T-shirts and trainers are becoming the new corporate uniform

Technology

Tech companies and culture spreads across Ukraine's cities, reports *Yuri Bender*

Advocates of the new economy, enthusiastically peppering their Ukrainian with English tech-speak like "co-working hub," are confident they will eventually transform Ukraine into Europe's leading country for IT innovation.

"Three years ago, Kiev was all banking and finance," says Roman Motychak. He is an adviser to investment firm ICU, which is based in the capital city's Leonardo Business Centre, opposite the landmark National Opera Theatre. "Now you only see T-shirts and sneakers in the lift," says Mr Motychak. "IT has changed the social dynamic of downtown Kiev."

According to a commercial property market analysis by agents Cushman & Wakefield, IT companies accounted for more than half of all office transactions (including expansions and relocations) in Kiev in the first half of 2017. That did not include many start-ups taking space in co-working hubs and some boutique IT firms renting smaller suites.

At the 33-floor Gulliver Business Centre, close to the Palats Sportu metro station, technology companies account for 60 per cent of office rentals. A recent arrival is Grammarly, a start-up online grammar checker, which has taken two floors to accommodate 200 staff.

"This is a fast-developing trend and the pace of building new offices in Kiev is very slow. So if you have the space, then IT, software and other creative industries are keen to move in," says PR director Tatiana Atadzhanova.

Kiev's IT crowd is described by industry insiders as imitating their US counterparts: unwinding in on-site gyms and "spa salons", and spending their disposable income on green consumer goods, such as electric cars. The value of Ukraine's IT services industry is increasing by 16 per cent annually, with 2017 exports worth $3.6bn. The sector has been earmarked as a "locomotive for growth" by prime minister Volodymyr Groysman.

Software developers and coders with three to five years' experience earn $1,500 to $2,000 per month in the provinces and up to $3,000 in Kiev, according to industry-provided figures. Most work freelance, paying minimal taxes. The average monthly wage across Ukraine's economy is closer to $300.

Outsourcers, including homegrown SoftServe and its US rival EPAM, contribute to Ukraine's more than 100,000 IT jobs, developing software for the big US tech companies. According to investment firm AVentures Capital, 500 firms service this global market, clustered around technical universities in Lviv, Kiev, Kharkiv, Dnipro and Odessa.

SoftServe and EPAM both have offices in Lviv, 70km from the Polish border. SoftServe provides 6,000 Ukrainian jobs, and serves clients including Google and Hewlett-Packard. Each year, the firm welcomes 800 recruits to its academy for six months' unpaid training, after which 70 per cent graduate to full employment as software developers.

SoftServe's co-founder Taras Kytsmey says he seeks "future leaders" to transform Ukrainian society over the next 30 years.

"The next generation are dedicated, intelligent and most importantly of all, have a global outlook," he says.

But the attractiveness of outsourcing reduces as the salary gap narrows, says Yurij Riphyak, chief product officer at YouTeam, which helps tech firms outsource development to eastern Europe. "Ukrainian IT specialists are already earning six times the average wage. The income trap [where wages catch up with developed markets] will be reached sooner rather than later," says Mr Riphyak, who splits his time between Ukraine and Silicon Valley.

In response, traditional outsourcing groups are entering consultancy and tech innovation, rubbing shoulders with SMEs and start-ups. Mr Riphyak points to a series of Ukrainian firms setting up US outposts. These include mobile app developer Readdle, tattoo simulator InkHunter, which allows users to see how a tattoo would look on their arm, and Wi-Fi camera Petcube, which allows owners to play with and train domestic animals remotely.

The latter received a $10m injection in 2017 from venture capital funds, which invested a total of $630m over the past five years in Ukrainian start-ups and IT companies, according to the Ukrainian Venture Capital and Private Equity Association (UVCA).

Other recent deals have included $160m funnelled into Lviv's Innovation District IT Park, providing 14,000 workplaces alongside a hotel, tech labs, kindergartens and restaurants. There has been an accompanying boost for the local economy. Lenna Koszarny, chief executive of Horizon Capital — one of the funds behind the park — says Lviv's 20,000 IT workers have made an estimated $60m in property purchases and are responsible for just below a third of new cars bought locally.

The UVCA's Supervisory Board Chairman, Andrey Kolodyuk, a serial entrepreneur and managing partner at AVentures Capital, says that early adoption

Lviv is a hub for Ukraine's IT sector

of blockchain technology has given Ukraine an edge compared to other regulation-heavy countries.

"The sector has developed organically and in a decentralised fashion," says Florence Cahill, political analyst at London-based risk consultancy GPW. It has avoided the tentacles of oligarchs and an intrusive state, she adds.

Funding remains a challenge. Oksana Borysenko, president of the IT association Digital Ukraine, feels the authorities can do more to champion start-ups. Ms Borysenko spent several years developing her Enable Talk wearable glove — used to translate sign language into text and speech — but failed to raise further development funds. "The opportunities are there, the desire is there, but there is no overall national strategy for innovation, which is badly needed," says Ms Borysenko.

