provide support for investment projects of economic entities the Cabinet of Ministers of Ukraine established the State Innovation Finance and Credit Organization. The Organization has so far implemented the following projects: an innovative project to install an energy-efficient cogeneration thermal power complex "Motor Sich" for the implementation of which the Organization provided a loan in the amount of 676 000 Euros; an innovative project to produce the first domestic light multipurpose helicopter KT-112, for the implementation of which the State Innovation Finance and Credit Organization allocated 1 mln EUR. The Organization approved funding in the amount of over 1 066 000 Euros for an innovative project designed to develop the technology for the production of organic collagen film for food packaging. The list of innovative projects implemented by the State Innovation Finance and Credit Organization also includes a project to develop the serial production of chassis units for AN-140 and AN-



148-100 airliners and the project for the reconstruction of street lighting in Lviv with the use of modern energy saving technologies.

Since 2012, industrial parks have been developing in Ukraine. They are considered as a tool of the development of industrial and research enterprises. As of December 30, 2016 the Ukrainian Register of industrial parks listed 15 industrial parks.

In order to attract foreign investment the Verkhovna Rada adopted in the first reading a bill that aims to establish preferential taxation of industrial parks. Thus, in the case of final approval of the bill on amendments to the Tax Code of Ukraine, the following benefits will be established for industrial parks: income tax will be charged at the rate of 0 % for the first five years and at the rate of 9 % for the next five years. The legislation also gives industrial parks the right to install the amount of value added tax in connection with the transactions to import to Ukraine equipment and other materials used for the arrangement of the parks or for business activities. Installment of the amount of VAT is permitted for 5 years. Thus, the benefits provided significantly reduce the tax burden placed on

## **In order to attract foreign investment the Verkhovna Rada adopted in the first reading a bill that aims to establish preferential taxation of industrial parks.**

industrial parks and will enable the parks to reinvest more in their business activities.

According to Article 15 of the Law of Ukraine On Electric Power Industry No. 575/97-VR of 16. 10. 1997, wholesale electricity providers of Ukraine are obliged to buy from entities, for which “green” electricity tariffs are set in each billing period. The wholesale electricity providers are obliged to pay the full cost of electricity generated by alternative sources of energy by the “green” tariff. “Green” tariff for business entities producing electricity from alternative energy sources is set at retail rate multiplied by the coefficient of “green” tariff for this type of electricity. Article 17 of the Law defines the rates of “green” tariff for objects commissioned from 01. 01. 2017 to 31. 12. 2019. Thus, entities that



generate electricity using wind turbines with the capacity of generating units of 600 kW, can sell this electricity at a price of 0.06 Euros per kilowatt hour without VAT. For entities that generate electricity by using wind turbines with the capacity of generating units from 600 to 2,000 kilowatt hour, the selling price of such energy to the state is set at 0.07 Euros per kilowatt hour. If the production of electricity is carried out through the use of wind turbines with the capacity of generating units of 2,000 kilowatts and more, businesses can sell this energy at a price of 0.1 Euros without VAT.

## **Tax preferences are also established for manufacturers of the equipment for the production of alternative fuels and the equipment that runs on renewable energy.**

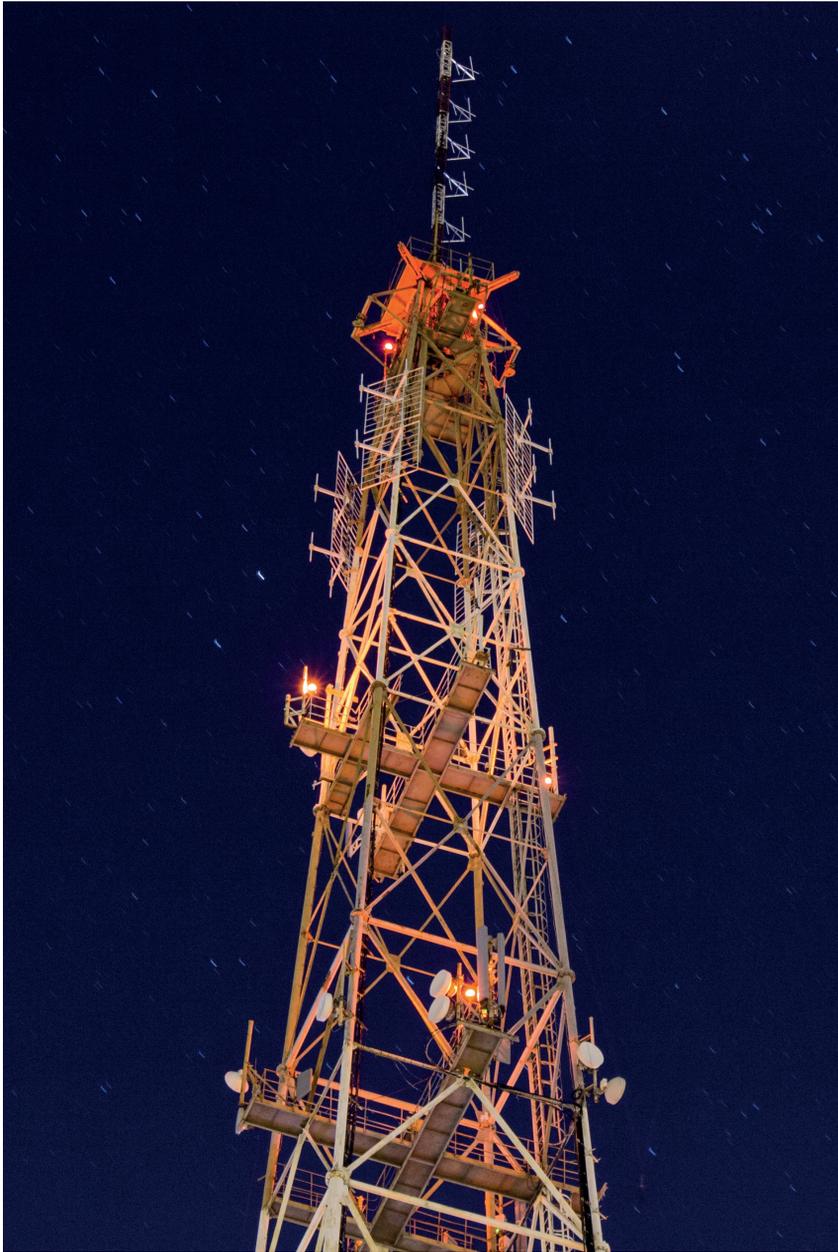
For those entities that generate electricity through the use of biomass and biogas the selling price was set at 0.13 Euros without VAT per kilowatt hour. For entities ap-

plying terrestrial solar energy electric power facilities for the production of electric energy the selling price of such energy is set at 0.16 euros without VAT. In addition to setting the “green” tariff for business entities producing electricity using alternative energy sources, for such producers the legislation establishes more favorable conditions of taxation and customs clearance of equipment for electric power facilities intended for power generation through alternative sources. Favorable conditions of taxation mean exemption from taxation of import into Ukraine of equipment to be used for the production of renewable energy from alternative sources (paragraph 197.16. of Article 197 of the Tax Code of Ukraine). Tax preferences are also established for manufacturers of the equipment for the production of alternative fuels and the equipment that runs on renewable energy. For manufacturers of such equipment carrying out its sale on the customs territory of Ukraine benefits are established in the form of tax exemption of 80 percent of the profits of manufacturers of such equipment (appendix to the Resolution of the Cabinet of Ministers of Ukraine “On approval of the list of own produced goods, whereof 80 percent of the profits from the sale at the customs territory of Ukraine shall be



exempt from taxation” No. 1005 of 28 September 2011).

Thus, the government of Ukraine implements state support of investment projects by establishing preferential taxation for manufacturers of equipment for the production of alternative fuels and equipment operating on renewable energy, as well as “green tariff” for those entities that generate electricity through the use of alternative sources of energy. The Cabinet of Ministers of Ukraine established the State Innovation Finance and Credit Organization, which has so far provided financial support for five investment projects.



RADIO-ANTENNA TOWER OF KHARKIV, UKRAINE



# 19/

## FOREIGN INVESTMENTS

Foreign investments play a key role in the development of the economy of any country. Therefore, accumulation of foreign investments is one of the priorities of the Ukrainian economic policy. As a result of the political instability and rupture of economic relations with Russia, the Ukrainian currency hryvnia lost about 70 % of its value between 2014 and 2015. 50 % of the markets for Ukrainian products were lost, that in turn has caused a significant reduction in currency incoming, following the same

(unchanged) demand for the foreign currency in the country. Despite this, the Ukrainian currency has remained stable and even restored a few percent of its value during the first months of the summer 2016.

Ukraine is interesting for foreign investors as it has a number of factors that constitute its investment attractiveness: favorable geographical, geopolitical and geo-economic location, a high level of natural resources, cheap skilled labor force,



receptive consumer market etc. In general, the legal and regulatory framework for the establishment and operation of business in Ukraine is the same for both foreign and domestic investors (except for property rights for lands of agricultural designation).

Foreign investors have the right to repatriate profits, income or other expenses associated with investment without any restrictions, providing investments were made in accordance with the current legislation and after paying appropriate taxes. Foreign investors are guaranteed the right to immediate and unhindered export of earnings.

## **Foreign investors are guaranteed the right to immediate and unhindered export of earnings.**

At present, most foreign investments that Ukraine receives are from EU countries. The key areas of Ukrainian economic activity are still unchanged: manufacturing, IT sector, building industry, information and telecommunications, agriculture, forestry and fishery, wholesale and retail trade etc.

On the global stage Ukraine acts not only as a recipient country, but also as a state that invests in other countries. Direct investments from Ukraine have been channeled to 46 countries so far. Currently Ukraine is most actively investing in the processing industry, production of food products, drinks and tobacco products, engineering, metallurgy, financial and insurance activities etc.

Analysis of the investment climate in Ukraine demonstrates a negative impact of the Russian aggression on the economic situation, which determines attraction of investments into the country.

An important factor that is supposed to stimulate investing activities in Ukraine is the Ukraine-EU agreement on free trade zone (further – FTA), which came into force on January 1<sup>st</sup>, 2016. FTA with the European Union is a weighty argument in favor of foreign direct investments in manufacturing and service-oriented exports to the European Community using the existing competitive advantages of the Ukrainian economy.

Currently Ukraine has several promising initiatives aimed at improving the ways of attraction of foreign investments. There is a positive tendency in the invest-



ment climate of the country, primarily due to the attraction of investments into the country's key sectors: agriculture, information and communication technologies and alternative energy sources.

The first investment conference was held on July 13<sup>th</sup>, 2015 in the city of Washington, USA. Several agreements were reached there and the sides focused on cooperation in the following areas: energy, agriculture, infrastructure and privatization.

As for the infrastructure, one of the largest US companies "Cargill", which already has some considerable experience of working in Ukraine, has made decision about further investments into the Ukrainian infrastructure and construction of a terminal with a transshipment of 4 million tons of total sum 100 million dollars. The respective memorandum has been signed. The construction of the new terminal will be performed in the port "Yuzhnyi".

In addition, Ukraine has signed with the US partners the "Open Skies" agreement. We need to have competition on the aviation market. Therefore all restrictions in bilateral flights between Ukraine and the USA were completely abolished. This will increase the num-

ber of flights, improve air service and reduce the price of airline tickets.

Ukraine is one of the main countries in terms of the development of the IT sector. Benefits for investors in this area are primarily caused by the favorable tax climate for the development of the industry. According to the Tax Code of Ukraine from January 1<sup>st</sup>, 2013 to January 1<sup>st</sup>, 2023 IT companies are exempted from paying VAT and income tax, and since 2015 income tax has been paid at the rate of 18 %. For the present Ukrainian companies are mostly concerned with IT outsourcing. However, about 10 % of IT companies are

**Ukraine is one of the main countries in terms of the development of the IT sector. Benefits for investors in this area are primarily caused by the favorable tax climate for the development of the industry.**



product oriented. One of the main US funds HorizonCapital has decided to invest in the internet-shop “Rozetka.ua” and it wants to develop this project greatly.

There have also been some achievements in the energy sphere. First of all, in 2014 Ukraine managed to diversify gas supplies to the country with the help of American partners. If previously Ukraine was completely dependent on Russian gas, now we buy from EU countries about 70 percent of the necessary amount.

## **The purpose of the Ukrainian government is to achieve full energy independence for Ukraine during the next 10 years.**

In order to speed up the process of obtaining full energy independence, we need to increase the amount of natural gas production. Henceforth, every company that wants to invest in Ukraine in order to increase the amount of natural gas production will receive preferential tax treatment. On the other hand, Ukrainian government along with the US and

EU will launch energy efficiency programs: reducing energy consumption, insulation, modernization and new boilers. The purpose of the Ukrainian government is to achieve full energy independence for Ukraine during the next 10 years.

In the power sector we have also signed a memorandum with a European division of “RiverStone” in order to increase the purchase of natural gas for the Ukrainian industry and for the needs of the Ukrainian economy. Also a chairman of “Naftogaz Ukraine” has signed a memorandum with “Frontera” about the construction of an LNG-terminal and gas shipment to Ukraine through the sea.

The beneficial effect on the investment climate has the agricultural sector. Achievements in agriculture are reached, first of all, due to the richness of natural resources. Most countries do not have even a tenth part of what we have. Aggregate area of the Ukrainian black soil is comparable to the whole area of the UK. Especially fruitful are southern and central parts of Ukraine, where 50 % of the territory is “pure” black soil. Our American partners are considering the issue of financing programs on purchasing modernized and high-quality US equipment



for the Ukrainian agriculture through the Export-Import Bank of the United States.

Another important strategic partner for Ukraine is Canada, with which Ukraine has signed the agreement on free trade. In the investment sphere there are some promising projects between Ukraine and Canada, particularly dedicated to the construction of factories in Ukraine for agricultural machinery.

Another interesting example of bilateral cooperation in the field of foreign investments is Ukraine and Germany. Ukrainian-German economic projects have been quite successful. For example, a new factory of Kromberg & Schubert Company was opened in Zhytomyr at the beginning of 2016. In general, there are more than 4000 enterprises with German capital registered in Ukraine, while more than 2000 of them are really in operation. We hope that further cooperation between Ukraine and Germany will be productive and will bring positive results in the nearest future.

Despite the current complicated situation, Ukraine should continue to attract foreign investments, thus improving its position on the global stage. As we know, foreign

investments are a key to the economic development and growth of any country. Therefore, the most important component of the national economic policy is to enhance the investment process in Ukraine.



FORMS OF SUBSIDIES TO THE BUSINESS ENVIRONMENT



# 20/

## FORMS OF SUBSIDIES TO THE BUSINESS ENVIRONMENT

In view to improving the investment climate in Ukraine, the Government has developed a number of measures. Thus, from 1 January 2017 farmers are offered to adopt the practice of the European countries where agriculture is supported through various kinds of grants and appropriations. The 2017 state budget provides for expenditures to support agriculture through the following programs: “Financial Support of Activities in Agriculture Through Cheaper Loans” (300 million hryvnias); “Providing Loans To Farmers” (25 million hryvnias); “Financial Support of Activities in Agriculture” (60 million hryvnias); “State Support of the Development of Hops Cultivation, Planting and Maintenance of Young Gardens, Vine-

yards and Berry Plantations” (75 million hryvnias); “State Support of Livestock Breeding” (210 million hryvnias); “Financial Support for Agricultural Producers” (2973 million hryvnias) – this subsidy will be paid automatically to livestock farms (including poultry farms), as well as vegetable, horticulture and viticulture enterprises.

The amendments to the Law of Ukraine “On State Support of Agriculture in Ukraine” to support agricultural producers and stimulate agricultural production provide budget subsidies to agricultural producers whose main activity is the supply of agricultural products produced on their own or leased fixed assets.



## **For government subsidies, agricultural producers should be included in the Registry of recipients of budget subsidies.**

The following activities of agricultural producers are eligible for budgetary grants:

- growing vegetables and melons, roots and tubers, such as potatoes, etc.;
- growing pome and stone fruit, berries and edible nuts;
- breeding of cattle, horses, pigs, poultry and other livestock and meat production;
- milk processing, production of butter, cheese and sour cream;
- production of eggs and egg products.

For government subsidies, agricultural producers should be included in the Registry of recipients of budget subsidies. For the application for registration in the Registry of recipients of budget subsidies the agricultural producer should

submit an application of a prescribed form to State Fiscal Service at the place of their registration as VAT payer. The form is submitted personally by the manager or representative of the agricultural producer with a documentary proof of identity and authority of the respective person.

The application should contain the statement of the grounds for the entry of the agricultural producer in the Registry, the list of activities that gives such agricultural producer the right to receive budget subsidy.

The world population is growing and hence the demand for food is increasing; therefore agriculture will remain a promising economic area. Ukraine has a lot of advantages in this regard, with its favourable weather conditions and fertile lands, in particular, black soil (chernozem).

Over the past two years EBRD investments in Ukraine's agriculture has amounted to about half a billion Euros. Equally attractive are both direct investments in agricultural production and investments in the development of agricultural infrastructure, as well as development of water logistics, systems of crops storage and biofuel production as this agricul-



tural infrastructure is currently underdeveloped.

Today the IT sector is one of the most intensively developing areas in Ukraine. Therefore, the changes introduced in taxation concern this area as well. Entities in software industry have the 5 % tax rate on earnings. Besides, they are exempt from VAT payments (until 1 January 2023).

The activities entitled to tax benefits are as follows:

- development of software, including development and sale (sale, rental and/or granting licenses) of system software packages, service and game programs, publication of ready software, including the translation and adaptation of unsystematic software for a particular market at own expense: operational systems, business and other applications, production of computer games for all platforms;
- computer programming and all activities of writing, modifying, testing and technical support, and documentation of software, including the structure and content development and/or writing a system of commands required for creation and implementation;
- consulting on informatization, including planning and development of computer systems that combine

hardware, software and communication technologies, consulting on the type and configuration of computer hardware and the use of software technologies;

- the activities of management of the computer equipment, including the provision of services of local management and activity of customers' computer systems, as well as data processing and other related services, operating on the long-term (permanent) basis means of data processing that belong to other users;
- creation and implementation of information technology systems and networks;
- data processing, posting of the information on websites and related activities.

The prospects of the IT industry can be discussed endlessly and on-

**The world population is growing and hence the demand for food is increasing; therefore agriculture will remain a promising economic area.**



ly in a positive way. The intellectual potential of Ukraine in this field has long attracted the attention of the world community. The country occupies one of the first places in Europe by the number of certified specialists. Today the domestic IT business is working for foreign clients by almost 100 %.

The research group DOU.ua thoroughly studies the activity of the IT industry in Ukraine and publishes the list of Ukrainian top IT companies according to the number of personnel each quarter. Every year the list includes at least 10 Ukrainian IT companies that employ about 30 % workers and 15 companies with foreign invest-

**The intellectual potential of Ukraine in this field has long attracted the attention of the world community. The country occupies one of the first places in Europe by the number of certified specialists.**

ments which accordingly employ about 70 % IT specialists. According to these data, Kyiv is the leader by the number of branches of large IT organizations. At the same time it should be noted that Lviv plays an increasingly important role and has become, alongside with Kharkiv and Odessa, a regional leader in the IT industry. Of 25 largest domestic IT companies nine have branches in Lviv, which is the largest number after Kyiv. Lviv has become more attractive as the situation in Eastern Ukraine remains tense. According to the rating of the International Association of professional outsourcers "The 2015 Global Outsourcing 100", two Lviv IT companies – Eleks and SoftServe, as well as 5 foreign companies with offices in Ukraine – the Swiss Luxoft, the Russian Artezio, the American Intetics, TEAM International Services and Softjour were included in the list. Today, Ukraine has all conditions for the successful development of information technology: high supply of qualified IT specialists, considerable support of the leading countries of the world, the willingness of the new government to implement progressive changes in the economy. The IT industry is characterized by high versatility and mobility due to which it will generate income even in the conditions of a deep crisis.



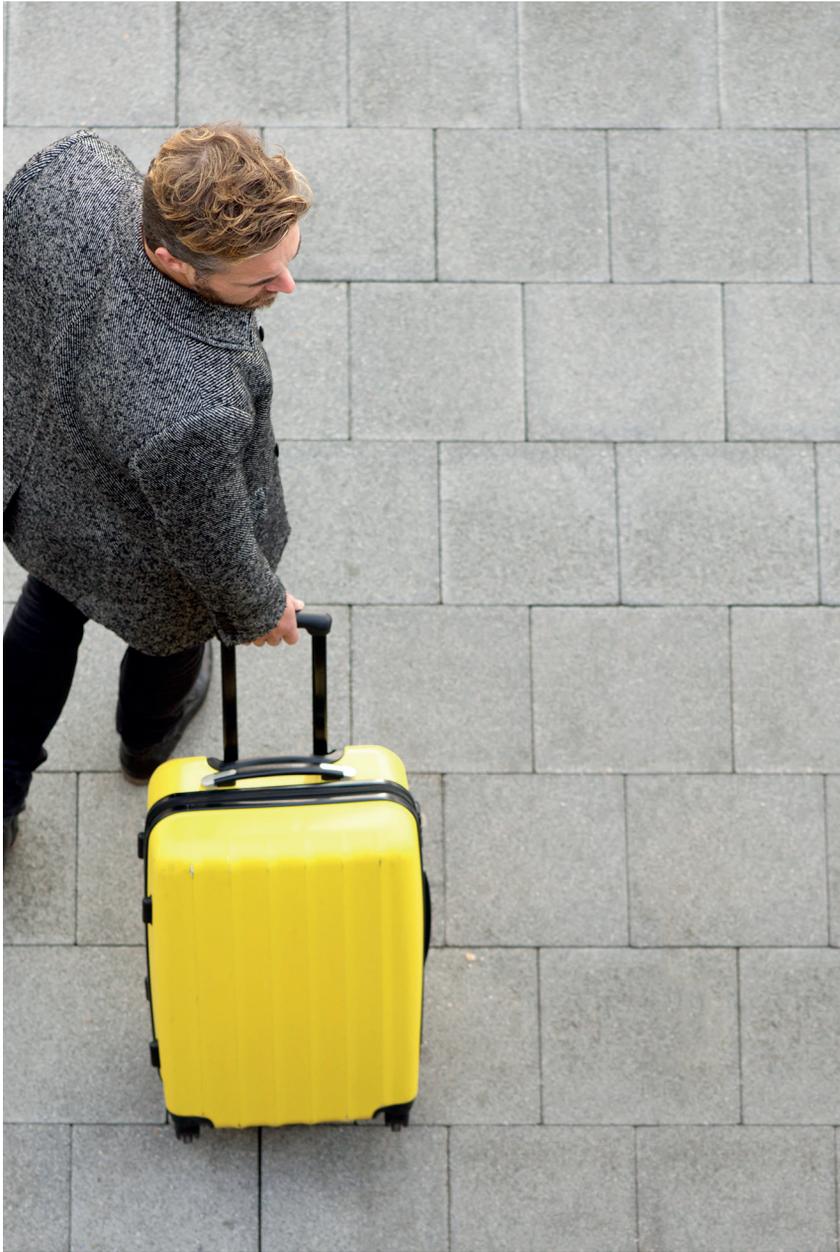
On December 28, 2015 the Ukrainian Government and European Investment Bank (EIB) signed a financial agreement on Project “The Main Credit for the Agricultural Sector: Ukraine”. The agreement was signed within the framework of the program for the support of investment projects outside the European Union approved by the European Parliament and the Council of the European Union. The amount of this loan is 400 million Euros that is almost 12 billion in Ukrainian national currency. Under the agreement, funding will be provided for a period of four years and the loan will be given in tranches in Euros or US dollars.