Software companies say the military conflict in Donbas, slow-paced reforms and an unpredictable business climate have hampered investment. Yet they see a bright future in big data and artificial intelligence. EPAM is developing chatbots for a global ticket sales company and a cloud platform to link car manufacturers with digital services.

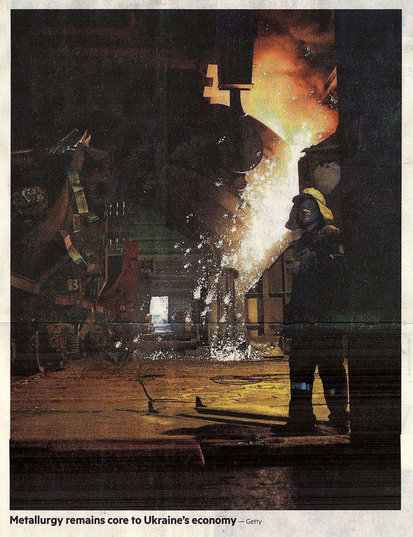
The government's agency for foreign investment backs this co-operation between IT and traditional industries, which could also help combat Ukraine's dramatic depopulation and brain drain.

Daniel Bilak, chairman of the supervisory board at UkraineInvest, has been building the country's "Silicon Steppe" brand, embracing tech firms that can transform the agricultural sector.

"There will soon be a guy sitting in a control room with a joystick, moving village tractors around," he says, adding: "You won't have to worry any more if your drivers disappear to Poland for two months during the harvest to earn more money."

Commerce European markets and regulations are shaping Ukraine's growth, reports *Tony Barber*

Goods and workers pass through EU's open door



Metallurgy remains core to Ukraine's economy — Getty

To the delight of Ukrainian shoppers, H&M Hennes & Mauritz, the Swedish fashion retailer, threw open the doors of its first store in Kiev on August 18. Later this year, the Swedish furniture chain Ikea is due to follow suit. Many other European firms are seizing the trade and investment opportunities created by an EU-Ukrainian association agreement that came into full effect in September 2017.

The commercial traffic is by no means one-way. Between 2014 and 2017 Ukrainian companies exported to the EU some 265 products that they had not sold in European markets in the previous nine years, according to calculations by Veronika Movchan, a trade specialist at Kiev's Institute for Economic Research and Policy Consulting think-tank. These included butter, lard and poultry as well as image projectors, snowmobiles and washing machines.

Overall, trade in goods between the EU and Ukraine amounted to about €37bn last year, representing a 24 per cent increase over 2016 levels. Such expansion is close to the heart of Nataliya Mykolska, Ukraine's foreign trade representative.

"It's important for us to broaden our exports to the EU. The broader our exports, the more we diversify our economy," she says.

"These exporters have to meet European consumers' demands and comply with EU regulations. That improves their quality. They pay higher salaries and more taxes. This makes the Ukrainian economy stronger."

According to European Commission data, the 28-nation EU is Ukraine's largest commercial partner, accounting for more than 40 per cent of its trade in 2017. Propelling the growth is the association accord, which includes a so-called Deep and Comprehensive Free Trade Area (DCFTA) giving Ukraine wide-ranging access to the EU market.

The other side of the coin is that trade with Russia, though stabilising over the past 18 months, has fallen sharply since 2014. Ukraine stopped direct gas imports from Russia in November 2015, nearly two years after the Kremlin annexed Crimea in and launched its intervention in south-eastern Ukraine.

Oxford Analytica, a consultancy, estimates that Russia's share of Ukrainian exports has dropped from 24 to 9 per cent since 2014 and imports from Russia have halved to 15 per cent of total Ukrainian imports. Russia's main

> Twenty-seven years ago Ukraine started a new page in its history, having been ruled by others for so long

exports to Ukraine are coal and nuclear fuel, but the government in Kiev, striving for greater energy independence from Moscow, intends to buy more nuclear fuel from Westinghouse Electric of the US.

Russia will continue to purchase Ukrainian steel products and machinery for the foreseeable future, Oxford Analytica predicts. However, sales of aluminium oxide, Ukraine's main export to Russia, may be affected by Kiev's decision to impose sanctions on Oleg Deripaska, a Russian metals tycoon whose company, Rusal, owns a big alumina refinery in Ukraine.

A desire for closer economic relations with the EU inspired Ukraine's pro-democracy revolution of 2014, but free trade and prosperity were not the only considerations. "For us, the main point of the revolution was European integration. We feel we are part of the European family," says Oksana Markarova, Ukraine's acting finance minister. Referring to the Soviet Union's collapse and Ukraine's declaration of independence in 1991, she adds: "Twenty-seven years ago Ukraine started a new page in its history, after having been ruled by others for so long. We didn't have our own institutions. This may be why we've had our problems with oligarchs and weak institutions. The EU agreement provides us with blueprints for how regulations lead to efficient institutions and growth."