Under the terms of the loan, the financing of investment projects of Ukrainian producers from the EIB funds will cover up to 50 % and the other expenses should be met by the Ukrainian participating banks or the companies' own funds. In general, the implementation of the project will allow making an investment contribution to the domestic agricultural sector worth 800 million Euros that is almost 25 billion hryvnias.

The final recipients of the funds will be small and medium businesses with the number of employees up to 250 persons, companies with a medium level of capitali-

zation (up to 3000 employees), as well as private (regardless of the number of employees) and public companies.

It is important that the loan is provided for 12 years with a 4-year grace period, which means that the first payment of the loan will start after four years from the date of the receipt of the first tranche and will be made in semi-annual installments. The interest rate will be fixed (EURIBOR for the euro tranches or LIBOR for the tranches in US dollars) or floating (EURIBOR + spread).



RESIDENCE OF FOREIGNERS IN UKRAINE



# 21/

## RESIDENCE OF FOREIGNERS IN UKRAINE

Foreigners have various reasons for entry the territory of Ukraine: study, work, investment, tourism, visiting relatives or friends, treatment and others. But is it easy to do and what is needed for crossing the Ukrainian borders?

Generally, foreigners in Ukraine have the same rights as Ukrainian citizens do. Thus, they are able to move freely and choose a place of residence, use the services of education, medicine, culture, recreation and social protection, employment, carry out investment and business activities. The limitations concern the absence of a right to vote and the impossibility to force foreign citizens to do military service.

Any foreigner may enter Ukraine with a passport if there is a visa-free regime between Ukraine and visitor's country of origin or he/she is required to produce a passport with duly issued valid visa. Also a stateless person may enter Ukraine in case he attends the Ukrainian higher educational establishment for at least one year and has all the relevant documents.

The registration of a foreigner is carried out by the officers of the State Border Guard Service of Ukraine while crossing the state border in the ports of entry. Exceptions are persons who are exempted from registration or their passport documents are registered



in the Ministry of Foreign Affairs or its representative offices.

The duration of staying for foreigners in the territory of Ukraine is regulated in accordance with the duration of visa validity or agreement with a country whose citizens have a right to visa-free entry.

**Usually the duration of visa validity is about 15 days and may be extended if it is necessary to conduct some additional documents verification procedures.**

The visa can be issued in the diplomatic missions and consulates abroad as well as (in some exceptional cases) at the airports “Boryspil” and “Odesa”, and at Odesa sea trade port as well.

All visas are divided into three types: transit, short term and long term. Transit visa entitles a foreigner to stay in the territory of Ukraine not more than 5 days,

short term visa – not more than 90 days during the last 180 days and long term visa – more than 90 days during the last 180 days.

Usually the duration of visa validity is about 15 days and may be extended if it is necessary to conduct some additional documents verification procedures. It is also possible to obtain the urgent visa (in the period of less than 15 days).

The most common ground to obtain a visa is an invitation. It can be a guest (from an individual), business (from a legal entity) and tourist invitation (travel voucher is needed). Estimated duration for the invitation validity for visa obtaining is 30 days from the date of its issue.

There is a full list of reasons why a foreigner can be denied visa. Some of them are the following: false information or invalid/forged documents, lack of necessary documents, threat to national security, ban or temporarily restrictions for entering Ukraine.

But today citizens of nearly 60 countries including EU member states and countries of the CIS have a right to visa-free entry to Ukraine. So, visa is most likely not required.



Usually citizens who have a right to visa-free entry to Ukraine may stay in its territory for 90 days altogether within six months. Also if there are serious grounds this term can be extended. These reasons include: pregnancy or childbirth, treatment, care of sick relative, process of obtaining immigration permit or citizenship of Ukraine, heritage execution, etc. Thus, taking into account all of the above mentioned conditions, the duration of stay in Ukraine cannot exceed 180 days from the date of the last entry. The decision on the extension of the duration is taken personally by the head of the regional body or unit of the State Migration Service of Ukraine and allowed mainly only if there are serious obstacles for a person to leave Ukraine.

If a foreign national who stays in the territory of Ukraine understands that he will not be able to leave the country on time, he must apply to the regional bodies or units of the State Migration Service of Ukraine not earlier than 10 working days and not later than 3 working days before the possible end of the stay. The application included a set of documents identifying foreign citizenship and the explanation of grounds that hinder his to leave the territory of Ukraine.

If a foreigner delays his departure from Ukraine, this fact is recorded at the port of entry while crossing the state border of Ukraine and the violator obtains a notice of warning or he is imposed a fine. In the case he does not pay the subjected fine the bodies of the State Border Guard Service of Ukraine have a right to ban him to enter the territory of Ukraine for up to three years.

If a foreign citizen wishes to stay in Ukraine longer than the period of duration of long-term visa or the period of stay allowed for stateless persons, he can do is in some ways:

- to obtain the business visa in the embassy of Ukraine to their home country for a period of six months to one year;
- obtain a permit for temporary residence in Ukraine;
- obtain a permit for a permanent residence in Ukraine (if there are reasons for this permit);
- get citizenship of Ukraine (if there are proven reasons).

The grounds for a temporary residence permit include: employment, participation in international projects, working for religious organizations, and other cases.



The requirement for such a permit is the foreigner's age, he has to be over the age of sixteen. The application for a temporary residence permit, despite of all grounds, the foreigner must submit passport and its translation, receipt about payment of duty, photographs, a copy of the certificate about obtaining the identification code and health insurance police.

**A permit application is executed during 15 working days. The certificate is valid for one year with a possibility of its extension.**

Also, foreigners who came to Ukraine for employment must provide permit for employment or labour contract indicating his position in the company and the application of the employer's indicating his obligation to announce the State Migration Service of Ukraine about the early termination of the labour contract.

A permit application is executed during 15 working days. The certificate is valid for one year with a possibility of its extension.

A foreigner can obtain a permanent residence permit if:

- he has family ties with a Ukrainian citizen (parents, spouse, children, brothers and sisters, grandparents, grandchildren);
- he is an important figure in the culture or science or a significant investor;
- he had citizenship of Ukraine;
- he is granted refugee status;
- and in some other cases.

Before submitting an application for a permit it is necessary to execute a permit for immigration. Also it is required to submit the following documents: passport and its translation, a receipt for payment of state duty, photographs and a copy of the document certifying registration in the State Register of individuals – taxpayers.

The term of permit registration takes 7 days.

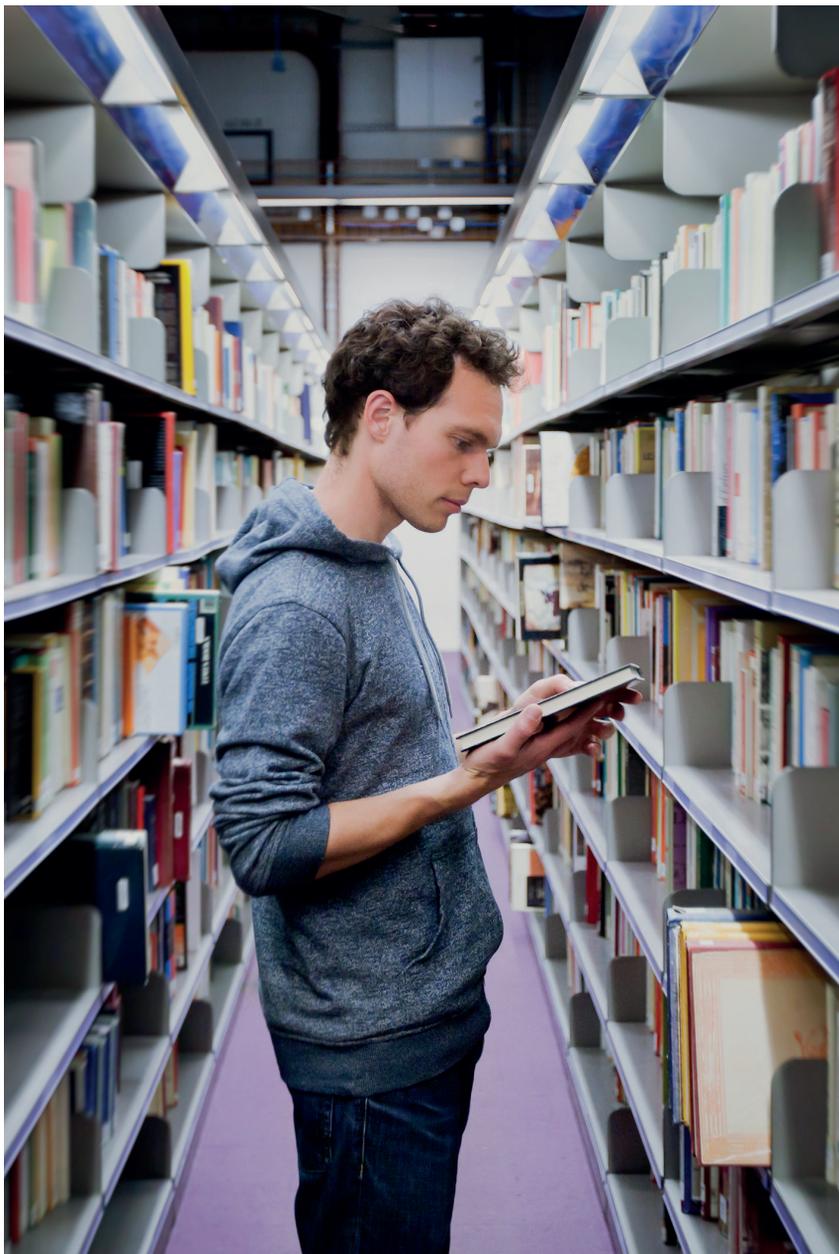
Within ten days of the arrival every foreigner must register his place of residence. For this, he must submit the following documents to the authorized bodies: application, letter of guarantee, passport, temporary or permanent residence permit, receipt for payment of state duties and two copies of certificate on de-registering.



In Ukraine there are many organizations that provide the services for foreign citizens. These services are to help them to collect and process all necessary documents to obtain the invitation, work permit, service cards for employees of foreign companies, temporary or permanent residence permit, citizenship, registration of foreign citizens as entrepreneurs and legal defence of the interests of foreign citizens or stateless persons.

A foreign citizen can use their services paying a certain fee in order not to be engaged in paperwork and when he does not understand the legal peculiarities.

Thus, as you can see, it is not difficult for a foreigner or a stateless person to enter the territory of Ukraine. It is the easiest way for citizens if countries have signed visa-free regime agreements. But even if Ukrainian visa is required, a person rarely faces serious difficulties. This fact influenced greatly the increasing of inflow of foreign citizens to Ukraine. The most common reasons for entry are education and tourism. Ukraine provides affordable high-quality education and it attracts foreign students. Also beautiful nature and plenty of sights increase a number of tourists.



EDUCATION FOR FOREIGNERS IN UKRAINE



# 22/ EDUCATION FOR FOREIGNERS IN UKRAINE

Popularity of Ukrainian education has significantly increased among foreign students in recent years. Mostly this is because of its low cost. A foreign student, who gets the higher education in Ukraine, pays for it in ten times less than would pay in his home country. After returning home he only passes exams and receives national diploma. An important factor is the high level of education in Ukraine and the ease of obtaining long-term visas.

All universities that accept foreigners for study send an invitation, which is a ground for making visa. Future students must add the other documents, listed at the website of Ukrainian embassies to obtain a visa.

In the most universities foreigners doesn't have to pass any exams, especially if they have been trained at the preparatory department or faculty. Enrolment is based on the certificate of secondary education. It is mandatory to have an interview in which the selection committee determines the level of language (Ukrainian, Russian or English) and knowledge of the essential disciplines.

Statistics shows the effectiveness of foreigners studying Ukrainian and Russian: almost 50 % of foreign students are studying Ukrainian (by the way, their number increased for 32 % last year); the numbers of Russian students conversely decreased by 25 %, today about 30 % of students are train-



ing in Russian; there are a little bit less than 20 % of students who are studying in English. This shows the willingness and ease of learning a new language for foreign students.

## **A foreign student, who gets the higher education in Ukraine, pays for it in ten times less than would pay in his home country.**

Actually more and more universities in Ukraine are trying to create conditions for foreigners study. Today there are 185 of them. This is beneficial for both sides: foreigner gets affordable quality education and the university has the ability to create new jobs and raise their ratings. That is why Ukrainian universities are becoming more popular every year. Only in 2015 63,906 foreign students from 148 countries were studying in Ukraine, which is 10 000 more than it was 4 years ago. It is also interesting that 74 % of these foreigners are men and only 25 % – women. This is explained by the fact that most students come from Asia and Africa, where many women do not

gain higher education. Among the leading countries are Azerbaijan, Turkmenistan, India, Nigeria, Morocco, Georgia, Jordan, Iraq, China and Uzbekistan. In addition, the number of students of the highly developed countries of Western Europe and the USA are growing.

Universities which are often chosen by foreign students are: Vinnitsa National Medical University, National University of Aviation in Kiev, National Technical University “Kharkov Polytechnic Institute”, Kyiv National University named after Taras Shevchenko, National University of Pharmacy in Kharkov, National Technical University of Ukraine “Kyiv Polytechnic Institute”.

In Vinnitsa National Medical University ([www.vnmu.edu.ua](http://www.vnmu.edu.ua)) works the preparatory faculty, where are two departments: Department of Ukrainian Studies and the Department of Natural Sciences. At this faculty prospective student has the opportunity to learn the Ukrainian language and acquire knowledge of the basic subjects needed for university accession. The Faculty teaching staff not only teaches students, but also familiarizes them with the history and culture of the city and the university. Tuition fees – 1600 USD.



However, foreign student can come to study in the Vinnitsa National University, even if he does not speak Ukrainian or Russian, because the university has training programs in English. Prices for learning in English for educational qualification level “Bachelor” range from 3300 USD to 4600 USD per year, depending on the faculty. The year of correspondence courses in the pharmaceutical department costs 2600 USD.

Training for educational qualification level “Master” costs 4600 USD per year. Duration of training is 2 – 3 years.

Postgraduate study is only for those, who speak Russian. It lasts 3 – 5 years and costs 4500 USD per year.

Clinical residency is also only for those who speaks Russian. It lasts 2 – 5 years and costs 4000 USD per year. Those who wish can do an internship, which cost 410 USD per month. It lasts no more than one year.

In the National University of Aviation ([www.nau.edu.ua](http://www.nau.edu.ua)) are English-language projects of 20 specialties. Here are engaged 285 teachers who teach in English.

For those who speak Ukrainian or Russian are available trainings for 44 directions and 69 specialties. Also a graduate can join the post-graduate study, and later – the doctoral studies. Teaching lasts 3 years.

If the foreign citizen does not speak any of the languages of teaching (Ukrainian, Russian and English), he is enrolled to the preparatory faculty where he is trained for 1 year.

Educational qualification level of bachelor can be obtained for 4 years and master level – for 1,5 years.

Prices for training in English are: for bachelor from 4520 USD to 5530 USD (depending on the direction of training); for master – 5030 USD.

Tuition fees for training courses are 2100 USD and include training in one of four areas for 1 year: engineering, economic, humanitarian or medical and biological. Also, the student chooses language that he wants to learn: Ukrainian, Russian or English.

In the National Technical University “Kharkov Polytechnic Institute” ([www.kpi.kharkov.ua](http://www.kpi.kharkov.ua)) training at the preparatory faculty lasts 10 months and costs on average 1300



USD. Here the students can learn Russian and/or Ukrainian language and get basic knowledge of natural sciences. Since registration for the preparatory faculty student receives via email all required materials ranging from the course structure and the information that will help to integrate into the educational process. Foreign students can choose one of 35 directions of study.

Price for the educational qualification level “Bachelor” is between 1400 USD and 2700 USD per year.

Magistracy for a foreign student costs from 1500 USD to 3100 USD per year.

The cost of education in postgraduate study is 2500 USD per year, in doctoral studies – 3000 USD per year. Also, students can do an internship for 250 USD.

In the Kyiv National University named after Taras Shevchenko ([www.univ.kiev.ua](http://www.univ.kiev.ua)) in addition to the preparatory department for foreign citizens are also language courses. Entrant can select individual practical training from Ukrainian and Russian languages, summer language courses or winter language courses. The program of courses is very intense and is intended to provide the student with

basic knowledge of Ukrainian or Russian language and local culture. The program of the preparatory department is more expanded. It envisages obtaining a B1 level of language proficiency (720 hours of classes) and study of general subjects (about 60 hours of classes of each discipline). Tuition fees at the preparatory department are about 1400 USD.

Training for obtaining the educational qualification level “Bachelor” ranges from 1450 USD to 2000 USD per year depending on the chosen specialty. English language of training is only available for the program “English Philology and Translation”, teaching the rest of the program is in Russian.

Prices for the educational qualification level “Master” ranging from 1600 USD to 2100 USD per year. It is possibly to study 16 programs in English. At the same time the humanities programs are available in German, French, Spanish, Italian and Modern Greek languages. The rest of the programs are in the Russian language.

Training for a degree of Doctor of Philosophy or Doctor of Science is possible only in Ukrainian.

In National University of Pharmacy ([www.nuph.edu.ua](http://www.nuph.edu.ua)) in English



are conducted almost all available programs for both bachelors and masters degrees. The cost of obtaining a bachelor's degree will cost for foreign students 3520 USD per year, and a master's degree – 4510 USD per year.

In the National Technical University of Ukraine “Kyiv Polytechnic Institute” ([www.kpi.ua](http://www.kpi.ua)) preparatory department provides training of foreign citizens within one year in 4 directions. You can also choose a shortened course, which only includes language training. The cost of the full course is 1800 USD, shortened course – 1500 USD.

Studying at the university conducted in English in case of forming a group of 10 – 12 people. The duration of study for bachelor degree is 4 years, for master degree – 2 years.

Also, after receiving a master's degree in 3 years can be obtained a Philosophy Doctor degree, and after another 3 years – Doctor of Science degree.

There are prices for training in English: Bachelor – from 2300 USD to 3500 USD per year Master – from 3500 USD to 4400 USD per year, postgraduate student – from 4300 USD to 5000 USD per year.

Of course, there are many courses of Ukrainian or Russian language for foreigners outside the university. However, this is more effective to be trained in the same university in which entrant wants to apply, because such programs are maximally adapted to the educational process.



EMPLOYMENT OF FOREIGNERS IN UKRAINE



# 23/ EMPLOYMENT OF FOREIGNERS IN UKRAINE

The statistics show that the number of foreign citizens who want to work in Ukraine is constantly increasing. On the one hand, it is due to investment attractiveness of the state and foreigners open enterprises, factories, and representative offices in the territory of Ukraine, and, on the other hand, it happens because of the increasing number of foreign students who stay and continue working in our country afterwards. Depending on the type of work, there are some peculiarities of their employment.

First of all, it is necessary to say that both foreigners and stateless persons have the opportunity to find a job in Ukraine. They can come to Ukraine for business trips, carry out various business activities, work in representative offices, embassies, etc. And foreigners who live in the territory of Ukraine as well as Ukrainian citizens should have the same conditions of work in organizations, institutions, or enterprises. Also they have a right to obtain pension maintenance.



However, there are some peculiarities of employment of foreigners and stateless persons. First peculiarity deals with the category of foreign citizens and stateless persons who can be employed in Ukraine. They are the following: people granted work permit and temporary residence permit; people granted permanent residence permit; persons who obtained refugee status; representatives of the Navy or airlines; employees of foreign media; clergy; teachers; professional athletes, actors and artists, members of foreign missions to Ukraine; and foreigners employed on the basis of service cards.

**And foreigners who live in the territory of Ukraine as well as Ukrainian citizens should have the same conditions of work in organizations, institutions, or enterprises. Also they have a right to obtain pension maintenance.**

The permit for employment of foreign citizens or stateless persons issued by the State Service of Employment is the most common. In order to obtain such permit, the employer must be registered in the Fund of Compulsory State Social Insurance of Ukraine as an insurance fees payer and to prove the absolute necessity of foreigner's work in the particular workplace or position and the necessity to create all required conditions of work and accommodation for foreign citizens or stateless persons. It means that only a particular specialist is appointed to a specific position.

Permit for employment is executed by an employer, but a foreigner or a stateless person must provide all necessary documents: copies of documents on education or qualification, certified by a notary, copies of passport with certified translation, and two colour photographs.

The employer adds his statement, explanation for such employment, certificates from the Fiscal and Migration services, employment center, a certificate about foreigner's clean record, receipt about payment for the application, copy of the draft labour contract, certificate stating that the announced vacancy is open for non-citizens



of Ukraine, and copy of registration certificate and status documents of employer.

It is necessary to note that the employment center when deciding on a permit takes into account all the facts: correct execution of documents and the time of their issue, authenticity of signatures and various technical details.

If a foreigner wants to change a workplace, the new employer must go through the same procedure and obtain a new permit.

The standard period for validity of a permit from the moment of its issue is up to 1 year. In some cases, when a foreigner belongs to a category of intracorporate assigns or persons providing services without commercial presence in Ukraine, a permit may be granted for the period up to 3 years.

To extend this period one should apply to the employment center at least one month before the date of permit expiry.

On the basis of the work permit a foreigner can obtain a visa or a temporary residence permit.

Also it is necessary to know that there is a number of positions where only the citizens of Ukraine

can be appointed. The foreigners staying in the territory of Ukraine on private business cannot work.

In case of early termination of the labour contract or finding out the fact that actual conditions differ from those mentioned in the contract the permit is canceled.

The employment of a foreigner or a stateless person without a valid permit can lead to fine imposition.

Refusal to issue or extend the validity of permit can occur because of several reasons: the presence in the country or in particular region workers – citizens of Ukraine that meet the requirements of the vacancy; when foreigner does not meet the stated requirements of the vacancy; when employer has arrears of state compulsory social insurance; when employer has arrears of penalty payments; discrepancy or unreliability of the documents provided in order to obtain a permit; when a foreigner is obliged by the public authorities to leave the territory of Ukraine; open criminal proceedings against a foreigner or service of sentence for the committed crime.

If such facts are discovered after a foreigner obtained his permit, the document should be canceled.



## **The foreigners belonging to the diplomatic staff have special status in Ukraine as their employment status is defined in the Ukrainian legislation and the legislation of the country sending them.**

However, the legislation refers to cases when a foreign citizen or a stateless person can work without a work permit. It concerns the foreigners who are:

- employed by the investor in the field defined in production distribution agreement;
- foreigners having permanent residence permit or refugee status;
- representatives of foreign Navy or airlines;
- representative of media accredited in Ukraine;
- heads of foreign representative offices;

- actors and artists;
- personnel of emergency services performing their duties in Ukraine.

When a foreigner or a stateless person started to work, the employer within three working days has to inform the employment center. The same actions are required when a foreigner or a stateless person stops to work.

If a foreigner does not start to work in the particular period without reasons, the employer must notify the territorial body within five working days.

If a foreign citizen wants to establish a business himself or to become a director of a particular company, he must apply to the fiscal authorities and get an identification code.

Also, employment of foreign citizens in Ukraine is divided into types. Concerning the first type such person is employed on a competitive basis for open jobs (assuming the procedure for obtaining a work permit). But this is possible only in the case if there are no appropriate specialists who meet the requirements of the vacancy among Ukrainian citizens who wish to occupy this position.



Second type concerns a hire of foreigner to work in the company, which he founded himself. In this case it is necessary to make the appropriate changes in the statutory documents.

Dealing with the third type the foreigners are employed in Ukraine on the foreign economic contract. And their number in the company (project) should not exceed half of the number of workers - citizens of Ukraine employed on the same contract.

The foreigners belonging to the diplomatic staff have special status in Ukraine as their employment status is defined in the Ukrainian legislation and the legislation of the country sending them.

A person who is not familiar with Ukrainian legislation is recommended to address to a lawyer and then the legal expert will specify what documents and in what form they should be prepared and in what order they should be executed and processed.



PORT ON THE BEACH IN ODESSA, UKRAINE



# 24/ UKRAINIAN COMPANIES FROM THE LIST OF POTENTIAL CANDIDATES FOR PRIVATIZATION

Since 1992 Ukraine has been facing active privatization processes. Most enterprises have need for investments in equipment and other material resources as outdated machinery cannot compete with modern complexes. As a result, every year more and more companies go through privatization processes in Ukraine.

In 2017 the State Property Fund of Ukraine is planning to privatize on a large scale. The list of privatization targets include: PJSC “Odesa Port Plant”, PJSC “Sumykhimprom”, PJSC “Centrenergo”, OJSC “Oriana”. We have decided to point

out at these companies as they possess the biggest statutory capital. For example, the statutory capital of PJSC “Odesa Port Plant” is 26.7 mln euros, PJSC “Sumykhimprom” – 14.7 mln euros, PJSC “Centrenergo” – 16.4 mln euros, and OJSC “Oriana” – 26.9 mln euros. The investors will give much attention to these companies.

PJSC “Odesa Port Plant”. The main task of company is production of ammonia, carbamide and other chemical products. Also the plant receives and loads chemical products of other Ukrainian companies into sea-going vessels for exports.



PJSC “Sumykhimprom”. The company produces and sells mineral fertilizers, sulphuric acid, ammonia sulphate, titanium dioxide and ferric sulphate.

**Since 1992 Ukraine has been facing active privatization processes. Most enterprises have need for investments in equipment and other material resources as outdated machinery cannot compete with modern complexes.**

PJSC “Centrenergo” supplies electricity in accordance with the established schedule of the National Energy Company “Ukrenergo” into wholesale energy market and provides thermal energy for heating and hot water supplies for towns of Svitlodarsk (Donetsk region), Ukraiinka (Kyiv region) and village of Komsomolske (Kharkiv region). The company comprises of

three thermal stations – Vuhlehirska, Zmiivska, and Trypilska. Total planned capacity of stations is 7690 Mwatt and it makes up 14 % of total capacity of all electric power stations of Ukraine.

OJSC “Oriana”. The company extracts mineral resources for chemical industry and produces fertilizers and nitrogen compounds.

In 2017 some companies of energy block are to be privatized. They are the following:

- PJSC “Turboatom” is a company which constructs and products steam turbines, hydraulic turbines, hydraulic seals for water power plants and other energy equipment.
- PJSC “Odeska thermoelectric power station” and PJSC “Khersonska thermoelectric power station” are considered to be monopolists in the cities and regions of their locations. They are the most powerful energy generating enterprises of Ukraine.
- PJSC “Khmelnyskoblenenergo”, PJSC “Mykolaiivoblenergo”, PJSC “Kharkivoblenergo”, OJSC “Zaporizhzhiaoblenergo”, OJSC “Ternopiloblenergo” like other regional energy companies supply electricity to private houses by established tariff. They are monopolists in



their regions and have very good investment potentials.

• In 2017 it was decided to privatize some regional energy distribution companies:

PJSC "Cherkasyoblenergo" – 46%,  
PJSC "Sumyoblenergo" – 25%,  
PJSC "Odesoblenergo" – 25%,  
PJSC "DTEK Donetskoblenergo" – 25%, PJSC "Kyivoblenergo" – 25%, PJSC "DTEK Dniprooblenergo" – 25 %, PJSC "DTEK Zakhidoblenergo" – 25%, PJSC "Donbasoblenergo" – 25%.

And we would like to pay attention to other companies which are also interesting for investors. This year privatization will touch upon such economy sectors as: agriculture, extractive industry, energy industry, food and pharmaceutical industries, oil and gas industry, transport equipment industries, communications, healthcare, culture, construction industry, chemical industry, real estate business, financial activity, mechanical engineering, space industry, science, waste management, service industries, metallurgy, certification, metrology, fish industry, trade.

Everyone can become acquainted with these companies on online resource [www.privatization.gov.ua](http://www.privatization.gov.ua). Also on this portal one can find form for participation in tender and all data about enterprise.

It makes easy for investors to obtain financial reports, etc.

As we see in 2017 Ukraine is facing the period of privatization on a large scale. It is necessary to pay attention in comparison with previous years privatization has become more transparent and fair. And these factors, of course, cannot but attract foreign investors to Ukraine. Many international standards were implemented in the legislation in the sphere of privatization. Among them are the following:

- Accessible preliminary expertise (audit) of privatization targets
- Possible participation of foreign state investor companies
- International arbitration by mutual agreement
- Bank guarantee or cash deposit (5 %)
- Personal consultant for every potential customer
- Step by step instruction for every potential investor
- On-line demonstration of readiness of companies to privatization on [privatization.gov.ua](http://privatization.gov.ua)
- Prohibition for participation of investors from offshore zones, FAFT countries list and states-aggressors.



Now in Ukraine the action “Property privatization must be transparent” takes place. The creation of on-line service became an important step and now it permits a potential customer to get acquainted possible privatization targets and send an application for tender participation.

To participate in tender one should make three simple steps:

- to choose an object on the site [www.privatization.gov.ua](http://www.privatization.gov.ua);
- to participate in tender (move to the site of partner market);
- register and pay guarantee fee.

Thus, in 2017 every investor can find interesting objects in the territory of Ukraine to do business. In 2016 300 companies were included to the list of privatization targets and almost half of them were privatized. This fact and change of rules of privatization are evidences of investors' confidence.

“Kryvorizhstal” is one of the most successful state companies which were privatized. October 24, 2005 the privatization tender was held and “Kryvorizhstal” was bought by Mittal Steel Germany GmbH for 4.8 billion American dollars. This sum was four times bigger than starting price at auction. According to reports of 2014 there are

28,625 workers in the enterprise. PJSC ArcelorMittal Kryvyi Rih is the biggest producer of rolled iron in Ukraine. The company is specialized in production of long products, particularly steel frameworks and rolled wire. Production capacities which has complete cycle can produce 6 mln tons of rolled iron, approximately 7 mln tons of steel and 6.7 mln tons of cast iron annually. The main markets for metal production are the countries of Middle East and Africa.

In 2016 new blast furnace was launched after reconstruction. The fact that the company continues to develop proves that it has become successful after being privatized in 2005. In 2015 the plant owner and the President of Ukraine reached an agreement concerning the plans to invest 1.2 billion of American dollars in the economy of the country during two years. These conditions are evidences that it is safe and profitable to invest in Ukraine. The former director of “Kryvorizhstal” stated that the success of good economic indices of enterprise is resulting from cheap labour in Ukraine.

In November 2007 the state sold “Rivnesilmash”. Currently the company produces furniture. Now the factory consists of woodworking, assembling, sewing and some ad-



ditional workshops. The company exports cushioned furniture to Europe. In 2015 the factory production capacity was 500,000 sofas.

In 2009 the Health and Recreation complex “Chornomorets” was privatized. During port-privatization period the experts of the Regional department of executive control of following the conditions of Purchase and Sale agreement saw positive results. In particular, the complete repairs of dormitory block, canteen and administration block were made, the litter was removed, also the sewerage and plumbing systems were repaired, the beach was cleaned, and the illumination of all beach territory was made. The rooms were furnished with new furniture pieces, TV sets, fridges, air conditioners. Every room was equipped with toilet facility. New playground for children was built. The works on comfort improvement for visitors having a rest at the Health and Recreation complex “Chornomorets” are not finished. Every year the complex gets more and more guests.

In 2010 the Hotel Kyiv located in Donetsk was privatized. The foreign company “Rezidor Hotel Managment & Development A/S” modernized the hotel and brought it to European standards. And further the owner concluded some

international agreement on equipment and management of the hotel from the part of the worldwide hotel company “Park Inn”. Now there are 143 rooms in the hotel starting from economy class to lux class. In 2012 the hotel was festively open and later it became one of the best hotels on Donetsk.



RECYCLING CENTRE



# 25/ WASTE TREATMENT AND TECHNIQUES OF ITS UTILIZATION

Every year the citizens of Ukraine produce 11 mln cubic meters of consumer waste. The problem of waste utilization is very important for Ukraine as our country is a leader in Europe in amount of waste per capita. At the same time the situation with waste utilization is remaining on the same level. It is due to the fact that composition of domestic waste is becoming similar to western waste (disposable cutlery, aluminium cans, and plastic packaging) and every year the amount of waste is constantly growing. Typical composition of city waste is the following: paper and carton – 41 %, garbage – 17.9 %, rubber, leather and wood – 8.1 %, food waste – 7.5 %, metals – 8.7 %, glass – 8.2 % and others – 1.6 %. The problem of utilization and recycling of poly-

mer waste decomposed in soil has not been solved.

There are four rubbish recycling plants in Ukraine which were built in 1980s. Also this list includes out-of-work waste incineration plants in Kharkiv and Sevastopol, waste incineration plant in Dnipro, and also waste incineration plant “Energy” in Kyiv which does not work at full capacity. Production process of these plants does not meet the ecological requirements and their equipment is distressed. There is one more rubbish recycling plant in Rivne but it does not work either.

There are five main techniques of waste treatment. They are the following: incineration, composting, thermolysis (air tight burning), storing and sorting of rubbish



with further recycling. The disadvantages of simple rubbish storing are obvious: the areas for refuse dumps are always limited and there is a risk of infiltration of toxic waste in subterranean waters and spontaneous ignition. Pressing and composting of waste is not appropriate for Ukraine either. If waste degeneration requires seventy years in Spanish climate, in Ukraine it takes twice longer.

**Currently the cheapest way of getting rid of waste is their burial. And that is why almost 80 % of all waste are just buried but in Europe only 10 % of waste are buried and 90 % of waste are recycled.**

While Ukrainians are thinking what to do with rubbish, in the EU countries there is another problem - where to find rubbish. Waste treatment can be a very good business. In developed countries recycled waste is valuable product of

international trade. It is possible to obtain heat and electricity from secondary raw materials.

But current situation with waste in Ukraine will be changed radically. Thus, people's deputies get down to solving the problem of accumulated waste in Ukraine and dangerous substances. They consider that it is necessary to change radically the approaches to organization of waste treatment and utilization. Currently the cheapest way of getting rid of waste is their burial. And that is why almost 80 % of all waste are just buried but in Europe only 10 % of waste are buried and 90 % of waste are recycled. The draft law No. 4838 is targeted to adjust Ukrainian legislation with European standards and to establish order in the sphere of waste treatment and utilization.

The main task of the draft law is to make the burial of unrecyclable waste impossible.

Accordingly, the draft law suggests making burial of recyclable waste very expensive and, as a result, economically unsound.

This draft law suggests the following: the manufacturer of packing will pay for waste treatment. The rubbish consists of 80 % of plastic, glass or paper. And these materials



are not treated. Accordingly, the manufacturers of packing, bottles, plastic bags will continue to pay utilization fee which will be collected for special-purpose fund. The money from this fund will be distributed between regions in accordance with a number of populations in the regions. And money from such specialized funds will be used for construction of plants and other objects for waste treatment. It means that this money cannot be spent for other things except of waste treatment.

There are no technologies which can treat waste in the whole amount of solid waste created from everyday consumption with profitable coefficient. Big expenses are required. Thus, glass, sheet metal, bottles, paper, plastic can be and should be collected and recycled. And it has been doing since long. But 95 % of wastes are not sorted and rubbish goes to refuse dumps.

Currently, people pay for removal and burial of wastes, but they pay for old priced. These tariffs are three times lower than the sum necessary for ecological utilization of this waste. Else the territory around will be polluted and Ukraine will sink in toxic wastes. This problem has global scale and it has to be solved immediately. In order to improve the situation it is

necessary to introduce the utilization payment and it is necessary to adopt some laws which can stimulate waste treatment industry in Ukraine. Presently, such draft laws (No 4835, 4836, 4837, 4838) are registered in the Verkhovna Rada of Ukraine.

## **In order to improve the situation it is necessary to introduce the utilization payment and it is necessary to adopt some laws which can stimulate waste treatment industry in Ukraine.**

But how to make people pay for waste utilization when they consume a different amount of waste? And it is impossible to measure it. The way out is to add “waste tariff” to the cost of goods which people buy and whose packages constitute the major part of waste mass! The more you consume, the more you pay – it is fair system and it will not hit people in their pocket. Instead, the country will get



a great amount of money which can be used for ecological utilization of waste.

Rubbish recycling industry in Ukraine is establishing now, and currently it is considered very promising for investment. In addition, today in Ukrainian market of second raw materials treatment there are no competitors and it is considered to be highly profitable. According to some estimation, one small enterprise can fully pay off in a year and a half. Today there is a possibility to attract investors on the basis of the Kyoto Protocol. It means that investor puts their money, performs all work, and in 10 years it returns all money when emission quotas are resold to the

Cabinet of Ministers of Ukraine after international examination. The scheme is simple. Each participant gets a certain quota or a right for a clearly defined amount of emissions. If he can reduce their own emissions, the portion of the savings can be sold in the market. Eventually, greenhouse gas emissions are reduced by those participants who can do it at the lowest expenses. In accordance with this scheme there are 52 enterprises working in Ukraine (the quotas sold for 3 mln euros). For instance, currently, this protocol is widely used by the Ministry of Internal Affairs of Ukraine (two projects on technical modernization (replacing of the existing patrol cars with hybrid power vehicles).

**Thus, in whole country second raw materials are worth some tens of billions UAH. And in order to clean the country from the waste it is necessary to build 100 rubbish recycling plants.**

According to experts, solid waste in Ukraine contains:

- 20 – 40 % waste paper;
- 3 – 3,5 % ferrous and non-ferrous metals;
- 4–6 % of textiles;
- 1–2 % of plastic;
- 1–2 % of waste glass;
- 25–40 % of food waste.

That is why rubbish is certainly economically sound raw material to produce new materials.



One more idea concerning waste recycling being very promising for investors is aimed at gaining profits from waste and improvement of the ecological environment in cities, regions and whole country; it deals with the production of alternative energy – biogas formed in the depths of refuse dumps.

A great amount of city waste on refuse dumps with damp paper and organic waste cause favourable conditions (absence of oxygen and light) for reproduction of bacteria which produce methane. That is why the decomposition of organic waste is natural source to obtain methane.

In Ukraine waste market where second raw materials can be sold has not been developed yet. According to experts of non-governmental organization “Public audit”, waste from Kyiv estimated at 3 billion UAH annually. Thus, in whole country second raw materials are worth some tens of billions UAH. And in order to clean the country from the waste it is necessary to build 100 rubbish recycling plants.

The rubbish filled up almost all the towns and villages of Ukraine. Perhaps every square kilometer has own unauthorized landfill. For environment this situation is very dangerous, but it is very good

for investing in profitable business. The country has accumulated so much rubbish that recycling plants can be built in every regional center. Considering the favourable geographical position of Ukraine, investment in waste recycling industry is attractive not only for treatment of raw materials which have been accumulated in Ukraine but also abroad. In case of efficient management Ukraine can occupy good position in the market of neighboring countries as well. Ukraine is a logistic center connecting Europe and Asia, which has a positive effect on the investment climate in rubbish recycling industry. On the 1st of January, 2018 in Ukraine the burial of unsorted rubbish will be banned according to the Law of Ukraine No 5402. Thus, the problem of creation rubbish sorting line or rubbish recycling plant has become even more urgent.



FINANCING OF VENTURE CAPITAL AND START-UP INDUSTRY



# 26/ FINANCING OF VENTURE CAPITAL AND START-UP INDUSTRY

Financing of venture capital and start-ups in Ukraine arose in Ukraine in 1992 under the auspices of international financial organizations, particularly the European Bank for Reconstruction and Development which invested in establishment in first venture fund “Ukraine”. Since then venture financing and financing of start-ups is actively developing in Ukraine and gaining speed. Until 2002 there were only 7 venture funds in Ukraine. According to the data from December 20, 2016 in Ukraine there are 1173 institutes of common investment including 1040 venture funds.

The venture fund *Borsch Venture* was established in July 2015. In December 2016 due to cooperation with this venture fund 1.2 mln euros were invested in Ukrainian start-up *Polyteda Cloud*. The main directions of entrepreneurial activity are the following: defense sector, energy industry, health-care, precision agriculture.

Thus, according to Fig. 1 we can see that during the period from September 30, 2015 to September 30, 2016 the value of net assets of venture funds increased by 14.01 %. At the same time during 2015 and 2016 the value of non-venture funds including

**TOP 10 VENTURE FUNDS IN UKRAINE IN ACCORDANCE  
WITH THEIR PROFITABILITY LEVEL**

Venture fund	Average annual profitability of investments of venture fund (from the time of establishment), %
Invest-Capital	270
Avansar	256
Partner	245
Hermes-D	236
Investment Club	234
Holding Invest	234
Feolent	222
Vermont	212
Revival of Galicia	211
Best Fund	209

**DYNAMICS OF INCREASE OF NET ASSETS VALUE OF VENTURE  
AND NON-VENTURE INSTITUTES OF COMMON INVESTMENT**

As of the date of:	Value of net assets of venture institutes of common investments, mln UAH	Value of net assets of non-venture institutes of common investment, mln UAH
30. 09. 2015	214 703	10 338
31. 12. 2015	225 541	10 634
30. 06. 2016	235 457	9 749
30. 09. 2016	244 785	8 824

open, interval, and close investment funds (with public and private emission) decreased by 1,514 mln UAH or 14.65 %. The increase of value of non-venture funds by 296 mln UAH or 2.86 % was observed only in the first quarter in contrast to venture funds whose

value of net assets was increasing during all three quarters. Such increase of assets value of venture funds is explained by the fact that in accordance with Article 141.6.1 of the Tax Code of Ukraine the income from operations with assets of institute of common investment,



income calculated by assets of institute of common investment and other incomes from activity of institute of common investment are not paid. Despite of the fact that income from assets of institutes of common investment – non-venture funds are not paid either, the decrease of value of non-venture funds is caused by the decline of securities market. According to the data of the National commission of securities and stock market during the period of January-November 2016 the National Commission registered 117 emissions of bonds of enterprises in the amount of 6.56 billion UAH. In comparison with the period of 2015 the volume of registered emissions of bonds of enterprises in 2016 decreased by 4.88 billion UAH.

The other subjects of financing are business angels. On June 20, 2014 the first community of business angels “UANangel” was established. During the period of 2014 – 2016 business angels “UAngel” invested in 87 start-ups. Total amount of investment was 7 billion of American dollars.

The highest investment attractiveness is observed in the following spheres: SaaS Platform (business angels approved investment of 55 % from total amount of start-ups in this sphere), Marketplace

and e-commerce (60 % from total amount of investment of start-ups in this sphere).

In 2016 the example of the most successful Ukrainian start-ups is the photoservice *Depositphotos* which obtained 5 mln American dollars. The European Bank for Reconstruction and Development and venture fund *TMT Investments* were the investors of photoservice start-up. Another successful start-up is considered to be the project *Petcube* which ranked the first position in two categories: the most promising Ukrainian start-up of 2013 according to Ain rating and the best Ukrainian start-up of 2013 according to iForum rating. The start-up managed to obtain 2.6 mln American dollars. During the last 15 months there were sold a number of gadgets in amount of 2.5 mln American dollars.

In Ukraine 70 – 80 % of start-ups which were financed by venture funds or business angels are characterized by low level of profitability or absence of returned investments. But it is necessary to consider the fact that financing of venture capital and start-ups is risky even in the country where they were found – in the USA.

Every year in the USA business angels allocate seed investments in



25 – 35 thousands of start-ups. But further only 800 – 1500 start-ups are invested. But only 400 – 600 start-ups are sold or come in the market.

## **But it is necessary to consider the fact that financing of venture capital and start-ups is risky even in the country where they were found – in the USA.**

Thus, according to IQSpace CEO Vadym Rohovskyi considering the high level of bankruptcy the best variant for investing of start-ups by business angels is investing within syndicates. In this case the risks for investments are decreasing as not one but some business angels share expenses on start-up development and expenses if start-up is unprofitable. The next advantage of syndicates is the decrease of receipt size of agreement with a view to one business angel. So, business angel can divide own budget properly and invest in more start-ups.

The next organization investing start-ups is the Association “Pri-

vate Investors of Ukraine”. It was founded in 2006 as the first non-commercial organization that unites private and corporate investors. This association can help to obtain financing for start-ups in the amount from 20 thousands American dollars to some millions of American dollars. The major requirement for start-ups to obtain money is profitability of its main activity which should be estimated at the level of 30 – 40 % per annum when start-up started to work in its normal mode.

The Association “Private Investors of Ukraine” finances start-ups in the following spheres: information technologies, communications technologies, nanotechnologies, instrument-making industry, medicine, pharmacology, biotechnologies, transport industry, energy industry, alternative sources of energy, oil-refining industry, chemical industry, light industry, etc.

To conclude, it is very profitable to invest in venture capital and start-ups in Ukraine. It is proved by permanent increase of value of net assets of venture funds in contrast to decrease of value of assets of other non-venture funds that is observed during 2016 but also that fact that Ukrainian start-up companies bring high profits for



example, Ukrainian start-up *Clicky* is constantly growing annually (every year it brings 2 mln American dollars, in the end of first quarter of 2016 it brought 3 mln American dollars). The average check of investment in one start-up by one business angel is 48.1 thous. American dollars. The highest investment attractiveness is observed in the following spheres: SaaSPlatform, Marketplace and e-commerce.