Daniel Bilak, chief investment adviser to Volodymyr Groysman, Ukraine's prime minister, says the free trade deal will provide the foundation for building state institutions.

"The EU's regulations have standards and principles behind them such as fairness, competition and best practices — all the things that we've struggled with, since the kleptocracy that developed after independence."

Ms Movchan identifies industrial product safety, food product safety and environmental standards as three areas where EU rules, if properly implemented, will benefit Ukraine's economy. About 60 per cent of the nation's industrial standards are aligned with EU and other international rules, she estimates. "The process started in 2001 and was reinforced after Ukraine joined the World Trade Organization in 2008, but the real acceleration came after 2014. The process is now irreversible, I think."

However, she warns that laws on adopting EU regulations may pass more slowly through the legislature should a fragmented parliament emerge after next year's elections.

Ivan Miklos, a Ukrainian government adviser and former finance minister of Slovakia, is similarly cautious. "We see a geographical reorientation of trade, but not yet a qualitative change. There is progress, but it's slower than the government itself planned," he says.

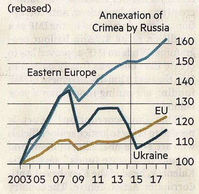
Andy Hunder, president of the American Chamber of Commerce in Ukraine, points to one disruptive effect of the EU accord. Ukrainians gained the right from June 2017 to travel in the bloc visa-free, encouraging a drain of skills and talent. "Large numbers are leaving Ukraine to find work abroad, especially in Poland. Both blue- and white-collar workers are leaving," he says.

Precise figures are unavailable, but unofficial estimates suggest that well over 1m of Ukraine's 44m people have since left in search of temporary or long-term work in the EU.

Ukraine battles on multiple fronts

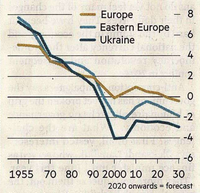
Conflict with Russia has hit its economy ...

Real GDP at purchasing power parity $ (rebased)

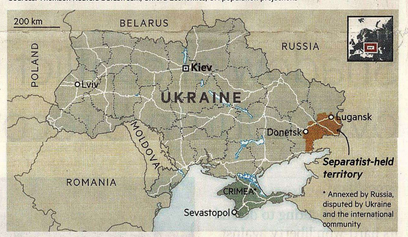


... while its population is falling faster than neighbours

5-year % change



Sources: Thomson Reuters Datastream, Oxford Economics; UN population projections



Shadow of conflict hangs over recovery

Continued from page 1

reported on an almost daily basis, adding to the toll of more than 10,000 dead since the fighting started in April 2014.

For the moment, the US and the EU are united in maintaining sanctions on Russia. But Ukrainian government and opposition politicians are concerned that cracks are appearing in the west's common front, thanks in part to the rising influence of Russophile political parties in countries such as Austria, the Czech Republic, Hungary and Italy.

"Can Ukraine alone cope with a Russia armed to the teeth? No," says former prime minister ArseniyYatseniuk. "The problem has been that the west has not sent a clear-cut message to Putin — that the west will never abandon Ukraine, that Ukraine is part of the western world and that, Mr Putin, you cannot even dream of taking over Ukraine or setting up new spheres of influence."

Alexei Kudrin, a liberal ex-finance minister of Russia, estimates that the US and EU sanctions have reduced Russian gross domestic product by half a percentage point a year since their introduction in 2014. However, Alexander Valchyshen, head of research at ICU, an investment firm specialising in central and eastern Europe, doubts the sanctions will change Russian behaviour.

Ukrainian president Petro Poroshenko has said elections will test the resolve for reform

"I'm not saying the sanctions aren't working. I'm saying that they are not counteracting Russian intentions," says Mr Valchyshen. "The Russians are not resource-constrained in the Donbas and Crimea. I am sceptical that the Russian government is so overburdened that it will withdraw from the Donbas."

Meanwhile, western capitals would like the government in Kiev to make a more serious effort to win the hearts and minds of the roughly 4m civilians caught up in the Donbas conflict, especially those living in separatist-controlled areas.

Kiev restricts these citizens' access to public services and is reluctant to endorse an amnesty for doctors, teachers and other workers who are not pro-separatist but who have found themselves living behind "enemy lines". Some politicians in Kiev seem lukewarm about reintegrating Donbas civilians into Ukraine's democratic life on account of suspicions that they might vote strongly, as in the pre-2014 era, for presidential candidates and parties less than enthusiastic about national independence and pro-western policies.

All that said, Russia's intervention in the Donbas has been the single most important factor of the past quarter of a century in accelerating the process of Ukrainian nation-building, politicians say. "Ukrainians are finally getting to the point of creating a political nation," observes Ms Klympush-Tsintsadze. "We are still vulnerable to Russian attacks and influence, but we're further down the road than we were in 2014."