INFORMATION TECHNOLOGIES,  
COMPUTING AND COMMUNICATIONS



# 27/ INFORMATION TECHNOLOGIES, COMPUTING AND COMMUNICATIONS

During the last decade in the world the information technologies are rapidly developing but in Ukraine it has become a trend only in recent years. Higher educational establishments are actively preparing IT-experts, there appear private schools and courses where one can learn programming, and entrepreneurs create new companies providing services in the field of information technologies,

computing and communications. During the last year Ukraine has risen by seven points in *The Global Information Technology Report* developed by the World Economic Forum. The biggest advantage of Ukraine in this ranking is the availability of information and communications technologies. In accordance with this index the state ranked sixth among 139 countries.



However, many Ukrainian specialists leaving to work abroad because of the lack of jobs in the sphere of information and communications technologies in the internal market. This tendency was especially strong in 2015 that was associated with the domestic currency – hryvnia – instability and the problems in the economy. The level of penetration of Internet in Ukraine is one of the highest in the world and the quality is above average. All these facts indicate that a steady demand for services in IT has been formed in the country and it clearly shows a significant potential but not always there is

**We can say the fact that the Ukrainian financial problems made Ukrainian companies search for more rational solutions while constructing IT-infrastructure and cleared the market from weak players is a great advantage.**

enough money to create an appropriate proposal.

We can say the fact that the Ukrainian financial problems made Ukrainian companies search for more rational solutions while constructing IT-infrastructure and cleared the market from weak players is a great advantage. As a result, Ukrainian IT-companies became not only more effective but also more adaptable to crisis. This situation makes the sphere of information technologies particularly attractive to foreign investors.

Despite of all the problems information and communications technologies are constantly developing and it is proved by official figures: over the last four years the share of information technologies in state GDP increased from 0.6 % to 3.3 %. A similar proportion is in the number of programmers: a few years ago in Ukraine there were 42,400 specialists but in the middle of 2016 – 91,700. In 2017 this figure is going to increase by 20 %, and 4 years – by 100 %. Currently, Ukraine is the first country in Europe according to the rate of increase in the number of IT-specialists. However, about 9,000 IT-professionals left Ukraine in the last two years. It says that Ukrainian market of IT-technologies



desperately needs new workplaces. Also regarding the cost of the IT-sector, it is estimated at 3 billion American dollars.

In 2016 industry of information and communications technologies conducted the first detailed study of the IT-market and has formed the clear statistics of the period between 2011 and 2015. The research results show that the market has increased twice. It gives the possibility to develop correct forecasts and plan the development of IT-sector. The major one is the growth of exports of IT-services by 20 – 30 % in 2017.

In general the field of information and communications technologies in Ukraine is currently represented by several thousand companies. The biggest companies are the following: *EPAM*, *SoftServe*, *Luxoft*, *GlobalLogic* and *Ciklum*. Each of them employs from 2,500 to 4,600 specialists. These companies (except *GlobalLogic*) entered the Top 100 best world IT-outsourcers. Also the list includes other six companies: *Intetics*, *Softjourn*, *TEAM International Services*, *Eleks*, *Sigma* and *Miratech*. Besides according to *Gartner* analysis since 2007 Ukraine belongs to 30 countries where it is profitable to develop IT-outsourcing, and considering the survey results of A.T. Kearney

the country takes 24<sup>th</sup> position in the global ranking of the best countries for outsourcing. According to official data, about 80 % of users are outsourcing services located in the USA which is the largest partner of Ukrainian companies in scientific and research activities and takes 45 %; the European Union and Israel is in the second positions by volumes.

Besides, in the country there are more than a hundred scientific and research centers of world high-tech companies, including Samsung, Oracle, Cisco and Rakuten. The most of these centers are located in Kyiv. Also Dnipro, Lviv, Kharkiv, Odesa and Vinnytsa are popular cities for these companies.

IT-infrastructure and services in banking are well developed. According to experts Ukrainian banks can be considered the best in the world according to technologies usage. Many technologies that

**According to experts Ukrainian banks can be considered the best in the world according to technologies usage.**



are now used by western countries were developed in Ukraine: mass debit cards transactions, online transactions, overnight-dealing and many others.

**Also the important decisions were made at the legislative level: now it is possible to conclude foreign trade transactions electronically, and banks must take account in the English language, if these are the initial documents.**

Also activists and IT-experts start to work on the creation of services for the government institutions which is definitely considered a step forward. Currently the leaders in this area are the following: *EGAP Challenge*, *Apps4Cities* and *1991 Open Data Incubator*. Such projects contribute to the openness of information and free access.

The growing number of different initiatives in the field of in-

formation and communication technologies is a significant stimulus for this work. They are the following: forums, conferences, co-working, meetings, programs and other creative spaces. There is the public center *Kyiv Smart City Hub*, the competition program *VD-NH Tech*, training modules *IoT* at Lviv Polytechnic and *Data Science* at the Ukrainian Catholic University, and later this year *Technology Companies' Development Center* and creative block are going to be launched.

Not long ago Ukrainian mobile operators have started to introduce massively 3G-technology and fixed-line operators – FTTX-technologies. It means that investment is now open for 4\4,5G-technologies and new advanced technologies in the sphere of fixed-line. Also Ukrainian mobile operators are going to face new changes in standards: from GSM900 to GSM1800 and from UMTS900 to LTE1800.

Also the important decisions were made at the legislative level: now it is possible to conclude foreign trade transactions electronically, and banks must take account in the English language, if these are the initial documents. Besides information technologies have been defined as strategically important



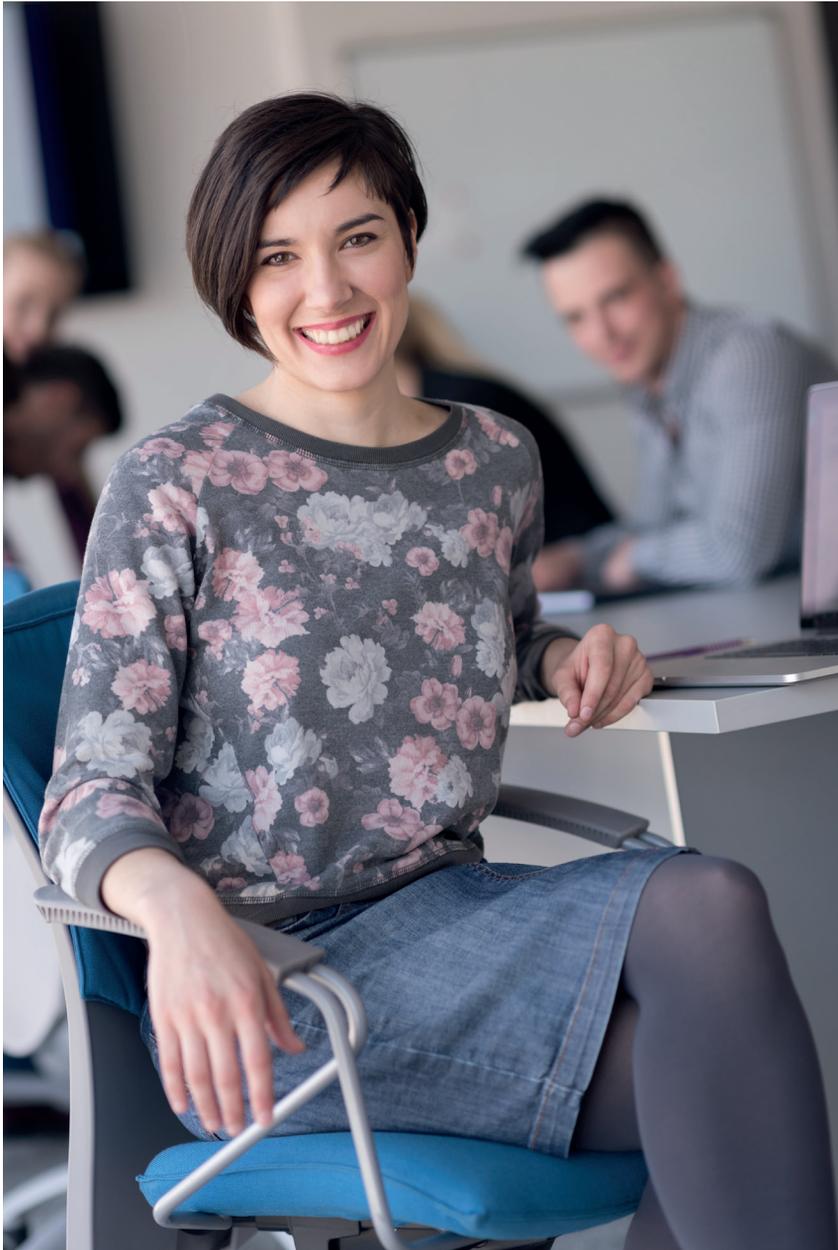
for the national economy, and the government institutions have begun a dialogue with IT-companies.

Many foreign investors are ready to invest in the Ukrainian IT-market. Only in 2015 foreign investment in this sector estimated at 130 mln American dollars that is by 237 % more than it was invested last year.

There was a significant change in the sphere of investment of start-ups. More and more foreign investors are willing to invest in new ideas of Ukrainian programmers.

Computing as a separate sector in Ukraine is distinguished in narrow circles. The ordinary people do not talk about it and even do not know about it. Recently cloud-computing has begun to gain popularity. There appear some companies specialized in this area and progressive projects. One of the recent companies is Ukrainian start-up Sixa which presented hardware-project Rivvr project at the cost of 3.5 million American dollars. Now we can speak about fully formed Ukrainian cloud-computing market, but its spread among the population is still relatively low, and therefore there is a considerable unused capacity.

Summarizing, it is safe to say that the sphere of information and communications technologies in Ukraine is rapidly growing. The advantages for investors are the broad market and a large number of qualified professionals.



VOLUNTEERING



# 28/ VOLUNTEERING, SOCIAL AND CULTURAL SERVICES, CHARITY ORGANIZATIONS AND GRANT POSSIBILITIES, EXCHANGE PROGRAMS AND INTERNSHIPS

Since 2000 the phase of active civil society development has started in Ukraine. Basically, the process of creation of public organizations aimed at guaranteeing the rights and freedoms of the population has begun.

The main activity of non-profit organizations deals with the charitable assistance, educational, cultural, scientific, and other similar services for public consump-

tion, in order to create the social system of self-sufficiency for citizens and for other purposes stipulated by statutory documents concluded under the provisions of relevant laws on non-profit organizations.

The main international non-profit organizations working in Ukraine are the following: IREX, ACTR ACCELS, Internews Network, Internews Ukraine, Fullbright,



National Endowment for Democracy (NED), Freedom House, Economics Education and Research Consortium (EERC), Polish-American-Ukrainian Cooperation Initiative (PAUCI), Eurasia Foundation, Counterpart International, UCAN. The work of the UNO can be considered as the separate category.

In 2011, the Law of Ukraine “On volunteering” was passed but it came into force only in March 2015. In 2013 there was a Revolution of Dignity in Ukraine, afterwards the community organized itself and many volunteering associations began to appear, then the Anti-Terrorist Operation began in the East of Ukraine, and our population started to help actively Ukrainian army through volunteers. These events led to the development of the relevant law to regulate volunteering.

Foundation of Democratic Initiatives together with the Razumkov Centre conducted the survey and they analyzed the level of volunteering in Ukraine during 2015 and 2016. The analysis results show that most portion of volunteer efforts was devoted to help the Ukrainian army during this period. In 2016 65 % of respondents helped the army, in 2015 – 62 %. However, it should be noted that in 2016 volunteering increased in the

sphere of support to orphans, sick and disabled people.

Having analyzed other studies in the field of volunteering, we can say that the results for the government are not good as they show that people trust to volunteers more than to state institutions.

In the context of the active phase of volunteering Ukraine has to ratify by the European Convention for the promotion of cross-border long-term volunteer service for young people. Actually, the Convention legalizes international European youth volunteering on the general rules with typical agreements and the only mode of volunteers’ admission. The people’s deputies have signed the request on the need for ratification of the Convention and submitted it to the Cabinet of Ministers of Ukraine.

According to the State Registration Service in the beginning of 2016 in Ukraine there were more than 15,000 charity funds and organizations.

In 2015, according to the State Fiscal Service, 9,434 mln American dollars were spent for charitable programs.

Last year the main expenses of benefactors were aimed at social



maintenance (59 %), healthcare (15 %), community economic development (8 %), and military aid (7 %).

Education, culture, sports, environmental protection got less than 5 % each.

And last year 74 funds employ 891 people (i.e. in average 11 persons per fund).

It is interesting that in 2015 almost one third of all official charitable expenses in Ukraine are related to the top five list: International Charity Fund “Alliance for Public Health” (804 mln), Rinat Akhmetov Foundation “Development of Ukraine”, Charity Organization “Network” (536.5 mln American dollars), Charity Organization “Charity Fund “Flowering country”, International Foundation “Renaissance” (308.4 mln American dollars).

The positive feature in the field of charity is the creation of Ukrainian Philanthropic Marketplace. It is the first Ukrainian independent nationwide social infrastructure of online charity. This service provides universal services for benefactors and for those who need help. On this platform, every person, every company or organization can find and support a char-

itable project of their choice. And they can do it in the easiest and most convenient way.

With regard to grant opportunities we can say that every year in Ukraine more and more grants are declared. The governmental and non-governmental organizations are using grants to attract the necessary funding for their activities. And more than half of the announced grants in Ukraine are grants for education and internship.

In 2017 Master scholarship at the University of Tartu, the training program for current legislative staff (USA), Scholarship from Wells Mountain Foundation to study in the US, scholarships to study in Spain, internship from Rotary Peace Fellowship, scholarship to study at the University College of London, scholarship from the government of Turkey, grants to study in Romania, Research Fellows program at Stanford, studying in Sweden for a scholarship from Linnaeus University, scholarships to study in Belgium and others.

Poland and the USA are the largest partners of Ukraine in the sphere of training grants. For example, Fulbright Graduate Student Program has announced the start of



registration for higher education in America. The program provides an opportunity to study in American universities from one to two years to obtain a master's degree. The competition is open for senior students and graduates. The specialization touches upon the following spheres: humanities, social, exact science, technical and natural sciences. The program provides grant that includes tuition fees, monthly scholarship, health insurance coverage and the cost of the round-trip ticket.

Ukraine is actively involved in various exchange programs. Among

**Ukraine is actively involved in various exchange programs. Among partner states of the education program “Erasmus+” Ukraine ranked 3rd among 150 countries and first within the Eastern Partnership...**

partner states of the education program “Erasmus+” Ukraine ranked 3rd among 150 countries and first within the Eastern Partnership (Azerbaijan, Armenia, Belarus, Georgia, Moldova, Ukraine).

Ukraine received 16.108 mln euros for students and university staff exchange projects. In 2015-2016 within the framework of partnership with Ukrainian higher educational establishments there were 618 projects for international credit mobility including 374 projects concerning finance specialization. Totally, 3455 students, instructors and representatives of administration of the Ukrainian universities will go to study and teach in the universities in Europe. Our universities, in their turn, will accept for exchange of 1,067 people from the European educational establishments.

Each year in the state higher educational institution “Uzhgorod National University” about 200 students and 100 employees participate in various training and exchange programs.

The employees of different areas pass various internships abroad to acquire new skills. For example, 20 employees of the tourism industry of Transcarpathia region had their internship program in Cor-



vallis (USA), where they studied innovative models and methods of sustainable tourism for three weeks.

In 2017 the Verkhovna Rada of Ukraine ratified the agreement on Participation of Ukraine in the program “Competitiveness of small and medium enterprises” (COSME). COSME is one of the key programs of the EU with the budget of 2.3 billion euros which is aimed at creating favorable conditions for development of small and medium enterprises, experience exchange, increase of business activity of entrepreneurs, expanding of trade and economic ties and creating of a culture of doing business in accordance with the best international standards.

The program provides professional consulting, training, seminars and various specialized conferences for small and medium entrepreneurs as well as exchange programs, internships and additional possibilities for searching of partners in the European Union.

The effective implementation of the program will allow Ukrainian businessmen to use a large number of advantages of Free trade area between Ukraine and the European Union and it will significantly increase the competi-

tiveness of Ukrainian producers and promote the development of economic potential of Ukraine and the introduction of the best business practices.

In 2016 the total amount of grants being implemented in Ukraine was estimated at 3.8 billion American dollars, but presently there is a list of grants to the sum of about 4 billion American dollars. It is official assistance for development of Ukraine which we receive from foreign governments and international organizations. The main problem of grant funding disuse is insufficient qualification of organizations participating for grants.



GAS STATIONS, KIEV, UKRAINE



# 29/ ANTIMONOPOLY COMMITTEES, ECONOMIC COMPETITION AND PROTECTION

Monopolies in Ukraine have their peculiarities. In the world a monopoly exists only in industrial areas, and in Ukraine – almost everywhere. The reason for this was the command and administrative system of the former USSR, the effects of which are noticeable even today.

Given the existence of areas of the economy where competition is impossible for objective reasons (technological peculiarities of production, nature of supply and demand), monopoly formations appear and exist. These subjects dominate the markets of central

heat supply, central water supply, communication, etc., and are part of natural monopolies.

Currently the following monopolists exist in Ukraine:

- Ukrenergo National Power Company State Enterprise, MINISTRY OF ENERGY (Production and power distribution: Transmission of power through main and interstate power grids);
- The State Administration of Railway Transport of UKRAINE (Ukrzaliznytsia), MINISTRY OF TRANSPORT AND COMMUNICATIONS OF UKRAINE (Ground



transportation: Services providing railway ruts, dispatching service stations and other infrastructure facilities which provide movement of public transportation);

- Naftohaz Ukrainy National Joint Stock Company of MINISTRY OF FUEL AND ENERGY, represented by Ukrtransnafta Joint Stock Company (Activity of pipeline transport when transferring crude oil and oil products);

- Naftogaz Ukrainy National Joint Stock Company, MINISTRY OF FUEL AND ENERGY, represented by UKRTRANSHAZ subsidiary department (Activity of pipe line transport when transferring);

- State Air Traffic Service Enterprise of Ukraine (Ukraerorukh), the State AIRCRAFT SERVICE OF UKRAINE (Activity of air passenger transport, subordinate to the schedule);

- *Odessa State Port Factory* Open Joint Stock Company, FUND OF STATE PROPERTY OF UKRAINE (Functioning of water transport infrastructure: specialized transport terminal for receiving, cooling, storage and handling of ammonia);

- *UKRPOшта* Ukrainian State Enterprise of Postal Communication, MINISTRY OF TRANSPORT AND COMMUNICATIONS OF UKRAINE (Mail and communication);

- *RRT* Concern, MINISTRY OF TRANSPORT AND COMMUNICATIONS OF UKRAINE (Connection: providing of technical means of broadcasting, services channel radio set using services);

- *UKRTELEKOM* Open Joint-Stock Company, MINISTRY OF TRANSPORT AND COMMUNICATIONS OF UKRAINE (local telephone connection, services using non-switched communication channels).

The negative feature of monopoly is the establishment of high prices for goods and services. This, in its turn leads to consumer debt, especially monopolies of other sectors. The biggest debtor monopolies in Ukraine are district heating company.

Ukrzaliznytsia operates both on a monopoly (railway infrastructure services) and competitive (freight and passenger transportation, construction, etc.) markets. However, many companies of Ukrzaliznytsia that must operate in a competitive market, remains a monopoly. This leads to a lack of incentives to improve the quality of goods and services, inhibition of science and technology, unjustified increase in prices, lack of investment.

The purpose and the activity of public utilities are to meet social



needs. They are governed by the Commercial and Civil Codes, Laws of Ukraine “On Natural Monopolies”, “On Protection of Economic Competition”, “On Housing Services” etc. In general, the activities of utility companies are unprofitable. Setting actual prices and tariffs, which allow businesses to operate without any losses leads to social explosion in the population and significantly increases utility non-payment crisis.

The state regulates the activity of monopolies. The Antimonopoly Committee realizes state control over compliance with antitrust of laws, protects the interests of entrepreneurs from abuse of monopoly position and unfair competition. Active prohibition of firm consolidation is carried out if their combined share is 35 % of the market. The prohibition of monopoly power abuse is also carried out by introducing penalties or their forced separation. Besides, the regulation of natural monopolies (price and quality) is performed.

Today the evidence of the state imperfection of regulation of monopolies is the abuse of monopoly enterprises with their economic position. According to the Antimonopoly Committee of Ukraine, about 60 % of antitrust law violations are committed by natural

monopolies annually. Mainly violations relate to pricing and price discrimination.

## **The state regulates the activity of monopolies. The Antimonopoly Committee realizes state control over compliance with antitrust of laws, protects the interests of entrepreneurs from abuse of monopoly position and unfair competition.**

In 2015 the Antimonopoly Committee of Ukraine declared that most violations of legislation on protection of economic competition were found among utility services. The results were announced during a panel review of the Antimonopoly Committee of Ukraine over the year by Yuriy Terentiev, the Department Head.

Most violations were recorded in the state-regulated sectors of the



## **It is impossible to eliminate monopoly fully, as it can only be narrowed by separating natural monopolies of mixed or new technologies.**

economy with the lack of competitiveness – in an area of housing and utilities infrastructure (HUI) and fuel and energy sector. In particular, determination of violations found in the housing and utilities infrastructure consist of over 22 % of Committee decisions, and in the energy sector form more than 10 %. Terentiev said that 95 % of Committee decisions in these areas are due to territorial separation agencies that make decisions in relation to anticompetitive actions of local monopolies in the areas of gas, water, heating and electrical connection. The agricultural sector covers over 14 % of violations of legislation on economic competition protection, 8 % of violations regards to the sphere of health, transport sector and the market of administrative services.

In general, the amount of monopoly markets in 2015 increased to

10 % due to the fall of citizens' purchasing power and the increase of utility tariffs. As a result, Ukrainian began to spend more on utilities which markets are more monopolized.

It is impossible to eliminate monopoly fully, as it can only be narrowed by separating natural monopolies of mixed or new technologies. The Laws of Ukraine “On Monopoly Restrictions and Prevention of Unfair Competition in Entrepreneurial Activity”, “On the Antimonopoly Committee of Ukraine”, the State Program of Economics Demonopolization and Competition Development, the Constitution of Ukraine regulate monopolies.

The Ukrainian antimonopoly law has many mechanisms of influence on the monopoly, including arsenal of penalties and restrictions. However, the biggest influence may lie in using methods of combating monopolies, such as forced separation of companies, which are not typical for Ukraine. It aims at creating a number of companies to replace a monopolist, resulting in creation of a competitive environment and discontinuation of monopoly existence. In other words, forced reorganization using the division method occurs. Forced division is the last extreme measure now and there



are no precedents of its use in Ukraine.

Consequently, antimonopoly competition policy is carried out by competent authorities, aimed at creating optimal competitive environment of business entities, ensuring their interaction in terms of preventing discrimination of some other subjects, especially in monopoly pricing and by reducing the quality of product services, promoting the growth of effective socially oriented economy.



ANTICORRUPTION FORUM, KIEV UKRAINE



# 30/ LIBERALIZATION AND DEREGULATION OF BUSINESS

Reduction of the administrative pressure on the economics and optimization of public management has become one of the main ideas of reform after the Revolution of Dignity of 2014 as the need for such changes occurred long before it. It's no secret that Ukrainian business representatives, experts and various Western institutions have been indicating extreme overregulation of the state economics by government agencies for many years. In particular, Ukraine takes only 83 out of 183 by ease of performing business in the global ranking Doing Business despite the fact that it rose 13 positions up in 2015.

During the last year the primary goal of the new government is to reform industries in Ukraine, and one of the main directions of the reform is deregulation which

means cancellation or reduction of state regulation and state control over business handling.

It is no wonder that the topic of deregulation of state economic control constantly appears in the speeches of politicians and economists, government programs and draft legislations. When considering the institutional aspect, the main agents of real deregulation ideas currently are the Ministry of Economic Development and Trade (MEDT) and Public Platform "Emergency care reform package" (which brings together specialists in many important areas of reform).

During 2015 and early 2016 the Ministry of Economic Development has initiated more than 10 drafts to deregulate and improve business environment, including



general legal harmonization in the licensing sector, reforms of the state control, abolition of certain licenses and permits optimization of the list of administrative services. In general, to the last change of government there were more than 40 deregulation drafts under examination by the Parliament which were submitted by such entities of legislative initiative as the President and the deputies.

Deregulation takes place in three stages:

- Cancellation of key regulatory barriers to business;
- “Regulatory Guillotine” is a full review of regulatory framework, provided that state agencies will now prove the need for some restrictions for business;
- Implementation of preventive mechanism that does not allow recovery of excessive administrative pressure.

From the beginning, the Ministry of Economic Development and Trade of Ukraine determined most painful restrictions for business and have already taken:

- the Law on simplifying business that has canceled 16 inefficient regulatory restrictions by harmonizing the system of land lease and creating the “single window”

system to start a business just in 2 days;

- Changes to the law on licensing abolishing licensing of 26 types of economic activities;
- Government decree on deregulation that abolished the need for inefficient certificates in the agricultural sector and subsoil monitoring by opening significant opportunities for corruption;
- The law on the protection of investors which led the standards of our law to the European legislation and provided adequate protection of minority shareholders.
- The next steps of the Ministry of Economic Development are in the subsequent abolition of 130 inefficient regulatory constraints that we identify with business as a major “pain points” for its operation. To do this, the government has recently adopted the “Action Plan for Deregulation” and we have already begun implementing it. In addition, the Ministry of Economic Development is preparing “a regulatory guillotine”, the second phase of our reforms, to begin the process of full review of the regulatory framework in the near future.

The government approved an updated plan for deregulation for 2016 – 2017. It consists of 112 par-



agraphs. 80 paragraphs thereof were provided according to public discussions and communication with representatives of business communities, professional and civic organizations. New points of the plan reflect severe problems which hinder business development and creation a favorable business climate the most. The unexecuted paragraphs of the previous plan are transferred with mainstreaming of terms.

The document aims to solve problems in the area of administrative services, state supervision (control), telecommunications, agriculture, construction and other fields.

According to the Plan of Government Priority Actions of 2016, later this year the Cabinet intended to make necessary legislative initiatives that will improve the position of Ukraine in Doing Business and get in the first top 50 of the rankings in 2017.

In 2016 measures aimed at deregulating business sector, has allowed businesses to save more than 10 billion UAH!

The new Report 2017 of the World Bank specifies that the legal framework that regulates the development of the business environment in Ukraine still has a lot of prob-

lems. As a result, according to a new Report, Ukraine takes the 80<sup>th</sup> place among 190 countries.

## **The next steps of the Ministry of Economic Development are in the subsequent abolition of 130 inefficient regulatory constraints that we identify with business as a major “pain points” for its operation.**

Compared to the 2016 year, Ukraine improved its position with the following indicators:

- Registration – from 30<sup>th</sup> to 20<sup>th</sup> place;
- Electrical connection – from 137<sup>th</sup> to 130<sup>th</sup> place;
- taxation – from 107<sup>th</sup> to 84<sup>th</sup> place.

Ministry of Economic Development and Trade continues to make life easier for business: in the re-



sult of “a deregulatory day” service in the 367 illegal and outdated regulations were canceled in the government. Regulatory authorities turn into service ones! About 21 thousand (30 % of total) scheduled inspections included in the Plan of Complex Activities planned for 2016 were conducted in full under the state supervision (control). In addition, the moratorium on early verification is extended by December 2017.

**Thanks to ProZorro, Ukraine won the right to hold the largest international forum on public procurement – Procurement, Integrity, Management, and Openness (PRIMO) Forum – on fighting corruption in public procurement, to be held in May and June 2017.**

The system of open data is actively developing in Ukraine. Thus, projects that help monitor and control in public procurement are implemented. In particular, this project “Ye data”, under which a web-portal [spending.gov.ua](http://spending.gov.ua), was created to publish information on how budget funds are used by administrators (initiative of the Ministry of Finance). Search data service is also launched from open sources on how to budget funds are used by state under the name “Search and analysis system 007” (<http://www.007.org.ua>). There are common data opened from multiple sources, including [spending.gov.ua](http://spending.gov.ua) (draft “Ye-data”), [data.gov.ua](http://data.gov.ua) (United State open data portal), <http://www.spfu.gov.ua> (State Property Fund of Ukraine), [ukrstat.gov.ua](http://ukrstat.gov.ua) (State Statistics Service of the country), [prozorro.gov.ua](http://prozorro.gov.ua) (site of “ProZorro” project). It should be noted that realization of this project together with the “ProZorro”, appeared the opportunity to monitor transactions and how is paid each purchase.

Despite a wild resistance, Ukrainian reforms do have tangible results, and civil society will continue to require these changes become irreversible. One of the crucial reforms to improve business environment in Ukraine is



the introduction of electronic public procurement through “PRO-ZORRO”.

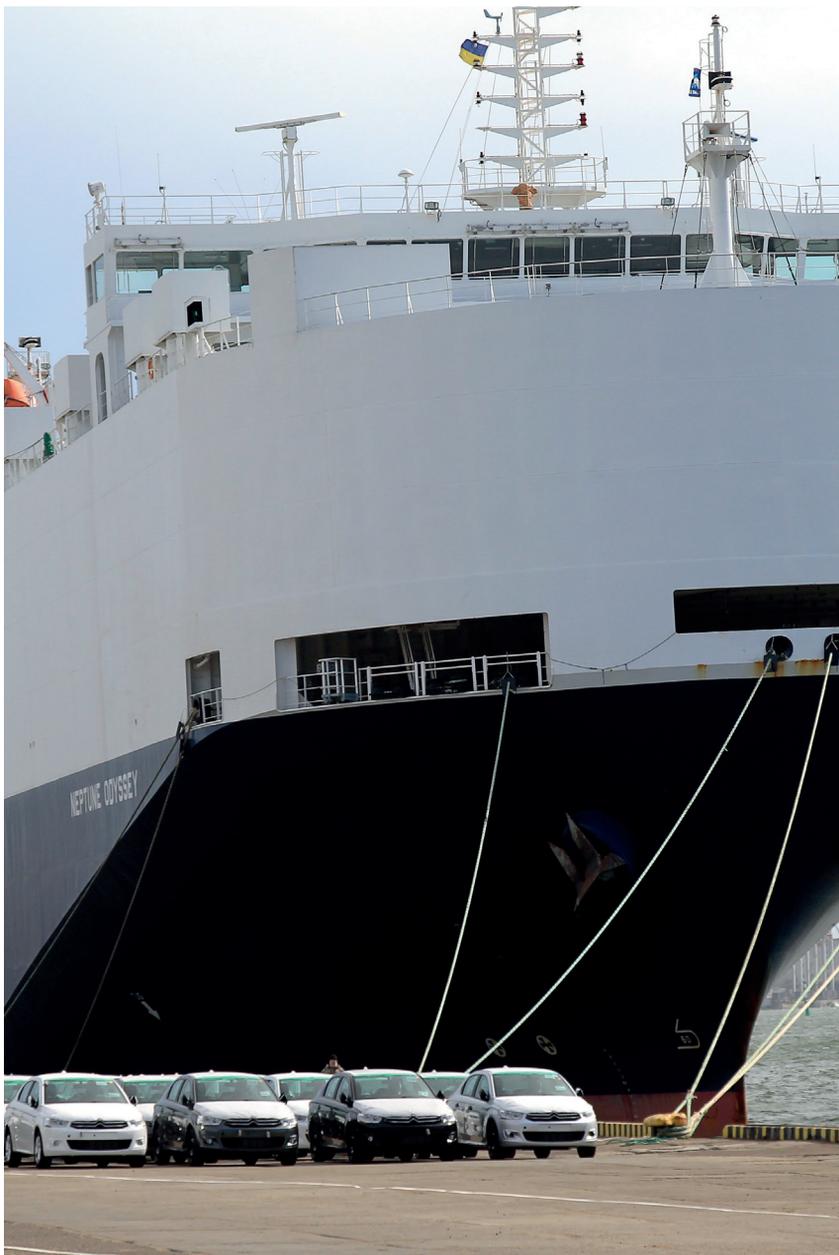
The system of public electronic procurement ProZorro has been operating since February 2015. During this time, the system benefited 15,510 government customers; announced 295,970 purchases with the expected value of 155.56 billion. Potential savings is 6.06 billion UAH (12,52 % under competitive procedures).

ProZorro received Procurement Leader Award, an international award in the field of public procurement, for the creation and implementation of an electronic system with a unique architecture. Thanks to ProZorro, Ukraine won the right to hold the largest international forum on public procurement – Procurement, Integrity, Management, and Openness (PRIMO) Forum – on fighting corruption in public procurement, to be held in May and June 2017.

2017 will be the first year that absolutely all tenders will be in the form of electronic trading bypassing corrupt schemes. According to statistics, about 65 % of tenders are held in the first quarter. That is why we encourage everyone who is not involved in procurement to

think about it and register straight away. It has been estimated that in 2016 the volume of public procurement market amounted to over 300 billion. According to the forecasts of experts in 2017, it will be about 450 billion. So take part in procurement and win!

Monitoring Portal “DoZorro” (<http://www.dozorro.org>) is another platform where each participant system can provide feedback to government customers or suppliers, to discuss and assess the specific procurement, analyze the purchase of separate state body or institutions, to prepare and submit a formal appeal to the regulatory agencies, and more. The idea of this Project is that customers and suppliers can post comments about their partners (if delivery was made in time, payment, etc.). Transition to Portal functions is available from electronic platforms, working with “ProZorro”: such an opportunity is from two sites: [zakupki.prom.ua](http://zakupki.prom.ua) and <http://www.dzo.com.ua> (“Derzhzakupivli.Onlayn”). Please leave comments directly on the portal or through social networks.



THE PORT, ODESSA, UKRAINE



# 31/ LIBERALIZATION OF INTERNATIONAL TRADE AND INTERNATIONAL CAPITAL MOVEMENT

Ukraine is required to participate more actively within the international trade system due to contemporary globalization processes. The country belongs to states with high level of open economy, but its share of world GDP is only 0.17 %.

Complicated economic and political situation and the conflict in the east of the country had adverse effect upon the development of international trade and international capital movement in Ukraine. The country lost certain markets and production facilities of traditional export, the state of world

market was not favourable either. As a result, it caused the significant decrease in domestic exports. Ukrainian manufacturers previously oriented towards exports had to look for new markets for their products because of the loss of Russian market.

Ukrainian farmers found themselves in the most advantageous position. Their products are relatively competitive in the markets of developed countries unlike such traditional exports of products of metallurgy or mechanical engineering.



In 2016 unfavourable tendencies intensified dramatically when the Russian Federation imposed embargo on Ukrainian food products, created limitations and complications for transit through Russia's territory, and since July 1 the Russian Federation has tightened these restrictions. On the other hand, in recent years we can observe some positive indicators as the revival of demand for certain products of Ukrainian exports and the simultaneous increase in output of industrial products. But significant raw-material orientation of Ukrainian exports and considerable dependency of domestic factories on foreign markets make

**Complicated economic and political situation and the conflict in the east of the country had adverse effect upon the development of international trade and international capital movement in Ukraine.**

currency inflow vulnerable to price fluctuations.

Currently, Ukraine continues to advance liberalization of its external trade and international capital movement. The largest partners for exports of goods from Ukraine are the following: the European Union (37.9 %), the Russian Federation (9.8 %), Egypt (6.4 %), Turkey (6%), China (6 %), India (4.6 %) and others. Exports are dominated mostly by the products of agroindustrial complex (40.1 %), products of metallurgical complex (23.9 %) and machine engineering (12 %), mineral products (7.6 %), products of chemical industry (5.7 %), timber and paper pulp (5 %).

The largest partners for imports of goods to Ukraine are the following: the European Union (43.9 %), the Russian Federation (12.8 %), China (11.9 %), Belarus (7.3 %), the United States of America (4.8 %), Turkey (2.8 %) and others. Imports dominated by products of machine engineering (29.2 %) and chemical industry (23.0 %), mineral products (19.5 %), products of agroindustrial complex and food industry (10.3 %), products of metallurgical complex (6.1 %), products of light industry (5.4 %).

It is necessary to admit that geographically the EU was Ukraine's



largest trading partner for both exports and imports in 2016. Thus, the EU share of exports of goods accounted 37.9 % while import market reached the mark of 43.9 %. Besides, the Russia's share of exports of goods decreased up to 9.8 % while its share of imports decreased by 7.3 p. p. and accounted 12.8 % in imports.

Today "the deep and comprehensive free trade area" has been established between Ukraine and the EU. Within this area all customs duties and quantitative restrictions on mutual trade are abolished. Compliance with the EU norms and standards as well as establishment of customs-free trade promotes attraction for investors and technology transfer from western European and other leading economies. Thus, Ukraine is changing from an exporter of raw materials and agricultural products into a producer of more qualitative goods which can meet external demands.

Exports from Ukraine to the European Union comprise products of agroindustrial complex (23.5 %), machine engineering (16.0 %), mineral products (10.2 %), timber and paper pulp (6.8 %), products of light industry (6.2 %), other industrial products (3.7 %) and products of chemical industry (3.6 %).

The segment of machinery engineering alone accounts for export share of 31.9 %, products of chemical industry – 27.2 %, mineral products – 12.8 % and products of agroindustrial complex and food industry – 10.5 %.

## **Compliance with the EU norms and standards as well as establishment of customs-free trade promotes attraction for investors and technology transfer from western European and other leading economies.**

Ukraine is making attempts to carry out liberalization of markets with the EU countries and many others. On May 18, 2016 Ukraine finalized the official procedure of joining WTO Agreement on Government Procurement (GPA). From this date on, Ukrainian companies have obtained a right to participate in government procurement of 45 GPA member-states among which are the following: the EU, Ja-



pan, the USA, Korea, Taiwan, Singapore, Hong Kong, and Canada. Total market volume of WTO general procurement is 1.7 trillion US dollars annually.

GPA spreads the key principle of WTO – equal market access opportunities – in the sphere of government procurement. The foreigners have full access to Ukrainian state tenders as well as Ukrainians – to external ones. But if foreign companies could participate in public procurement de facto before, Ukrainian companies only will discover global market of government procurement.

The analysis of Ukrainian investment climate demonstrates negative influence of Russian aggression on economy which affects capital movement in the state. Implementation of free-trade zone with the EU countries has become a strong additional point for benefits of direct foreign investments in production of goods and services oriented towards exports to the European Union making good use of existing competitive advantages of Ukrainian economy.

In 2017 Ukraine improved some world ranking results. According to Doing Business – 2017 data the ranking of Ukraine on the investment attractiveness improved to

89<sup>th</sup> position. Ukraine ranked 80 among 190 world countries for the ease of doing business, for the starting a business – 20, for the paying taxes indicators – 84.

Presently, the problem of improvement of legal and organizational bases for enhancing of efficiency of various mechanisms to provide favourable investment climate and increasing of domestic economy competitiveness is very important for further liberalization of international capital movement in Ukraine.

Many positive measures have been already made. Today legal environment for investment and public-private partnership development has been created in Ukraine. Ukrainian legislation secures investors' activity and ensures economic and organizational principles for public-private partnership implementation in Ukraine. Also the national regime for investment activity is applied to external investors; it refers to equal opportunities for both foreign and domestic investors. Foreign investments cannot be nationalized in Ukraine.

With regard to investment infrastructure development the further measures are the following:

- the work to implement the Law of Ukraine “On industrial parks” in



order to support establishment of industrial parks on the state level;

- the work to ensure methodological and information support to subjects of industrial parks as well as investment attraction for the establishment and functioning of industrial parks.

Today the Register of industrial parks includes 14 of such parks. 7 more industrial parks have been created and the required documents are being prepared for their inclusion in the Register mentioned above.

To conclude, Ukraine is an attractive country for investments, and at the same time it is not beyond the world processes, the country is integrated into the world economy enough and destabilizing of external markets affects Ukraine.



SBERBANK, KIEV, UKRAINE



# 32/

# FINANCIAL SECTOR DEVELOPMENT

The financial sector is one of the most important segments of market interaction of economic agents resulting in the implemented mechanism of transforming financial resources of active capital investment which promotes sustainable economic development.

Insurance market is the second level of capitalization of other non-bank financial markets. The total number of insurance companies in September 2016 was 323, including “life” – 43 companies, “non-life” – 280 companies.

The Insurance Companies of Ukraine collected 8.274 billion UAH for 1 quarter of 2016 of Gross premiums that are 35.8 % more than in the same period last year.

According to the National Committee of Financial Services (Natskomfinposluh), net premiums rose by 24.7 %.

To obtain a license to conduct insurance, an applicant should submit to Natskomfinposluh certificates from bank confirming the amount paid-up share capital or audit report submitted in the register of auditors which can conduct audits of financial institutions.

National bank issues a license to non-bank financial institution to conduct certain banking transactions in case of compliance with these mandatory conditions:

- the inclusion of non-banking financial institution in the State Register of financial institutions;



- obtain a license by a non-banking financial institution of State Commission for Regulation of Financial Services to conduct activities of rendering financial services;
- availability of regulatory capital equivalent to at least 1 million EUR;
- the period of activity of non-banking financial institution is at least one year after obtaining a license of the State Commission to conduct activities of rendering financial services;
- Profit availability according to annual financial report, confirmed by an auditor;
- flawless business reputation and appropriate qualifications of the leaders of non-banking financial institution;

**Clearly, it is necessary to complete the process of initiated structural reforms and turn a new page in the history of the insurance market of Ukraine.**

- availability of qualified personnel for the relevant banking operations and other conditions provided by the legislation.

The number of insurance companies at the end of 2016 was 323, 43 of which provided life insurance and 280 carried insurance other than life insurance.

Gross premiums received by insurers when insuring and reinsuring risks from insurers and reinsurers for 9 months of 2016 amounted to 24 844.2 million UAH.

Net insurance premiums at the end of 2016 amounted 19 588.3 million UAH, which is 78.8 % of gross insurance premiums. In 2016 gross premiums increased by 14.4 %, net premiums increased by 17.0 %, indicating the gradual recovery of the insurance industry crisis.

The gross claims paid in 2016 amounted to more than 6 million UAH.

The current year is quite hopeful for the insurance market and it encourages following the rules of slowly growing economy, perspectives of which are seen cautiously here and there. Clearly, it is necessary to complete the process of initiated structural reforms and turn



a new page in the history of the insurance market of Ukraine.

In addition, major subjects in the insurance market in Ukraine are companies with foreign capital, thus, we can safely say that the insurance market of Ukraine is very attractive for investment. A business can be profitable with minimal capital investment, taking into account that Ukraine takes 5th position among European countries in terms of population, and therefore potential customers.

385 financial companies providing financial leasing services have been enlisted to the State Register of financial Institutions in July 2016.

It should be noted that the market of leasing services is not reduced; vice versa it got a new chance to restore lost positions of stable instrument. Unlike bank loans which have become less available for both corporate and individuals, leasing today is a sole resource for long-term financing in the country.

Although the economic situation in the country remains volatile, investment attractiveness of the financial instrument as leasing restore the confidence of both the shareholders and potential customers. Positive forecasts and

gradually increase of the volume of financing leasing market indicates that the so-called “revival” will occur in the next 2 – 5 years.

During 2015 financial companies and legal entities that do not have the status of financial institutions, but can provide financial services according to the legislation, were signed 2713 contracts. The cost of leasing objects that are the subject of agreements is 4,028.8 million UAH. About 99.9 % of all financial leasing services are provided by legal entities which are not financial institutions.

Today in Ukraine leasing is used on a small scale, because Ukrainian banks are not involved in leasing lending.

Leasing is one of the effective methods of investment that allows without sudden financial stress of enterprise to ensure formation of logistics and the most advanced methods of it.

The total number of life insurance companies in Ukraine, which are included in the State Register on 30 September 2016 amounted to 43 insurance companies.

Life insurance market in Ukraine in 2016 increased by 32.2 %, which makes it possible to affirm that



conditions on life insurance market is gradually and dramatically changing. In view of the increase also possible to state the fact that the investment attractiveness of this segment of the financial sector is on a curve which is growing rapidly.

## **Despite the difficult economic situation investors are interested in the activities of the domestic financial services market.**

Number of insured individuals is 4.1 million people. During 9 months of 2016 1.2 million people were insured (+ 22.1 %).

As international experience shows, life insurance has always been regarded as a profitable investment.

The potential of Ukrainian life insurance market is very large because of the novelty of this service in the financial market. The domestic insurance companies engaged in life insurance for 10 – 15 years and still have not accumulated capital and reputation.

Market of non-banking services credit institutions. At the end of 2016 in the State Register of financial institutions there were 734 credit institutions, including 576 credit unions, 128 credit institutions and other 30 legal entities of public law. Despite the difficult economic situation investors are interested in the activities of the domestic financial services market. As a result, in early 2016 the number of credit institutions increased by 19 units, which is an indicator of the relevance and appropriateness to invest in this type of business activity.

The total assets of credit unions for 2016 amounted to more than 2 billion UAH. The total amount of capital for the same period increased to 118.1 million UAH.

Market of non-banking services demonstrates the growth of the loan portfolio by almost 30 %.

In September 2016 the State Register of financial institutions included information about 467 pawnshops.