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Investing in Ukraine

Weary voters put off by the same old slogans

Politics With no clear favourite, next year's presidential election is looking likely to go to the wire, reports *Roman Olearchyk*

Six months ahead of the presidential election, political billboards are ubiquitous in Kiev. "We don't pay attention to any of them any more," says 60-year old pensioner Mykola.

"The army, [our] language, our faith . . . we are going our own way. We are Ukraine," reads one in support of President Petro Poroshenko, who is expected to seek re-election.

It attempts to strike a patriotic chord with voters incensed by Russia's 2014 annexation of Crimea and its proxy war in Ukraine's south-eastern Donbas region. The mention of faith refers to the president's attempt to gain recognition of the country's Orthodox churches as independent from Moscow's patriarchy.

"A new economic path" is promised by another billboard, belonging to Yulia Tymoshenko, an MP who last served in government as prime minister between 2007 and 2010.

The clear intent is to lure voters frustrated by years of economic pain inflicted by war and unpopular measures, such as raising utility tariffs, to help repair the country's finances.

Despite leading one recent poll with support of just over 10 per cent, about double Mr Poroshenko's rating, Ms Tymoshenko can hardly be described as popular. Some 74 per cent of poll respondents "don't trust" her, only slightly better than Mr Poroshenko's nearly 80 per cent disapproval rating, according to a survey conducted by Kiev-based pollster Rating Group. Ukrainians are disillusioned, say analysts, and desire fresh political faces.

Two other potential candidates have appeared in recent polls with about 6 per cent support: comedian Volodymyr Zelensky and pop star Slava Vakarchuk. Neither has formally confirmed plans to run. They are viewed positively, but

On march: corruption is a big issue in Ukrainian politics Sergei Supinsky/AFP/Getty Images

some voters consider them "spoiler" candidates who are not real contenders. "I don't take them seriously," says Mykola, a retired army serviceman.

Arseniy Yatseniuk, whose own popularity plunged after he pushed through economic reforms including the higher utility tariffs while prime minister from 2014 to 2016, is also dismissive. "Clowns and actors can entertain people on television, but they cannot run the country," he says. "This is not a show, it is about the survival of the Ukrainian state." Brian Mefford, an American political consultant based in Kiev, says early poll results predict "a wide-open race, with no Ukrainian Macron in sight," referring to the French leader, a centrist who emerged from obscurity to win the presidency last year. Mr Mefford sees a very tight second round run-off between Mr Poroshenko and Ms Tymoshenko as the most likely scenario, with no candidate likely to muster the 50 per cent needed to carry a first-round vote.

Analysts say the president needs to change the narrative to have a good chance of re-election. Mr Poroshenko is accused of dragging his feet when it comes to tackling corruption and some voters have taken to the streets over the past year to call for his resignation. His supporters highlight achievements since he took over as president in June 2014 following the ousting of pro-Russian incumbent Viktor Yanukovich.

> 'The public remains unaware of much of the progress that has been made'

"It is clear that the public remains unaware of much of the progress that has been made in introducing political and other reforms," says Stephen Nix, Eurasia regional director at the International Republican Institute, which commissioned the Rating Group poll. He points to grave concern about the Donbas conflict and "disinformation" spread by parts of the media influenced by domestic oligarchs and Russian interests: "It is vital that the government and politicians ensure that they are communicating the value of these changes to the Ukrainian people in order to make the case for continued commitment to reform."

In a Financial Times interview last month, Mr Poroshenko accused Russia of meddling in the elections. "The involvement of Russia in the election process is enormous — by cyber war, by using social media, by using television stations," he said, claiming Moscow was trying to undermine Ukraine by supporting far-left, far-right and openly pro-Russian candidates. "Populist, irresponsible forces . . . can gain victory," he warned.

The president portrays himself as the guarantor of further reform and a closer relationship with both the EU and Nato, stances that are supported by about half of voters.

Mr Yatseniuk points to the growing influence of Viktor Medvedchuk, the Ukrainian whose daughter has Russian president Vladimir Putin as godfather. Mr Medvedchuk has been an important intermediary between the Kiev government and the Kremlin during the conflict, and is affiliated to For Life, a Russia-friendly party led by another presidential hopeful Vadim Rabinovich. "[Mr Medvedchuk] is a clear-cut Russian asset in Ukraine," Mr Yatseniuk says.

Mr Medvedchuk has described claims that he is secretly representing Russian interests as "a cheap performance". "I can and do have relations with . . . Mr Putin, because my relations, in my view, help the interests of Ukraine," he told the FT last year. Others agree Russia is trying to undermine Ukraine's democracy and gain a foothold in next year's parliamentary election, though it will be harder for Moscow to influence the presidential race. "Chances of an openly pro-Russian candidate winning are virtually none," says Mr Mefford.