The amount of granted financial secured loans and the amount of repaid financial loans increased by 25.9 % and 27.7 % respectively, while the number of granted financial loan secured increased



by 4.0 %. The positive dynamics of economic indicators in all the activities of pawnshops shows that despite the financial and economic crisis in Ukraine it is still possible to work and make profits without violating existing legislation.

Assets of pawnshops increased to 43.5 % over the same period last year.

The pawnshop business is recognized with relatively high profitability – 30 – 40 %. Investments in this business are repaid, usually within two to four years. The risk of non-repayment of loan funds is minimized, because the money is issued only on bail and the amount from 50 % to 90 % of its appraised value.

The year of 2016 can safely be called a turning point in the exchange market. The “reload” happened after the National Bank of Ukraine decided to resume the issuance of general licenses for currency transactions to non-banking financial institutions. As a result, there are already about thirty such institutions today.

Income of exchangers is formed by exchange rate differences. The most popular currency is Dollar, it accounts for nearly 75 – 80 % of all transactions, while Euro is more

profitable – it has the largest margin on sale rates, but it takes one fifth in a basket of currency sales. Other currencies have only 1 %.



INDUSTRIAL PARKS IN UKRAINE



# 33/

## INDUSTRIAL PARKS IN UKRAINE

According to the Law of Ukraine “On Industrial Parks”, Industrial Parks (IP) are special industrial areas with prepared engineering and transport infrastructure, a number of the necessary services, simplified procedures and a package of investment incentives for production and research enterprises.

Ukraine has a number of peculiarities in the development of industrial parks, namely:

- IP land should belong to the land for industrial use;
- IP can be located on one or more adjacent land plots;
- IP area can range from 15 to 700 hectares;
- IP is created for a period of at least 30 years;
- lands of the state and municipal property within the IP can be sold to the management company and IP participants IP;
- at the time of entering the Register the IP should not have any integral property complex to carry out production within its territory;
- the creation of an IP can be initiated by public authorities on the land of state property, local authorities on the land of municipal property, legal entities or individuals that are private owners of the land, legal entities or individuals that are leaseholder of the land of state, municipal or private property;
- the IP management company is a resident legal entity selected according to the Law;
- IP participants are business entities registered on the territory of the administrative-territorial unit within which the IP is located.



Under Ukrainian law, state support for the development of the industrial park is provided to its participants only upon entry to the Register of industrial parks in accordance with a given procedure. The necessary condition for entry of the industrial park to the Register is the absence on its territory of the integral property complex for carrying out production, the involvement of non-government funding covering at least 75 % of the estimated cost of the industrial part development project, creation of new jobs, the introduction of modern technologies, and ensuring environmental protection. The following forms of government support are provided to encourage the development of industrial parks:

- allocation of the funds of State Regional Development Fund for financing the projects of the development of industrial parks infrastructure under the condition of co-financing from local budgets at 10% of their estimated cost;
- exemption from equity participation in the development of local infrastructure in case of the construction by the IP participants of objects within the territory of the respective IP;
- exemption of import duties for investment purposes in the basis of registered agreements (con-

tracts) or as contribution of the foreign investor into the authorized capital of the enterprise with foreign investments;

- importing at preferential tariff rates (0 %) of goods originating from the states-members of the World Trade Organization or from the countries with which Ukraine has concluded bilateral or regional agreements on MFN (most favoured nation), including the EU member-states;
- duty free import of the equipment that runs on renewable energy, energy saving equipment and materials, means of measurement, control and management of energy resources, equipment and materials for the production of alternative fuels or the production of energy from renewable energy sources.

The following support is provided at the local level:

- providing by the decision of the local governments of benefits on the land tax and property tax for the subjects of IP, taking into account the public interest, reflected in the policy documents of economic and social development;
- the establishment by government agencies and local governments of minimal rent rate for the lease of state and municipal property державними



органами і органами місцевого самоврядування мінімальної орендної ставки за оренду земель державної та комунальної власності;

- assistance at the local level in the official registration of all permits and other documents required for the project;
- allocation of funds from local budgets to finance the development of engineering infrastructure of particular land plots or creating the conditions for access to these territories;
- organizational and financial participation in the recruitment and organization of training of potential and current employees of the companies that participate in the industrial parks.

The initiative of the creation of industrial parks was supported in all regions of Ukraine, and most regions initiated the creation of more than one parks. Since 2013, the creation of 23 industrial parks has been initiated in accordance with the Law of Ukraine “On Industrial Parks”; 18 of them have been included in the Register of industrial parks.

The following industrial parks are the most promising for investment:

## **The initiative of the creation of industrial parks was supported in all regions of Ukraine, and most regions initiated the creation of more than one parks.**

- Central Industrial Park (Kremenchuk, Poltava Region) <http://kremenchukinvest.com.ua>;
- Svema (Shostka, Sumy Region) <http://www.svema.com.ua>;
- iPark (Kominternivske District of Odessa Region) <http://ipark.info>;
- BIONIC Hill Kyiv) <http://bionic-hill.com>
- Solomonovo (Uzhhorod District, Transcarpathian Region) [http://www.sezparkservice.com/sps\\_ua/cezparkservis/iindustrial\\_nij\\_park](http://www.sezparkservice.com/sps_ua/cezparkservis/iindustrial_nij_park).

To understand what an IP in Ukraine is let us consider the following parks.

The Solomonovo Industrial Park (in the village of Solomonovo,



Transcarpathian Region.) is aimed at promoting the development of machine building industry in Ukraine by creating the necessary conditions and special infrastructure to accommodate manufacturing industries, medium and precision engineering, namely automotive, instrumentation, electronic industry, etc.

The creation of Solomonovo IP was initiated by following private companies:

- Sezparkservice Limited liability company – the developer of the Solomonovo Industrial Park – 26,0 hectares (leased use);
- Euromotor Limited liability company – 5,0 hectares (leased use);
- Euroavtotek Limited liability company – 10,0 hectares (leased use);
- Eurocar Private Joint Stock Company – 4,73 hectares (private property);
- RIK Limited liability company – 25,2 hectares (private property).

The development plan of the IP Solomonovo envisages gradual creation of the infrastructure, industrial, administrative and logistic areas that will ensure the operation of the IP participants. The estimated volume of investments to be involved is 530 million hryvnias.

Among the potential participants of the IP there are companies of the concern of Volkswagen Group, Johnson Controls Inc, Kautex Maschinenbau, Skoda Auto a.s., Magna International, SGS International, etc.

The geographical proximity of the region to international transport routes, the developed and diversified transportation network, favourable economic and geographical location, availability of necessary infrastructure, proximity to the existing or prospective business cooperation centres, the availability of the system of international relations with foreign partners that has a long tradition and bases for its further development efficiently contribute to the creation of a number of IPs in the region.

The innovation park *BIONIC Hill* is the first Ukrainian technology park based on the concept of “Work-Live-Learn-Rest”. Its infrastructure is designed to create the most comfortable conditions for life and business.

The construction of the park is the private commercial initiative of UDP company, one of the leaders of real estate development market in Ukraine and is supported by Kyiv City State Administration,



State Agency for Investment and Management of National Projects in Ukraine and the State Agency of Ukraine for e-government. BIONIC Hill is part of the Technopolis national project and is included in Kyiv 2025 Development Strategy.

It is planned to create business centres, modern scientific and educational centres, high-tech production site, hotels, shopping centres, sports and fitness facilities and comfortable accommodation on the territory of the IP.

The purpose of the project is to create an ecosystem for the development of high-tech business in Ukraine. Key specializations of BIONIC Hill are information and communication technology, pharmaceuticals and biotechnology, energy saving technologies and the use of alternative energy sources.

According to Ernst & Young, after the project Bionic Hill starts operating at full capacity, the revenue of resident companies will exceed 7.2 billion US dollars per year. The project will provide 35,000 high-performance jobs, budget revenue, attracting leading international technology and foreign investment. The total amount of investment expected in the development of innovation park is about \$ 1 billion a year.

Thus, the creation of industrial parks can be considered a new stage in the application of organizational and economic mechanisms to stimulate investment activity in Ukraine. Government and local authorities provide all necessary favourable conditions, and the government intends to expand relations with foreign investors. Ukraine has the attractive prospects for organization and conduction of business and also a unique geographical location. So the choice is yours!



QUALITY ASSURANCE SYSTEMS AND CERTIFICATION PRINCIPLES



# 34/ QUALITY ASSURANCE SYSTEMS AND CERTIFICATION PRINCIPLES

Current economic conditions demand from each company the introduction and effective compliance with mechanism of complex quality management. The key elements of this particular management are: standardization and certification of products; internal quality systems; state supervision of compliance with standards, rules and regulations and responsibility for their violation; internal production and technical quality control. They affect the continuity of the production process and competitiveness of products.

Mandatory certification (conformity assessment) is carried out in compliance with the regulations stipulated by legislative acts of Ukraine or the regulations in-

cluded in the List of Products Subject to Mandatory Certification in Ukraine, approved by special authorized central government agency for conformity assessment.

The import of products subject to mandatory certification is carried out according to the “Customs clearance of imported goods (products) that are subjects to mandatory certification in Ukraine”, approved by the Decree of the Cabinet of Ministers of Ukraine No. 446 of 14.05.2008.

The list of products subject to mandatory certification include the following categories:

- special means of self-defense;
- security equipment;



- household equipment running on solid, liquid and gas fuels;
- agricultural equipment;
- food products and food raw materials;
- building materials, products and structures;
- firearms, hunting and sporting weapons, etc.

The complete list of products that are subject to certification is available here.

Certification of services in Ukraine is voluntary.

Ukraine has a state system of certification UkrSEPRO, whose 118 agencies perform certification of products (services). This system performs both mandatory and voluntary certification. The work of UkrSEPRO is organized by the State Committee of Ukraine for Technical Regulation and Consumer Policy – Derzhspozhyvstandart, which is the national authority for certification. DSTU ISO standards that are applied in Ukraine are the national standards which introduce ISO standards.

The objects of certification under UkrSEPRO system are the products which:

- are produced in Ukraine;

- are imported to Ukraine and marked by the manufacturer as being compliant with applicable regulations in Ukraine;
- are imported to Ukraine and are not marked by the manufacturer as being compliant with applicable regulations in Ukraine, but can be identified as those that must comply with Ukrainian regulatory documents on similar products;
- are imported to Ukraine and are not marked by the manufacturer as being compliant with applicable regulations in Ukraine and can not be identified as those that must comply with applicable Ukrainian regulatory documents on similar products, but have received a positive conclusion of the state sanitary and hygienic expertise of Ministry of Health of Ukraine.

Thus, the system is designed for the mandatory and voluntary certification of products, processes and services. Accredited organizations and state owned enterprise can be certification bodies in the system. If the system has several accredited certification bodies for the same product, the applicant has the right to have their products certified in any of them. The product certified in the system receives a certificate of compliance and a conformity mark that is applied to the product.



Today, a series of international standards ISO 9000 invariably determines the general course, principles, components of the overall process of management in any organization. The use of standards of this series provides a number of organizational, rating, social and economic benefits for commercial or non-profit organization. This is confirmed by the growing number of companies seeking to be certified in accordance with ISO 9000 and to receive a certificate of quality. There is no need for foreign partners to spend money on product testing, it is much more profitable to work with companies that have an ISO certificate. Another advantage of ISO certificate is the possibility to extend the validity of UkrSEPRO certificates.

For example, an integrated external audit for compliance with ISO 9001, ISO 14001, ISO 22000 was held in all divisions of Rud company in 2011. The audit was conducted by the audit team of the certification body PRIROST – DQS-Group. Based on the results of certification and recertification audit conducted in units of Rud company, the certification body PRIROST – DQS-Group awarded PJSC Zhytomyr Butter Plant certificates of compliance with ISO 9001, ISO 14001 and ISO 22000. The company became one of the first among dairy companies of

Ukraine to receive a certificate of conformity of its products with international standard ISO 22000.

In September 2012 the state enterprise “Ukrainian Institute of Industrial Property” – the only institution in Ukraine that examines applications for industrial property objects (IPO) – received the certificate of conformity of quality management system with international standard ISO 9001: 2008. The certification audit was conducted by LLC Global Certificate on behalf of Dekra Certification company. OJSC Insurance Company Universalna became the first among insurance companies of Ukraine that developed and implemented on their own initiative a quality management system and received confirmation of its compliance with the International Standard

**There is no need for foreign partners to spend money on product testing, it is much more profitable to work with companies that have an ISO certificate.**



ISO 9001: 2000. This was carried out through the national certification body of quality PRIROST, whose certificates are accepted in the countries of European and the world. In particular, PRIROST company is accredited in the German Accreditation Society TGA.

## **Those Ukrainian producers who export their products to the EU countries have long switched to Euro standards (EN), without relying on government instructions.**

Those Ukrainian producers who export their products to the EU countries have long switched to Euro standards (EN), without relying on government instructions. Thus, the enterprise “Interkabel” which is part of Austrian group of companies SKB-GROUP, made this shift in 2007. The certification of environmental management by ISO 14000 international standards is not particularly popular in Ukraine: currently there are about a dozen companies that have received the

relevant certificate. The procedure is too costly: before the company invites independent auditors it has to invest heavily in the reconstruction of “dirty” industrial sites.

To obtain international environmental certificates, Ukrainian businessmen have either to receive grants from Western funding organizations or attract investment of foreign partners. And yet they get certified as ISO 14000 is an effective competitive weapon in the markets of developed countries.

In Ukraine a large number of companies are represented that provide services of certification (for the certificates ISO 9001, ISO 14001, OHSAS 18001, ISO 50001, HACCP, ISO 22000, BRC, IFS, ISO/IEC 27001, SA 8000, ISO/TS 29001, IRIS, ISO/TS 16949, AS/EN 9100, ДСТУ 4161, GMP+ and others):

- DQS – one of world leaders in management system certification <http://www.qmsc.com.ua/>
- LLC “Intersert-UKRAINE” – the official representative of the German certification body of management systems and personnel TÜV Thüringen in Ukraine <http://intersert.com.ua/>
- SGS company – the world leader in inspection, expertise, testing and certification services <http://www.sgsgroup.com.ua/>



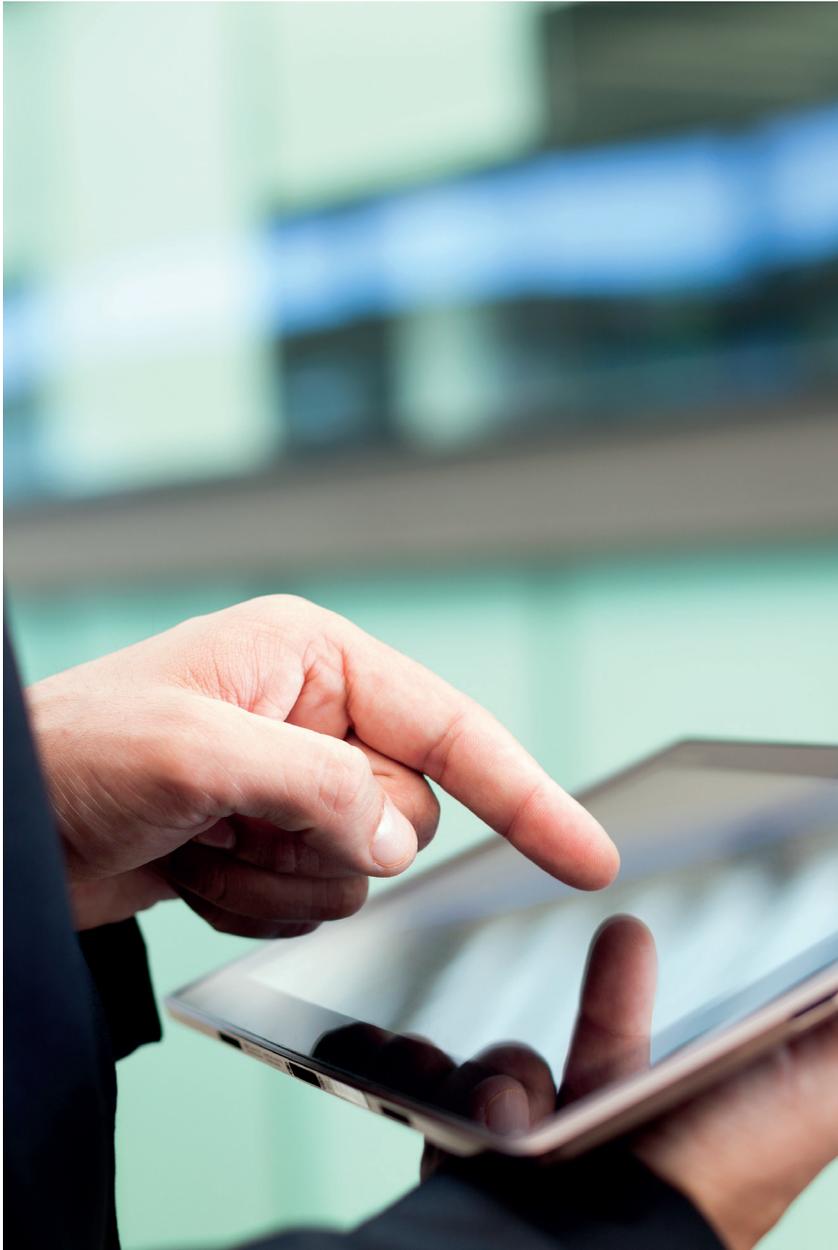
- “Etalon” private company – an independent certification agency that provides a wide range of services in certification and assessment of compliance with regulations of Ukraine, Russia and the EU <http://osetalon.com.ua/>

- LLC “International Management Service” – the only representative of TUV NORD Germany in Ukraine, Kazakhstan and other CIS countries <http://ims-cert.com/>, etc.

On July 6, 2016 Ministry of Economic Development and Trade of Ukraine presented the handbook Blue Guide, which was published with the support of the federal company Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, acting on behalf of the German government. The handbook contains detailed information about technical regulations necessary for the effective entry of Ukrainian products to European and international markets, as well as information on the international activities of Ukraine in the field of metrology. The handbook also includes information review of the EU legislation on product safety, as well as basic information about the system of metrology, standardization, conformity assessment, accreditation and market surveillance. In addition, the authors provide useful links to web resources

in Ukraine and the EU, which contain important information about the peculiarities of technical regulation. The handbook can be downloaded here: <http://bit.ly/29NoHNc>.

Ukraine is only beginning to introduce European standards (EN). This process involves the abolition of outdated standards and the introduction of 28,000 new ones that meet EU requirements, i.e. requirements under ACAA (Agreement on Conformity Assessment and Acceptance of Industrial Products). The completion of this initial stage will enable Ukrainian companies to sell their products under ACAA, on the terms of trade between the EU member states. In the future, it will completely open the EU market for Ukrainian industrial goods and will allow producers to supply their products with Ukrainian certificates.



MODERN ELECTRONIC MASS MEDIA



# 35/

## MODERN ELECTRONIC MASS MEDIA

Internet journalism is a relatively new and unexplored phenomenon. Internet publications that can be attributed to the media began to appear all over the world in the 1990s, and in Ukraine they appeared a little later. First they existed as underground media; society and the traditional media paid little attention to them because they did not perceive them as genuine or professional. Today, when the World Wide Web has millions of websites with billions of web pages, the situation has changed.

The online journalism is intensively exploring the information space, showing tremendous potential. This accounts primarily for a steady onset of the Internet throughout the world. However, this process is uneven depending

on a particular country. Obviously, the fastest rate is observed where the level of education and the standards of living are higher.

Internet publications first appeared in Ukraine in 1999, the whole previous period being the initial stage of the formation of this group of media. However, the rate of development and increase in influence achieved by Ukrainian Internet publications within such a short time can be the envy of any group of traditional national media.

For the researchers of Ukrainian online journalism the present period is very interesting as it indicates “stabilization” in the field of the so-called “new media” and the transition to a qualitatively new



level. The increasing ease and convenience of the Internet use and popular social networking craze made online editions set up their pages on Facebook, use Twitter, Odnoklassniki (OK.ru) and VKontakte (VK) as sources of necessary information, trying to technically adapt their sites for different monitors.

Generally, Ukrainian online media have gone through certain stages of their development, each characterized by its own peculiarities, significant events and phenomena. We can single out distinct periods which change completely approximately every five years.

Thus, we can speak about zero period that took place in early 1990s, the first period that occurred in late 1990s, the second period in the first half of the 2000s, the third period in the second half of the 2000s and the current fourth period.

Today there are a lot of Ukrainian Internet publications, some of which only copy electronic editions; in fact, they are electronic versions of the printed media. There are also electronic editions without a printed version but with a Ukrainian domain. In the Ukrainian Internet media space the following three types of Internet editions can be singled out:

- Internet versions of printed or electronic media (for example, Dzerkalo Tyzhnia, Ekspres, Tyzhden)
- sites of news agencies (e.g. UNIAN, RegioNews)
- Internet publications proper (e.g. Ukrainska Pravda, IPress.ua, etc.)

Online media are the second most important source of information in Ukraine. More than half of the respondents are interested in Internet resources. Ukrainians mostly access news sites via the Russian social networks VKontakte and Odnoklassniki, and the most popular sites are Ukrainska Pravda, Tsenzor.NET, Korespondent.net and Obozrevatel.

Approximately one-third of the respondents continue to read printed media, preferring regional press, while a quarter of Ukrainians follow the news on the radio.

In 2014 the traffic of media sites increased dramatically. According to the participants of the conference “New Media – New Opportunities 2014”, this is associated with revolutionary events and the military conflict in the East of Ukraine. While news sites were visited by 10 – 15 % of daily audience in 2013, in 2014 this number reached 60 %. Earlier no more than 1,5 – 2 mil-



lion Ukrainian Internet users read news every day. However, today the situation is different: there are 1,5 – 2 million visitors of the *Ukrainska Pravda* alone, while the total daily attendance of the Ukrainian media is approaching 7 million. An important role in such a sharp increase in attendance is played by social networks.

The boom of online media can be explained by the attractiveness of this extremely rapidly developing field for potential investors. Disseminating information through a social network is much cheaper than through the press, radio or television. The production and support of online publications is also cheaper compared to their off-line counterparts, while the size of publications is not limited by the size of a newspaper column or air time. Another feature of the network is the character of its audience. The users of websites represent the most socially active and relatively wealthy audience, which is an important factor for investors and advertisers. For example, a copy of a popular print newspaper costs an average of two to five hryvnias, while browsing the latest issue of an online edition will cost the visitor at least twice as much taking into consideration the cost of telephone services and Internet access. It is clear that the

category of readers who are willing to pay more for comfortable viewing is more appealing to advertisers.

## **Disseminating information through a social network is much cheaper than through the press, radio or television.**

Apparently, the current average online media portal can be roughly compared to a hypermarket: visiting the site users can read the latest news about politics or economics, browse personals and cultural life, get some advice on beauty and health, as well as use the link to buy a vacation package or a cell phone.

The increase in the number of users of Ukrainian Internet media is confirmed by the research data. Thus, according to the results of a study conducted at the request of the Information Society Fund, the average increase in media traffic in the Ukrainian segment of the Internet is 3 – 5% per month. These figures reflect the global trend now observed in most developed countries.



2014 became a turning point for Ukraine bringing about changes in public policy and social consciousness. Ukrainian media underwent a no less radical change: over a dozen new media appeared in Uanet in 2014. Though their topics, audiences and positions are very different, however, all of them were launched in the time of a full reboot of the country. Now they look with hope into the future and are trying to change Ukraine.

## **Every day Ukraine receives grants that open new opportunities which are being successfully implemented in the Ukrainian media market.**

Every year, March 12 is the date which celebrates the Day of Freedom of Expression on the Internet. The virtual global community began to celebrate this day in 2008 on the initiative of the international organization Reporters Without Borders. The reason for celebrating such a day was the increasing government interference in the global network, imposing censor-

ship and banning the use of Internet sites altogether.

In particular, freedom of expression on the Internet is a sensitive issue for Ukraine. Although this year Ukraine took 125th place in an annual ranking of media freedom and thus got 8 positions up, government censorship remains a problem. Some “public servants” still try to restrict Internet media with the frames of the so-called censorship, but they fail. The situation is changing for the better and Ukrainian online media give more truthful coverage of the information. This contributes to the formation of an accurate picture in the Ukrainian news segment that, in its turn, promotes the formation of an absolutely new outlook and social consciousness.

The 2014 report of the human rights organization Freedom House referred to Ukraine as a country with partly free Internet access. Besides, according to human rights activists, Ukraine has the greatest Internet freedom among the CIS (although it is not de jure a CIS member).

Today, almost all freedom of expression in Ukraine, with few exceptions, has moved to the Internet which is the place for pluralism of opinions as opposed to Ukrainian TV.

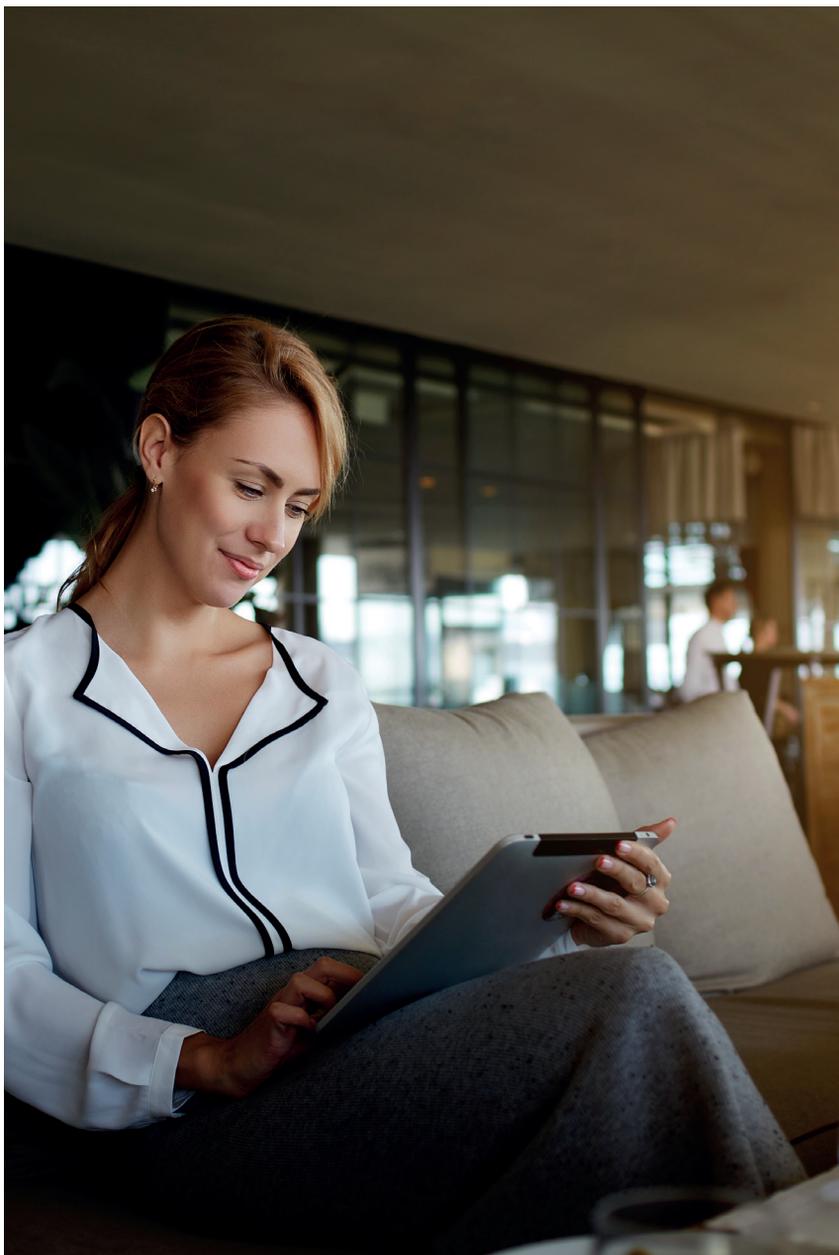


To summarize, we can say that the governments of different countries try to restrict freedom of expression on the Internet by various legislative acts. However, such acts and government decisions violate international standards regulating the information space, and restrict constitutional rights. As experts rightly point out, Internet can not be regulated at the state level because the information activity in the global network is identical to privacy of communication or receiving information upon request.

Thus, the development of online media in Ukraine is gaining momentum, and the number of new resources is increasing tremendously. This process promotes the development of freedom of expression and democracy in general, as it is difficult to control such a large amount of information that Ukrainian realities provide.

An important role in Internet media development is played by Ukraine's partners from Western countries who, through various grant programs, promote the development, improvement and implementation of absolutely new methods of processing information, providing and publication of materials in online media.

Every day Ukraine receives grants that open new opportunities which are being successfully implemented in the Ukrainian media market.



COMMUNITY OF ENTREPRENEURIAL WOMEN.  
ENVIRONMENT AND PRIVILEGES FOR MINORITIES



# 36/ COMMUNITY OF ENTREPRENEURIAL WOMEN. ENVIRONMENT AND PRIVILEGES FOR MINORITIES

Among the officially registered unemployed in Ukraine in 2016, women account for 350 000. This index is 15 per cent higher than men. It should be mentioned that low wages rate affect negatively the financial well-being of women. On our part, we would like to note that the average wages in Ukraine is about 25 – 30 per cent less than those for men. The development of women's entrepreneurship will enable women to improve their financial well-being that will influence the social and economic development of communities.

In the legislative field now we do not see any signs on the support, benefits (privileges) or any assistance regarding women's entrepreneurship. Therefore, to analyse legislation concerning this issue is impossible. We can analyse the activities of non-governmental non-profit organizations interested in women's entrepreneurship.

In the spring of 2015, a research has been conducted on women's entrepreneurship in Ukraine. The project was funded by the Phoenix University Center for Management



and Entrepreneurship and was implemented by Ukrainian sociologists. The leaders of the project team were Dr. John Johnson and Dr. Ravi Chinta from the University of Phoenix. The aim of the project was to identify existing obstacles in the way of successful conducting of entrepreneurial activities by women. Women who participated in the project mostly represented the trade and services sector which belongs to the small business in the country. In the spring of 2015, after having conducted a survey among 1000 Ukrainian businesswomen American researchers identified three key obstacles in their way of doing business: bureaucracy in government bodies, lack of funding and lack of qualified personnel.

**Educational programmes in entrepreneurial activities offered to women can be another solution to help acquire additional skills and confidence.**

American scientists believe that one of the possible options to deal with the identified obstacles could be the development of integrated support programmes for women's entrepreneurship in Ukraine. Banks, local funds and investors should pay attention to women providing them with financial assistance in the form of seed capital for setting up their own business. Such projects could help entrepreneurs overcome financial barriers in Ukraine which are considered to be one of the biggest obstacles. Educational programmes in entrepreneurial activities offered to women can be another solution to help acquire additional skills and confidence. For example, The Kauffman Foundation in the United States and Babson College in Boston have several highly specialized courses in entrepreneurship which could be translated and offered to study in Ukraine. USAID also offers *Go Women* trainings for businesswomen in the regions (spring and summer of 2015). Promoting such trainings would help to avoid obstacles in entrepreneurship and would ensure local economic development.

The development of small and medium-sized entrepreneurship of women is one of the main ways of the realization of the constitution-



al right of women to work, an effective channel that allows women not only to adapt themselves to the new social and economic conditions but also to solve the problem of their employment, create new jobs, improve professional skills and abilities. But society cannot forgive the cultural transgression of businesswomen whose activities and the very model of their life violate gender stereotypes.

In Ukraine women-owned businesses is an objective reality, and, according to experts, it is growing much more dynamically than man's business and exceeds the growth rate of man's business 1.7 times. And, usually, they have lower starting conditions than men but are operating more actively taking on even highly competitive niches in business. Nevertheless, the percentage of women leaders accounts for only 18 per cent of the total. Studies show that women leaders willingly hire women and men reluctantly do.

Unfortunately, now only non-governmental organizations are engaged in supporting women's entrepreneurship. These organizations conduct appropriate training sessions for women who intend to do business. In recent years, the number of women's entrepreneurial communities has increased but

they are seeking not the support of the government, but the support from foreign organizations and programmes.

The European Bank for Reconstruction and Development (EBRD) provides grants for women in Ukraine who run small and medium-sized businesses. Grants are provided under the "Women in Business" Programme which is funded by the Government of Sweden and the European Union, Catherine Rigg, the manager of Small Business Support Group of EBRD in Ukraine said.

The "Women in Business" Programme is unique to Ukraine. It is designed to bring women's entrepreneurship in the country to a new level. After all, it has its own characteristics: women entrepreneurs, who have a successful small business, often do not develop it further. As a result, there are significantly fewer women entrepreneurs in medium-sized business than men. The EBRD "Women in Business" Programme helps to identify the weaknesses that prevent women from developing their business and bringing it to a new level. Under the Programme, the EBRD helps to attract highly qualified consultants who can bring their business to a more qualitative level of development, and pro-



## **There is also a Loan Fund of the Association of Women Entrepreneurs which gives loans to women entrepreneurs for their businesses.**

vides grants for partial compensation of the services of consultants.

In certain countries, the “Women in Business” Programme has already been in for almost 10 years and its results are impressive. Thus, after having been in cooperation with the EBRD, 83 % of businesses headed by women have increased turnover by an average of 28 %, productivity by 16 per cent; 57 per cent of these businesses have created new jobs and received 14 per cent external funding. In Ukraine, so far, it is too soon to talk about results; however, we hope that soon everything is going to change.

In Ukraine there also has been established and effectively functioning the “Women's Professional League” Public Organization

which supports the active role of women in the social and economic life of Ukraine through networking, informational and cultural support, training and professional development. The purpose of the League is to protect civil and labour rights, lifelong learning and promoting professional careers of women in business, science and education, the media and the public sector in Ukraine. The key values of the League are gender equality, lifelong learning and social responsibility.

There is also a Loan Fund of the Association of Women Entrepreneurs which gives loans to women entrepreneurs for their businesses.

Regarding successful projects implemented by women entrepreneurs the Zelenka co-working can be mentioned. The special feature of co-working is that mothers with small children can come here. Women have an opportunity to work, while their children are being watched by nannies and at the same time they may join the games with children at any time. The idea of this project belongs to two mothers who have found the funds to finance this project through the Internet. Owing to this project, a large number of women with young children have the opportunity for self-realization and



self-improvement, a chance to get rid of the inferiority complex (as the needs of mothers are often leveled by society), to receive financial supplement to the family budget with a new profession, reduce or get rid of the stress that accompanies young families with children during the first few years.

Another successful project which is implemented by a woman entrepreneur is Kyivworking co-working. It was created in 2012 and it was the first co-working in Ukraine. This is what has brought success to this project.

Thus, today women entrepreneurs can get support with the help of communities of women entrepreneurs who constantly provide training and even funding of their ideas. However, in general, for the development of women entrepreneurship it is not enough, because the state should not only provide benefits for them but also provide certain benefits for those financial institutions that are funding them and also it should constantly support organizations that provide educative trainings for women who want to do business.



PRESIDENT POROSHENKO DURING BUSINESS MEETING, KIEV, UKRAINE



# 37/ REFORMS IN UKRAINE AND GOVERNMENT PROCUREMENT

In recent years Ukraine has been striving persistently to approach to European standards of state government. The strategy of further activity in the sphere of European integration is active transition to modern European methods including the implementation of country's reforms for future changes.

Let's look at the reform of local self-government in details which is a link between the state and civil society and reflects the interests of citizens, local communities, the state and political parties. The problem of self-government is closely connected with the problems of civil society.

The implementation of strategic European integration course of Ukraine is aimed to create an effective and efficient system of local self-government that meets the needs of local self-government as

the main task is to realize the idea of decentralization.

The principle of decentralization provides the benefits to public initiatives concerning the issues of financial management in the area of social policy.

During 2014 there were adopted many laws on fiscal decentralization, finance decentralization (i.e., changes in the Tax and Budget codes) and changes in the basic law "On Local Self-government". However, in 2015 the introduction of prefects raised the question after the local administrations had been abolished.

Let's analyze how many progressive reforms occurred in different spheres during 2016.

Since the Cabinet regulated the procedures of submitting elec-



tronic documents to the licensing organs – +2 points. Licensing in Ukraine was favourable field for corruption and serious obstacle for doing business.

Having adopted the Resolution No. 561 dated from 23. 08. 2016 the government introduced the mechanism of submitting documents to the licensing organs electronically. Documents will be issued electronically as well. The introduction of electronic documents is an important innovation. Now entrepreneurs clearly understand the requirements to documentation, and officials cannot return the document to the processing if the form was filled correctly.

In order to use such online mechanism it is necessary to complement the portal functional and implement the system of electronic interaction between the portal and licensing organs. And it will be a step made towards deregulation.

The government has simplified the implementation of regional construction projects for the local authorities – +1 point. It will strengthen control over the financing of capital construction objects on the local level within the budget decentralization. Also the approval of the main budget funds manager will not be needed as the local

authorities, village, town and city councils decide on the construction and financing of communal property objects which belong to their jurisdiction and within the particular administrative unit.

However, it is necessary to note that investment programs and projects must meet the following criteria:

- availability of approved project documentation (for investment programs and projects including construction);
- planned schedule of implementation - from one to three years;
- co-financing from local budgets up to 10 % or more;
- ability of entities whose objects are financed to provide further funding or maintenance from the local budgets.

The annual analysis of government procurement in Ukraine proves that the system of government procurement is not perfect and it is important to reform it and to bring the legislation in accordance with the EU directives considering the development of the national economy.

Public procurement has a significant place in the budget expenditures and the problem of



optimization of budget expenditures for public procurement is very important. At the same time the task of optimization of budget expenditures is to increase the efficiency of budget expenditures at all levels, to improve control over financial flows, to prevent uncontrolled increases of expenditures budget cutting.

The comparative analysis of the experience of developed countries showed that public contracts and procurement are implemented using electronic technology. Their implementation contributes to budget savings up to 8 – 10 %.

In Western companies the transition to Web space is accompanied by long process of business automation. Automation began from restoring the order in corporate finances, then in warehouse stocks, payroll, etc. and in production and staff management. The main task was integrate some units and to create integrated management systems.

First, on the 21<sup>st</sup> of January, 2016 the Ministry of Information Policy of Ukraine presented the system of electronic government procurement ProZorro for department staff, Ukrinform agency and the state broadcasting company UTR which, according to the Law “On

the System of Ukraine broadcasting” will form the Multimedia broadcasting platform of Ukraine soon.

ProZorro is an electronic system of interaction between the state customer of goods and services and supplier. It was established by volunteers at their own expenses and aimed at fighting corruption in the system of government procurement. ProZorro helps make government tenders accessible to any business. All procurement carried out in the system can be followed in real time. Also it should be noted that the purpose of the system ProZorro is trade with the European companies on our sites.

Online government procurement system ProZorro began its work in February, 2015 and since then 1.8 thousand organizers used it.

Governmental organizations of the EU countries that have already implemented e-procurement save from 5 to 20 % of their expenses (according to Eurostat). But the main advantage is to expand business ties. The total amount of EU procurement market is about 2 trillion euros and 5 % means 1 billion euros savings per year. The introduction of e-procurement in the EU is widely supported by the International Monetary



Fund, the European Central Bank and the European Commission as government e-procurement significantly reduce costs of enterprises in the public sector, and enhance the transparency and efficiency of processes.

According to the Security Service of Ukraine, the loss from corruption deals during government procurement procedures were 10 – 15 % (35 – 52.5 billion UAH.) of state spending each year. The Law of Ukraine dated from July 4, 2012 No. 5044-VI “On amendments to some legislative acts of Ukraine on government procurement” worsened the situation and it actually established corruption rules on the procurement market for public companies (market size is approximately 307 billion UAH annually). The law provided for the electronic procurement platforms online in real time with the use of electronic documents and digital signatures. Since the norm was not implemented in reality and then the law itself became invalid.

However, the annual amount of funds allocated to government procurement is increasing significantly. The total volume of government procurement in 2014 totaled 202.398 billion UAH, which is 48.9 % more than in 2013. These

funds are spent ineffectively and non-transparently. In 2013 the volume of kickback in the field of government procurement reached 60 % (according to Transparency International).

Since April, 2016 the system will become obligatory for ministries, departments, large state-owned companies and others. Electronic government procurement has gone through several stages of testing and is ready for operation. The decision was made in the Administration of President that at the pilot phase the system will be used for “subthreshold” procurement for goods estimated up to 100 thousand UAH and services – up to 1 mln UAH.

The first “subthreshold” electronic trading was held by the Ministry of Justice, the Ministry of Defense, the National Bank, the State Administrative Department and “Energoatom”. They made the procurement of a variety of items: from paper and stationary to body armour and helmets (savings amounted to 20 % of the starting price).

Now the electronic trading platform is a complex of commercial sites and sites for auctions.



However, positive relationships between agents of the institute of government procurement using electronic trading platforms are made:

- for suppliers: increase of fairness and competition; improvement of access to government contracts; openness of government orders for new suppliers; stimulating the participation of small businesses; increase in cash flow; reducing the cost of the transaction; accountability of public spending units;
- for consumers of public goods, taxpayers: access to information on orders; opportunity to observe the activities of state authorities and information costs; accountability of state authorities.

So, based on the above-mentioned information the country needs to raise the level of trading infrastructure, qualified sales teams that can reach the level of the enterprise to trade with the world. It means that small and medium businesses will play main role.

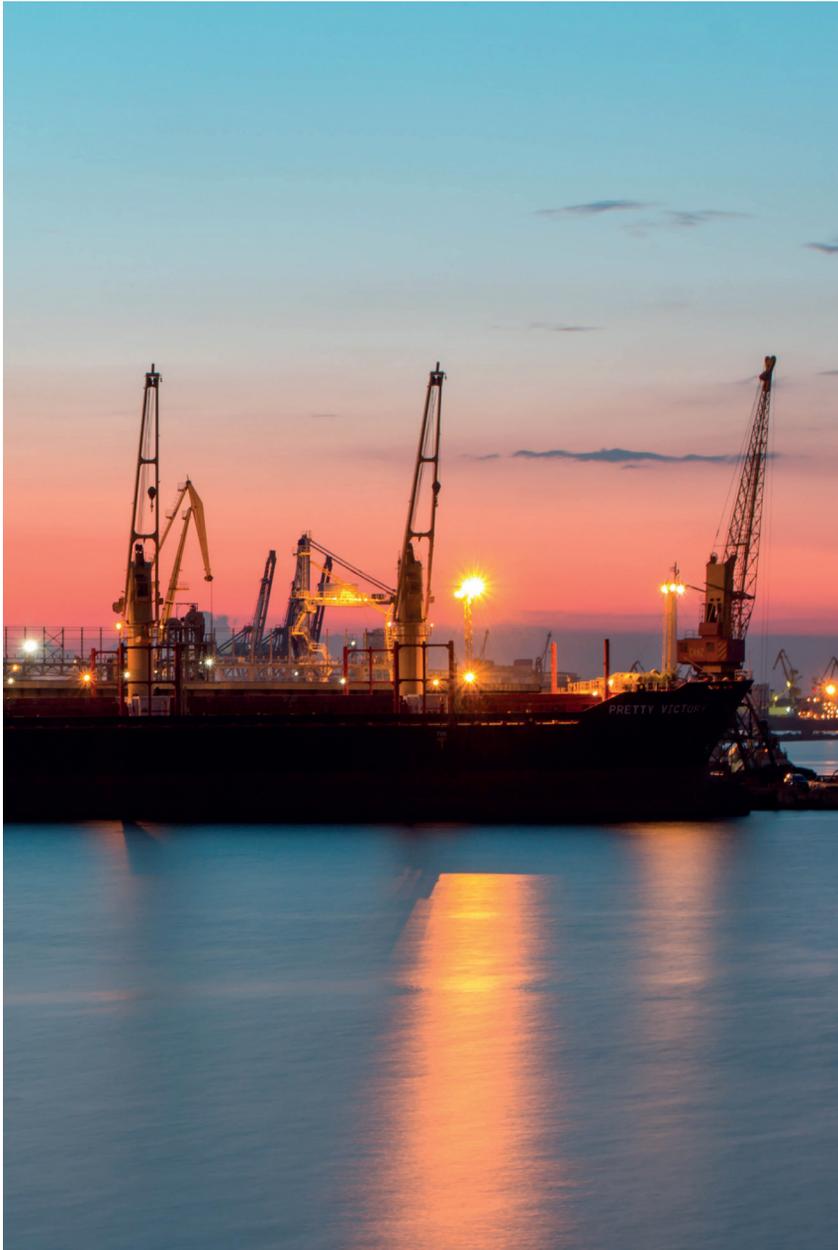
Quintagroup company has developed and implemented the electronic system of government procurement in Ukraine which meets the requirements of the new approach to the coordination of procurement procedures, evaluation

of pricing, openness and transparency of processes and information.

The system consists of two main components: the server side and platforms, which includes central database (CDB) and API. Interaction between platforms and CDB is done through API – Web-interface. Applications (documents attached), such as binary files are stored on the file server.

Today introduction of e-procurement is important for the government and enterprises as well. It is a chance for small businesses to reach new markets.

The enterprises can send its experts to provide services in the EU for a period from 6 months to 3 years. Local officials will not interfere in the activities of Ukrainian branches or subsidiaries. And the branch will be protected from changes in the national legislation of each EU country and enjoy all the rights as local entities.



SUNSET IN THE PORT OF ODESSA UKRAINE



# 38/ OPERATIONS OF IMPORT AND EXPORT, TRADE AND ECONOMIC RELATIONS

Ukraine is the largest state by area, located in Europe, and in terms of population it is fifth. Ukraine is actively involved in forming of economic and political conditions in the international arena because it is a member of many influential international organizations, within which it conducts active work and reflects not only general, but also the national interests of our country.