Keen to get back to his chores, Mykola insists the outcome of next year's elections will not matter. "Someone will muster more votes, but I doubt anything will change," he says.

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Its lead sponsors are the industrialist Yuriy Kosyuk, the founder of MHP, Ukraine's largest agro-industrial group, and SoftServe, Ukraine's largest IT software developer, and involves the participation of leading U.K. and Ukrainian government officials and business leaders. **It is designed for British and Ukrainian businesses to explore opportunities for partnership and development.**

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If you are interested in attending one or more sessions of Ukrainian Week in London, please contact the BUCC for the complete program and an invitation: tel. +38 (044) 490-6000, or +44 207 638 7711 - email buccukraine@bucc.com.ua or visit us on www.bucc.com.ua

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softserve

YURIY KOSYUK Founder of MHP

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Industries strive to bring migrant workers home

Home comfort: auto component maker Yevhen working at the Zhytomyr plant in western Ukraine Roman Olearchyk

Manufacturing The auto parts industry is thriving, but many workers have left, says *Roman Olearchyk*

Sweat dripping down his face, 32-year-old Yevhen's attention shifts back and forth from a computer screen while his fingers fidget with a maze of circuitry.

The mind-bending exercise to test freshly assembled electric wiring for Volkswagen and Audi automobile manufacturing is no less laborious than Yevhen's previous job as a construction worker in neighbouring Poland, but he is glad to be back closer to home.

Ukraine's economy contracted by 17 per cent over the two years following Russia's 2014 annexation of Crimea and a subsequent proxy war continues in the country's eastern industrial regions.

But against all odds, Yevhen's prospects changed in 2015. Germany's Kromberg & Schubert launched an auto-wiring factory in his hometown Zhytomyr, just over an hour's drive from Ukraine's capital Kiev.

"It's so much better to work at home . . . I have a daughter now," Yevhen says while wiping his drenched forehead during a rare break. Three years into his new job, he adds: "People go to Poland today for the same salary range we are earning here. What's the sense of dropping everything, your family and children, for unclear prospects abroad?"

His remark refers to the millions of Ukrainian migrant labourers who have in recent years flooded EU countries in search of higher salaries, through legal and illegal employment that includes construction and farm work.

Employing some 3,200 people, the Zhytomyr assembly line is Kromberg & Schubert's second in Ukraine, where dozens of global companies in the labour-intensive business have aggressively expanded in past years.

Attracted by low monthly salaries of $300 to $500, global auto wiring companies including Leoni, Fujikura and Yazaki have shifted production to Ukraine from central and eastern European countries where costs have increased.

Many jobs are now based in central to western Ukraine, far from the south-eastern Donbas region where daily battles continue between Ukrainian forces and Russia-backed separatists.

Oleksandr Shavarskyi, commercial plant manager at the Zhytomyr plant — whose senior management is almost entirely Ukrainian — estimates the boom time for parts manufacturers has created "from 100,000 to 200,000" jobs. These include production line workers, subcontractors, and associated services. "In our business, all of the players are present here . . . dozens of them," he adds.

This offers both hope and a challenge as Ukraine struggles with a demographic crisis that is deepening economic woes. With so many Ukrainians abroad, new investors can struggle to hire new workers.

On a stroll through central Warsaw in Poland, it is common to hear both Ukrainian and Russian, another language commonly spoken by Ukrainians. That bears out official figures which show that about 4m, or close to 10 per cent of the population, work abroad either temporarily or permanently, with Poland the most common destination. On top of that, social policy minister Andriy Reva says that up to 9m Ukrainians travel abroad every year for seasonal work. A government priority is to bring workers back home.

In the town of Vinnytsia, south of Zhytomyr, regional officials tour a brand-new factory initially employing 1,100 people to produce commercial refrigerators for international sellers of everything from ice cream to beverages.

Igor Gumennyy, founder of UBC Group, a Ukrainian business which is a quarter-owned by the European Bank for Reconstruction and Development, praises local authorities for how speedily they granted permits to build its factory in the new industrial park.

Mayor Sergiy Morgunov says Vinnytsia is "open to all investors". He is keen to lure Ukrainians back home. A memorandum signed this summer with sports equipment maker Head envisions a second factory at the industrial park, producing skis, boots and bindings.

Similar efforts are under way in other Ukrainian cities, where more than 120 new factories have opened in the past three years. Increasing numbers of products made in Ukraine ranging from shoes to toothpaste appear routinely on store shelves.

> Up to 9m Ukrainians travel abroad every year for seasonal work

Policymakers are focused on attracting more investment to integrate Ukraine into global manufacturing supply chains. As part of its $1bn order for 300 new or overhauled trains, Kiev convinced US supplier GE to source 40 per cent of components locally. Officials hope to repeat the success of other eastern European countries in creating a production hub for auto and other industries to further boost foreign direct investment, which stands at $71bn.