Ukrainian export is going through difficult times in recent years. We lost some markets and production capacities for traditional exports, world market conditions were also unfavorable. Eventually, this led

to significant reduction in domestic exports. For 2016, the multifaceted situation was characterized. On the one hand, some negative trends retained, including:

- unstable political and economic situation in some areas of Donetsk and Lugansk regions, the continuation of military aggression from Russia;
- significant raw material orientation of domestic exports;
- lack of access to credit resources, systemic problems of foreign economic activity (VAT refund, currency, customs and tax regulation).



In 2016 these trends were supplemented by the introduction of the Russian Federation embargo regarding Ukrainian food, restriction and complexity of transit through Russia, and from July 1 they were further strengthened by the Russian Federation.

**Ukrainian export is going through difficult times in recent years. We lost some markets and production capacities for traditional exports, world market conditions were also unfavorable.**

On the other hand, this year took some positive signs of a recovery in demand for Ukrainian exports of some products while continuing the growth of industrial production.

Nowadays, although external trade of Ukraine has not reached those trends which we would like to see, but compared to previous years we can see some positive developments.

The main partners in the export of goods from Ukraine are the European Union (37,9 %), the Russian Federation (9,8 %), Egypt (6,4 %), Turkey (6%), China (6%), India (4,6 %), etc. The exports dominated by products of agriculture and food industry (40,1 %), metallurgical products (23,9 %), engineering products (12 %), mineral products (7,6 %), chemical products (5,7 %), wood and paper (5 %).

Among the partner countries in import of goods to Ukraine are the European Union (43,9 %), the Russian Federation (12,8 %), China (11,9%), Belarus (7,3%), USA (4,8 %), Turkey (2,8 %), etc. The import's dominated by engineering products (29,2 %), chemical products (23,0 %), mineral products (19,5 %), products of agriculture and food industry (10,3 %), metallurgical products (6,1 %), products of light industry (5,4 %).

In the structure of export in 2016 the largest part has been taken by products of agriculture and food industry (40,1 %), metallurgical products (23,9 %) and engineering products (12,0 %), while in the structure of imports accounted for the largest share of engineering products (29,2 %), chemical industry (23 %), mineral products (19,5 %) and products of agriculture and food industry (10,3 %).



Regarding imports to Ukraine, the decline in imports in 2016 was held only by mineral products (by 42,2%, or 3,4 billion USD). However, there was growth in imports of engineering products (by 38,5 %, or 2 billion USD), chemical products (on 11,5 %, or 573,8 million USD), products of agriculture and food industry (by 11,0 %, or 248,1 million USD), metallurgical products (by 13,3 %, or 173,2 million USD), light industry products (by 11,4%, or 133,2 million USD), wood and paper (by 9,9 %, or 65,2 million USD) and various industrial goods (by 7,1 %, or 58,0 million USD).

Among the regions of Ukraine the largest negative contribution to the dynamics of exports of goods was observed in Dnipropetrovsk (-2,8 percentage points), Zaporizhia (-2,3 p.p.) and Donetsk (-1,5 p.p.) regions. At the same time, such regions as Lugansk (+0,8 p.p.), Ivano-Frankivsk (+0,4 p.p.), Lviv (+0,3 p.p.) and Zakarpattya (+0,2 p.p.) made a positive contribution to the dynamics of exports of goods.

Regarding imports, among the regions of Ukraine the largest negative contribution to the dynamics for 8 months of 2016 was observed in Donetsk (-0.8 percentage points), Poltava (-0.6 p.p.) and Zaporizhia

(-0.4 p.p.) regions. 22 regions of Ukraine were characterized by a positive contribution to the dynamics of the imports, the most positive contribution was demonstrated by such region as the city of Kyiv (+4,4 p.p.), Volyn (+1.2 p.p.), Kyiv (+0.8 p.p.), Lviv (+0.5 p.p.), Kharkiv (+0.4 p.p.) and Odessa (+0 4 p.p.) regions.

In geographical terms of import and export in Ukraine in 2016 there should be noted that in both, exports and imports of goods, Ukraine's main trading partner was the European Union. Thus, the share of the export of the European Union was 37.9% and in import it has reached 43.9%. The Russian Federation's share of exports of goods decreased to 9.8%, and in import fell by 7.3 p.p., and reached 12.8%.

Export of goods from Ukraine to the European Union consists of products of agriculture and food industry (29,9 %), metallurgical products (23,5 %), engineering (16,0 %), mineral products (10,2 %), wood and paper (6,8 %), light industry products (6,2 %), various industrial products (3,7 %) and chemical products (3,6 %). In the structure of imports the largest share amounted to engineering products (31.9 %), chemical products (27.2 %), mineral products (12.8 %) and products



of agriculture and food industry (10.5 %).

At the same time, in import from the EU (28) there was observed growth in all sectors except mineral products. For 8 months of 2016 most of EU (28) increased the supply of engineering products (by 48.1 % or 1.1 billion USD), light industry products (by 19.4 % or 80.7 million USD), chemical products (by 13.5 % or 342.3 million USD), products of agriculture and food industry (by 10.8 % or 108.6 million USD), metallurgical products (by 9,9 %, or 48,9 million USD) and wood and paper (by 7,6 %, or 32,6 million USD).

## **Besides traditional products, particularly cereals and livestock products, export of honey, berries and organic is promising.**

One of the most promising and large foreign market for domestic agrobusiness, along with Asia and the CIS, is the EU. Besides traditional products, particularly cereals and livestock products, export

of honey, berries and organic is promising.

The EU is the second largest producer of honey in the world, but very much depends on the import of honey from other countries. In fact, about 40 % of EU consumers are met exactly by imports. The volume of exports of honey from the Ukraine in this direction in the period from 2011 to 2015 increased fourfold. To strengthen trade relations with Ukraine, the European Union, in its turn, allows import of 5 th. tons of honey on duty free basis.

It should be emphasized that more and more EU consumers prefer products of organic production. In particular, the demand for organic berries grows. Considering this trend for export it's necessary to draw attention to the fact that, under EU law, companies must use technology of organic production to entrance the market of organic products of the European Union.

Ukraine continues to improve trade relations and seek new promising markets. In December 2016 there was held trade mission to the Republic of Kenya and the Republic of Tanzania in order to expand markets and enhance export of Ukrainian goods to Africa. In Kenya, cereals are mostly in demand



(for the period of January-September 2016 exports amounted to \$ 12.86 million) and vegetables (for 8 months exports amounted to \$ 1.94 million).

In the Association of Pig Producers of Ukraine, China, South Korea and Japan are considered to be the most promising foreign markets for domestic pork. To enter these markets Ukrainian manufacturer should take certain steps: coordinate veterinary certificates, explore the requirements of these markets and find potential buyers.

Today we can say that diversification of markets, especially agricultural, by the entrance of Ukraine to the EU market, Asia-Pacific and African regions enabled to compensate, to some extent, the loss of the Russian market.



BILINGUAL SOCIETY, LINGUISTIC BOOM IN UKRAINE



# 39/ BILINGUAL SOCIETY, LINGUISTIC BOOM IN UKRAINE

Nowadays demand for learning English in Ukraine is growing continuously because it is the basic international language. Among young professionals the trend of thorough studying of English is increasingly noticeable. English is the key language in modern information space. The amount and quality of knowledge that you can get, knowing English, is much higher than if you've got knowledge of any other foreign language. So pupils, students and workers of var-

ious professions in Ukraine try to find ways of learning the language and plunge into the English-speaking environment "head over heels".

In early 2016, experts of International Education Center Education First conducted a study among 70 countries regarding the knowledge of English as a foreign language. Sweden topped the rating. And Ukraine, according to ranking, belongs to the countries with medium level of knowledge of Eng-



lish. Its place is 34<sup>th</sup>, which is not a high rate.

In 2015 in Ukraine there was established a public initiative Go Global – an initiative to study and popularize foreign languages, which aims to improve the European integration of Ukrainian population and its inclusion in globalization processes in general. Today the Go Global includes more than 20 partner organizations. Among them – embassies, government central authorities, international companies, cultural centers, language schools and analytical centers.

At the initiative of GoGlobal the President of Ukraine declared 2016 the Year of English in Ukraine. The President made the decision, given

**The amount and quality of knowledge that you can get, knowing English, is much higher than if you've got knowledge of any other foreign language.**

the role of English as a language of international communication, to promote its study to expand public access to the world's economic, social, educational and cultural opportunities offered by the knowledge and use of English, ensuring the integration of Ukraine into the European political, economic, scientific and educational space.

During the year with the support of the Presidential Administration, Ministry of Education and Science of Ukraine, Ministry of Foreign Affairs of Ukraine, the US Embassy in Ukraine, the British Council and other partners there have been realized projects which helped Ukraine to make a global turn toward the big world.

The previous year foreign experts – native speakers, including volunteers, were involved in teaching English. Thus, the schools in Ukraine got 120 volunteers from 40 countries, English school summer camps GoCamp, which taught 200 thousand children from all over Ukraine, were opened. President of Ukraine expressed confidence that in 2017 about 100 thousand children will be able to join the English camps GoCamp program, and by 2020 this program will include nearly 1.5 million Ukrainian kids. “This is a very ambitious



task. And it is very important to it was realized not only in the Year of English in Ukraine, but to continue it further”, – Poroshenko stressed.

What’s important is to give children from Donetsk and Lugansk regions a possibility to learn and improve English. Thus, one year more than 300 pupils from East Ukraine had not only the opportunity to overcome the language barrier, but also to practice English. More than 500 displaced people took part in the pilot project “Business English online for internally displaced persons” and felt the support of the state which did not leave them one-on-one with their problems.

He also highlighted the project “Teachers of English – Agents of Change”, which aims to train English teachers from different regions of Ukraine according to international standards. The project was successfully implemented throughout the country during 2016, and as a result – 1428 English teachers mastered modern teaching practice. Thus, by the end of the school year in 2017, 50 thousand children in 7 regions will be trained using the new method.

According to the presidential decree, the legislation to determine the list of posts of teaching, re-

search, scientific and educational workers in universities and research institutions should be improved, requirement for employment which is the English language proficiency, as well as the introduction of requirements concerning English language competence to award academic degrees and ranks.

Also certification of teachers of foreign languages is to introduce in stages in order to determine their level of appropriate language and differentiation of wages based on the professional level of proficiency.

In turn, US Ambassador Marie Jovanovich noted that level of knowledge and use of English among officials in Ukraine significantly increased, and projects on learning English that have been implemented in 2016 covered a large number of children, youth and adults, especially teachers of English in small towns of Ukraine.

Significant changes took place in the public service. According to the amendments to the Law of Ukraine “On civil service” requirement of foreign language knowledge became compulsory for civil servants. Thanks to the British Council programs and professional training the NATO-Ukraine and advo-



## **Knowledge of English is an important competitive advantage, not just for a single person, but for the country as a whole.**

cacy GoGlobal in 2016, 1 396 civil servants improved their level of English for free.

Also that year in 7 regions of the country and Kyiv cinema sessions in the original language was launched. Now all visitors can watch their favorite movies in the original language, which will help them to improve foreign language and learn to perceive it “by ear”. The number of visitors of these courses is constantly growing: from the beginning of the shows the average number of visitors increased by 75 %.

In connection with the declared Year of English, knowledge of English has become a priority for many Ukrainian. Among the main advantages of learning a foreign language, most Ukrainian respondents denote material factors: the opportunity to work in another

country (57 %), ability to get a better job in Ukraine (49 %), opportunity to study in another country (47 %), to use the language at work ( 37 %) or on holiday abroad (31 %) (the survey is conducted by the sociological group “Rating” within the period of June 21 – 28, 2016, among 2200 respondents in all the regions of Ukraine except occupied territories).

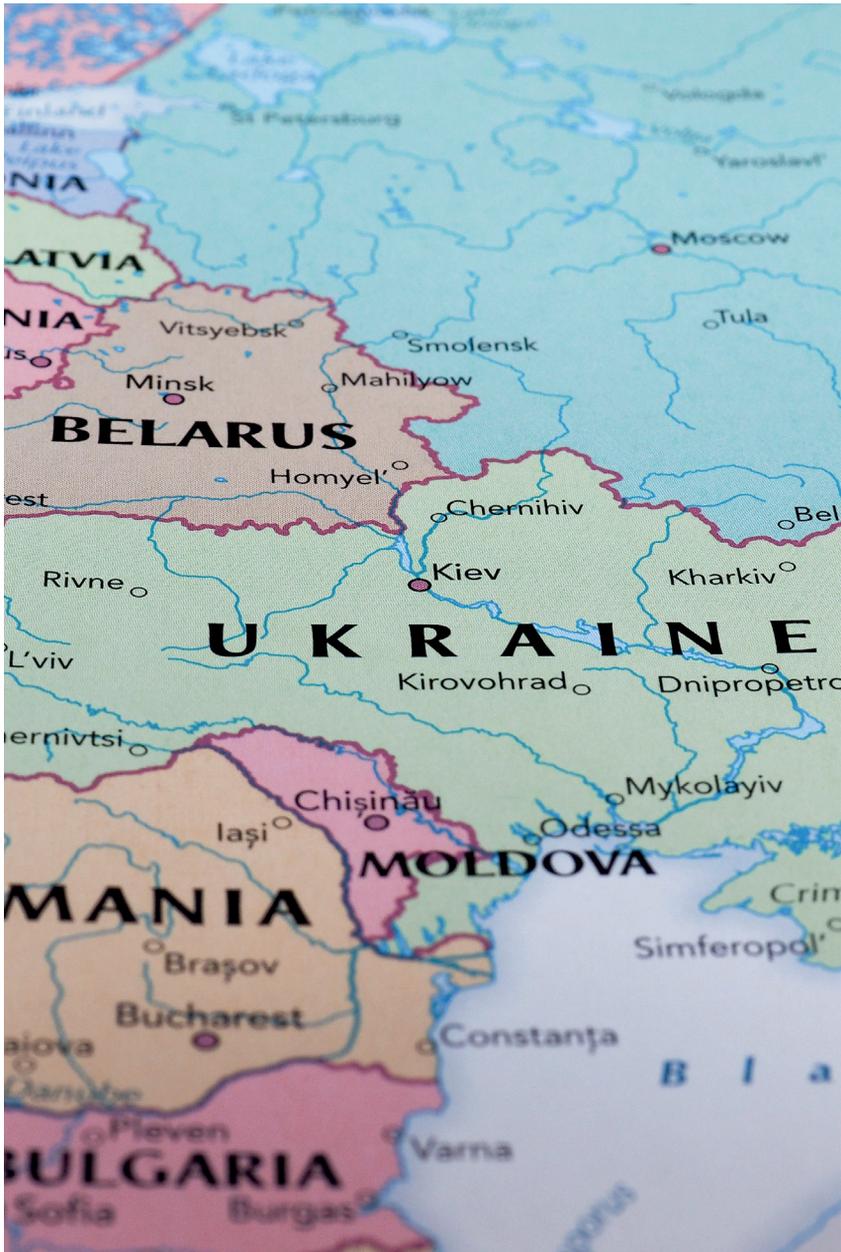
According to a survey carried out by TNS on GoGlobal initiative request, 51 % of Ukrainians indicated improvement of knowledge of English, and 92 % believe that English is the rule of modernity. The survey is conducted among Internet users who live in cities with populations over 50 thousand people.

The President said that although the Year of English is coming to an end, its massive study by Ukrainians is not over. He stated that the process is just begins. With the support of international NGOs, comprehensive programs are developed and free language courses for its study, which will continue next year, are organized.

So, today the demand for learning English is growing continuously because it is the basic international language. Knowledge of English is an important competitive ad-



vantage, not just for a single person, but for the country as a whole. According to the survey, which was conducted by Education First, in more than 50 countries around the world there is a direct correlation between the level of English and the state of the economy. This can be explained as follows: the better the citizens of a state speak English, the higher is its investment attractiveness (of course this does not affect all sectors of the economy), the easier it is to find qualified professionals who are already willing to work in international companies.



FAVOURABLE TRANSIT POSSIBILITIES AND GEOGRAPHICAL ADVANTAGES



# 40/ FAVOURABLE TRANSIT POSSIBILITIES AND GEOGRAPHICAL ADVANTAGES

Transit location of Ukraine is one of many attractive characteristics of its national market for foreign investors and manufacturers. International transit through Ukrainian territory is a considerable national resource which is not being used in its full force and effect.

Transport network of Ukraine includes:

- 22 thous. km of railroads;
- 170 thous. km тис. of highways;
- 2.2 thous. km of interior navigable waterways;

- 13 seaports, 4 fishing ports and 11 river terminals;

- 21 airports (2 – state ownership, 14 – community ownership, 5 – other forms of ownership).

In 1994 the Second pan-European transport conference held in Crete (Greece) defined 4 main routes for International transport corridors which run through the territory of Ukraine.

### **Pan-European No. 3**

Route: Berlin (Drezden) – Vrotsla –  
– Lviv – Kyiv



Member states: Germany, Poland, Ukraine

### **Pan-European No. 5**

Route: Trieste – Ljubljana – Budapest – Bratislava – Uzhgorod – Lviv

Member states: Italy, Slovenia, Hungary, Ukraine. The length is 1595 km including Ukrainian territory:

- railroad – 266 km
- highway – 338.7 km (including 47.2 km of branch road).

### **Pan-European No. 7 Danube (waterway)**

Member states: Austria, Hungary, Yugoslavia, Bulgaria, Romania, Moldova, Ukraine

The length is 1600 km including 70 km of Ukrainian.

### **Pan-European No. 9**

Route: Helsinki – Saint-Petersburg – Vitebsk – Kyiv (Moscow) – Odesa (Chisinau) – Plovdiv – Bucharest – Alexandroupoulos (with four branch roads)

Member states: Finland, Russia, Ukraine, Belarus, Moldova, Romania, Greece.

The length is 3400 km including Ukrainian territory:

- railroad: 1496 km
- highway: 996.1 km (including 2 branch roads – 152.4 km and 242.4 km).

Totally the index of intensity of movement of trucks and buses along transport corridors is divided as following: 92.8 % is accounted for by interior freight traffic, 6.1 % – international and 1.1 % – transit. Mostly interior cargo includes coal, oil products, mineral fertilizers, cement, building materials.

Railroad transport corridors No. 3, 5, and 9 have possibilities to pass train flows twice the existing ones. The reserves of highway passage capabilities are two-three times bigger than existing ones.

In total the volumes of service exports from Ukraine and transport services make up 85 %. Currently the development of international transit has a significant role for Ukraine. The income equals to 2.3 billion US dollars annually or 13 % of all exports. Every ton of transit of cargo through the territory of Ukraine gives 8 – 9 US dollars of currency earnings.



The volumes of transit of cargo by the transport of public service made up 35 mln tons where 33.2 mln tons or 95 % by railroads, 1.6 mln tons by highways and about 0.2 mln tons by river and air transport.

The largest transport hubs of Ukraine are the following cities: Kharkiv, Kyiv, Odesa.

The market of storage real estate in Kyiv region is the most perspective. The rate of growth of consumer market is relatively high – according to experts 25 – 30 % for a year. It contributes to the increase of demand for storage real estate of A and B class. But mass offer is given by storages re-profiled from manufacturing facilities and other buildings of low technical level. Particularly there is a high demand for specialized cold storages.

But the demand for professional storages is constantly increasing in faster pace than offer. That is why the deficit of storage real estate is approximately 700 thous. sq. m only in Kyiv and Kyiv region.

Also logistics terminals located near sea or river ports have high profitability. Logistics centers in such cities as Odesa, Bilgorod-Dnistrovskiy, Kherson, Berdiansk,

## **The largest transport hubs of Ukraine are the following cities: Kharkiv, Kyiv, Odesa.**

Mariupol provide permanent cargo flow from different countries from different international companies and corporations that are involved in transportation by waterways. Logistics centers located near river port on the Dnipro and the Pivdenyi Buh in such cities as Kyiv, Kremenchuk, Dnipropetrovsk (Dnipro) ensure regularity of cargo flow from the Black Sea inside the country. In such centers cargos are broke into smaller units and delivered in other regions.

The selection of logistics center location is the most important stage in the process of designing of new logistics terminal. While choosing the logistics center location it is necessary to consider the following factors: location of customers and suppliers, work of local authorities, direct and indirect expenses, and transport availability of location.

Ukraine is the member of global infrastructure project “New



Silk Way". Its route runs to China through Georgia, Azerbaijan and Kazakhstan bypassing the territory of the Russian Federation. In the beginning of year the testing train was launched along this route and it showed a wide range of "weak points".

## **Economic benefits for Ukraine concern providing with the whole complex of services of transit of flows of goods and services through its territory.**

Ukraine makes active steps in order to join the process of development of one of three transport lines of "New Silk Way". The way, which is interesting for our country in the view of geopolitics and economics, starts in China, runs through Kazakhstan, the Caspian Sea, Azerbaijan, Georgia, the Black Sea and ends in Ukrainian port Illichivsk.

According to experts, if this project is implemented Ukraine will prove to be at the junction of two global routes.

It will be good respond on different restrictions which can cause by some of our trade partners.

On the 28<sup>th</sup> of November, 2015 transportation companies of China, Kazakhstan, Georgia, Azerbaijan, and Turkey signed the Agreement on establishment of consortium for cargo transportation from China to Europe bypassing Russia – Transcaspian transport route. On the 14<sup>th</sup> of January, 2016 the first train of "New Silk Way" arrived to Georgia. At the same time Ukraine joined the project. During the meeting in Baku the operators of railroad transportations of Ukraine, Kazakhstan, Azerbaijan, and Georgia agreed to establish special tariffs on cargo transportations using Transcaspian international transport route.

Economic benefits for Ukraine concern providing with the whole complex of services of transit of flows of goods and services through its territory. Land, air and waterways can ensure these services in latitudinal and meridian directions.

Today the market of transport and logistics services is actively being developed with regards to extension of economic links and international cooperation. The main driving forces are the following: globalization of activities of client



companies, their concentration on key competencies and outsourcing of nonspecialized directions, desire to shorten the size of logistics chain and optimization of expenses on its sections, decrease of life-cycle of products and new approaches to marketing and distributing of products. Concerning world experience and modern tendencies of development of global market of logistics services, Ukraine is on the stage of formation and consolidation of industry, yielding to western countries by quality and complexity of services that are given by national transport and logistics companies. At the same time in Ukraine there is a great interest in extension of transport and logistics services from the part of consumers as well as logistics operators. The increase of the role of Ukrainian regions as consumers and producers of a wide range of transport and logistics services will be determined by the increase of consumers' demand and retail trade circle in medium terms.

The attractiveness of investment in infrastructure especially in the field of international transportations is natural considering the interest of international corporations in cargo transit through the territory of Ukraine. Such interest can be explained by the possibili-

ty to export cheap raw materials and half-finished products from Ukraine.