French auto group Renault has confirmed it is in discussions to launch an assembly line in Ukraine. "Investors can obtain added value through our highly educated and productive workforce who are highly sought after," says Daniel Bilak, chairman of the country's investment promotion agency UkraineInvest.

Pointing to a large, well-educated population and vast transportation and industrial infrastructure capacity from Soviet days, he adds:

"Our greatest advantage is scale . . . You can take something small and grow it into something big. We have the people, the space and the technological capacity."

'Europe's bread basket' presents a meatier challenge

Agriculture

A London-listed agribusiness has made the most of the country's links with the EU, reports *Roman Olearchyk*

The lush fields of summer corn that carpet the landscape surrounding Vinnytsia Poultry Farm will soon serve as fodder for the facility, which is Europe's largest in terms of the volume of chicken meat produced.

Commissioned in 2012, the farm — a few hours' drive south-west of Kiev — churns out more than 900 tonnes of meat each day which is mostly exported to the EU, Middle East and Asia.

The facility is the pride of MHP, one of Ukraine's largest agricultural businesses. The London-listed group cultivates its own grain and converts it into fodder for homegrown chicken. Meat is then processed on-site at Vinnytsia as well as at other facilities in Ukraine and the EU.

Proud workers see the company's expansion as reflecting both the food industry's promise and hopes of further integration between the EU and Ukraine, a nation historically known as the bread basket of Europe because of its rich farming lands.

"This chicken is mainly going to the EU," says Serhiy Lykhovyd, looking over the production line that he manages. Before making its way to dinner plates, the chicken will stop off in Slovakia or the Netherlands, where the group has processing facilities that further prepare meat into cuts.

"I never dreamt I'd be working at such a state of the art facility when I was studying meat and milk processing 15 years ago," says Mr Lykhovyd. "But here I am, head of a production line that processes nearly 500,000 chickens per day."

The business, now valued at $1.3bn is 60 per cent owned by Yuriy Kosyuk. After consolidating his ownership of formerly Soviet assets in the late 1990s and 2000s, Mr Kosyuk embarked on a programme to improve efficiency and built new facilities partly funded by money raised through MHP's 2008 London listing.

Inside his corporate headquarters in Kiev, MHP's casually dressed chief executive describes his company as "a big platform for experimentation".

The 50-year-old billionaire attributes MHP's success to a mix of European-style management, domestic knowhow and lessons learned in global markets including Asia.

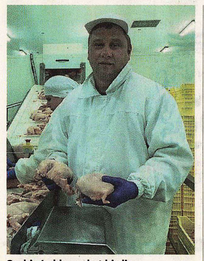
Between 2007 and 2017, MHP's poultry production, which accounts for about half of Ukraine's output — surged from 173,000 tonnes to 566,000, according to company-provided figures. Revenues more than doubled to $1.5bn. "We will become the European [equivalent of] Brasil Foods or Tyson," says Mr Kosyuk. He predicts that MHP will double its annual volume of poultry exports, which now stand at 260,000 tonnes, within five years. Around 30 per cent of this lands in the EU.

This expansion has alarmed competitors. Quoted in recent media reports, lobby groups representing EU producers have accused MHP of circumventing tariffs and quotas by merely slicing off bones at its EU facilities.

> 'We are younger, hungrier, more modern and more productive'

MHP says it complies fully with the Ukraine-EU trade agreement and does not use any loopholes. "Those who fear competition are afraid of change, and they are behind these nasty reports," says Mr Kosyuk.

"They can't compete. Their business models are old, their management is aged . . . we are younger, hungrier, more modern and more productive."



Serhiy Lykhovyd at his line

Agribusiness investors have ploughed money into Ukraine, helping farms boost yields while building ports and other logistical enterprises to increase exports. The country has become a top global producer and exporter of grains including corn, wheat, barley and sunflower — as well as related processed products such as sunflower oil.

MHP stands out, having consolidated lease rights over large swaths of farming land and betting heavily on the export of processed meat. "We . . . know this country, we believe in this country, we know what can be accomplished here," says Mr Kosyuk.

Investors from China and the Middle East are eyeing the opportunity to buy up agricultural land. But this possibility rests on the Ukrainian parliament cancelling a longstanding moratorium on farmland sales that some economists say has curbed investment.

Mr Kosyuk, an adviser to President Petro Poroshenko, supports opening up the land market but doubts lawmakers will approve it, given populist pressures. For now, he says, long-term land leases are sufficient for most players. He also supports government plans to reward businesses that invest heavily with subsidies and tax incentives.

Back at MHP's Vinnytsia factory, a biogas facility now being built should increase energy self-sufficiency. Mr Lykhovyd thinks the lessons of Vinnytsia could be shared across Ukraine and that further such factories could make it "a leader within the EU".

"Historically Ukraine is known as the bread basket of Europe," says Mr Lykhovyd. "But it is also becoming known as major supplier of meat, tomato paste, juices and much more."

Everyday services overhauled as state shakes off Soviet past

Reform

From the health service to industry, liberalisation is taking hold in Ukraine, reports *Roman Olearchyk*

A minimalistic archway in central Kiev sprays Ukrainians with a cooling mist as they head on a hot summer's day to one of scores of new public service centres designed to ease their lives. A bright yellow sign on the arch calls for "respect to the people".

The intent is to underscore how reforms are changing the former Soviet republic and helping improve the lives of its citizens despite the continuing conflict the south-eastern Donbas region that broke out in 2014.

Inside the service centre, whose futuristic exterior evokes Ukrainian folk embroidery, citizens obtain tickets for needs ranging from registration of a newborn to obtaining a new passport. Until their number is called on overhanging computer screens, visitors can relax at a hip coffee shop or lounge in comfortable seating within the air-conditioned facility.

"This is obviously an improvement and step forward, [bringing us] closer to Europe . . . The country is changing," says 46-year-old Olena, as she waits three minutes for her turn to process documentation for her 15-year-old son to study in Germany. "Before, we had to find our way through narrow dark hallways without seating, knocking on officials' doors which didn't always open."

Another sign of reform is on display at a recently renovated hospital nearby, where patients glance at the photographs and biographies of doctors on prominently displayed infographics.

Millions of Ukrainians who had previously been assigned to doctors without choice have in past months chosen their primary doctors through a newly formed national healthcare service modelled partly on the UK's system.

Money disbursed for treatment is to "follow the patient", being directly deposited to the accounts of doctors, be they at state hospitals or private clinics.

Budget funding largely disappeared amid layers of bureaucratic and corrupt governance in recent decades before reaching doctors. "Maybe healthcare is better in the UK, I don't know as I've never been there" says 50-year-old Laryssa, adding: "We will have to live and see how it works here."

For now, she is happy "to able to choose a doctor I trust", she adds, before going off to see him. "You can now sign up for an appointment online, where before you appeared unannounced to face long queues."

E-governance initiatives boosting transparency and efficiency nationwide are dismantling a toxic blend of Soviet-style bureaucracy and corruption that persisted following the USSR's collapse in 1991.

> 'The country is not done eradicating the oligarchic system'

Anti-corruption efforts have made available exhaustive online databases of public servants' assets. Online property records have the added advantage, for Ukrainian homebuyers, of helping to gauge asset values.

Cooling off in Kiev

Residents are encouraged to take control of the upkeep of their apartment buildings that were once managed by the state, appointing staff through condominium-style bodies. Decentralised decision-making and tax collection help local officials address problems.

A Soviet-styled militia which routinely shook down drivers for bribes has in recent years been overhauled and renamed as a western-styled "police" force. Its ranks include recruits who are younger, better paid, trained and equipped and who are therefore, it is hoped, less prone to graft. They patrol city roads and highways which are undergoing extensive reconstruction.

All this is improving Ukraine's investment climate. With deregulation, tax reform and improved governance, Ukraine has risen up the World Bank's Ease of Doing Business ranking from 137th in 2015 to 76th in 2018.

Earlier this year, two dozen chief executives of global companies flew into Kiev at the invitation of President Petro Poroshenko for a meeting of Ukraine's National Investment Council.

Andy Hunder, president of the American Chamber of Commerce in Ukraine, says that of 600 chamber member companies, four in five planned to expand their business in the country.

The state has seen more financial reforms implemented since the 2014 revolution that overthrew the pro-Russian president Viktor Yanukovich "than over the previous two decades", he says.

He highlights major US companies such as Cargill and Bunge which have invested hundreds of million dollars in Ukraine's agricultural sector, and Luxembourg-based ArcelorMittal, which has spent a total of $9bn over the years on what is Ukraine's largest steel mill.

Mr Hunder sees the country's core challenges as staying on track with a $17.5bn IMF economic reform programme and continuing the battle against corruption through further judicial reforms.

"The country is not done eradicating the oligarchic system and replacing it with a functioning market economy," he says. But asked whether Ukraine's reform glass is half full or half empty, he replies: "Half full, most definitely."

Investing in Ukraine

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Painful reforms start to bear fruit

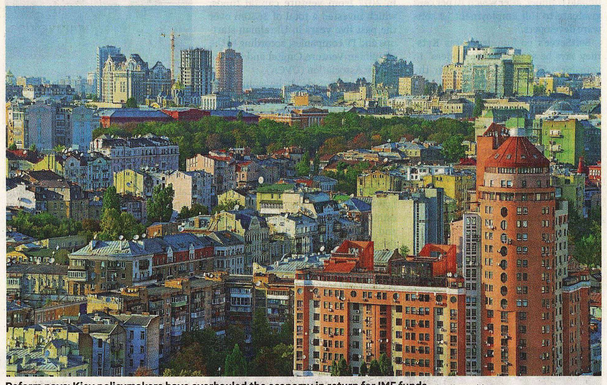
Ukraine's economy has been overhauled but vested interests remain a challenge, reports *Neil Buckley*

The government in Kiev can justifiably claim to have made more progress with structural reform in just four years than any administration since the country gained its independence in 1991.

In spite of the conflict with Russian-backed separatists that still smoulders in the south-eastern Donbas region, growth is slowly picking up, and investment — though still below the level Ukraine needs — is just starting to flow. "[We faced] the challenge of transforming a country which is really crucial to the stability and prosperity of Europe," says Daniel Bilak, chairman of UkraineInvest, the government's investment promotion agency. "The biggest challenge is trying to get our message out [about how the country has changed]."

One problem is that ordinary Ukrainians do not yet feel many of the changes in their daily lives. They have been hit hard by the slump in the economy and the national currency after the pro-democracy revolution and subsequent conflict in 2014.

Anti-corruption campaigners say the government has not yet broken the grip of billionaire oligarchs on governance and economy. "What are the challenges? First of all, vested interests," says Oleksandr Danyliuk, who served as finance minister until June this year. "They more you squeeze them out, the more they push back." The Kiev government has been accused of dragging its feet on some key reforms — including creating an independent, anti-corruption court — demanded by the IMF as a condition of its $17.5bn bailout programme. While an IMF-approved law to create the court was finally passed in July, the next $2bn disbursement of IMF funding is running more than a year behind.



Reform pays: Kiev policymakers have overhauled the economy in return for IMF funds — Ivan Nesterov/Alamy

"This [anti-corruption] court is needed to bring to justice senior officials who are still embezzling millions and billions from state funds," says Daria Kaleniuk, head of the Kiev-based Anti-Corruption Action Centre. The country can list many reform successes. It has managed to regain macroeconomic stabilisation after the post-revolution financial crisis. The economy shrank almost 17 per cent over 2014-15, before returning to growth in 2016. It is forecast by the World Bank to grow about 3.5 per cent this year.

The hryvnia has stabilised, while inflation — which hit 43 per cent in 2015, in part because of IMF-mandated increases in domestic fuel prices — was down to 13.7 per cent last year.

Before stepping down in March, central bank governor Valeria Gontareva led a clean-up of the banking sector that cut provider numbers almost by half. In the energy sector, increasing what were previously state-subsidised gas prices towards market levels was unpopular with domestic consumers — though targeted welfare payments partially offset its effects. But it removed the basis for huge corruption schemes.

The price increases, along with a strategy revamp, also transformed the fortunes of Naftogaz, Ukraine's natural gas utility. Its losses used to form part of a budget deficit that peaked at 10.1 per cent of gross domestic product in 2014 but has shrunk to 2.3 per cent.

"We were the biggest black hole in Ukraine. Now we're the biggest taxpayer," says chief commercial officer Yuriy Vitrenko. In a sign of the changed relationship with Moscow, Naftogaz has not bought gas directly from Russia since November 2015. Consumption was reduced, while Naftogaz reached agreements to buy gas from neighbouring European countries.

The government has also reformed its tax and pension systems, reducing "under-the-table" wage payments. The introduction of transparent online bidding for public procurement contracts closed off another source of corruption.

Ukraine's Institute for Economic Research and Policy Consulting, a think-tank, calculated that the gas sector, procurement, banking and tax reforms together restored up to $6bn in annual revenues formerly stolen from the state.

The government is now moving to reforms that will be felt by ordinary Ukrainians. One is a reorganisation of healthcare into a National Health Service of Ukraine (see page 4). Some Kiev insiders suggest the international community has not given Ukraine's authorities deserved credit for such difficult reforms, but focused disproportionately on IMF stipulations such as the anti-corruption court. Campaigners say the court was vital to ensure that a newly created National Anti-Corruption Bureau could bring cases before genuinely independent judges. Ukraine's government has yet to implement IMF demands for a final increase in gas prices.

Officials say privately that agreement is close, despite the political sensitivity ahead of presidential and parliamentary elections next year. Ms Gontarova says uncertainty over the elections and the longer-term outlook for reforms should not obscure Kiev's achievements: "I don't believe that we can even compare the new Ukraine with the old Ukraine. Things are many times better than they were a few years ago."

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Shadow of conflict hangs over country's recovery

Geopolitics

Ukraine is fighting to defend its hard-won liberty against military and diplomatic pressures, says *Tony Barber*

At a military parade in Kiev that marked the 27th anniversary of Ukraine's declaration of independence, pride of place went to the Javelin anti-tank missiles that the government acquired earlier this year from the US. Armoured vehicles carrying the missiles rolled down Khreshchatyk, the capital's main thoroughfare, in a ceremony that involved military aircraft and some 4,500 troops.

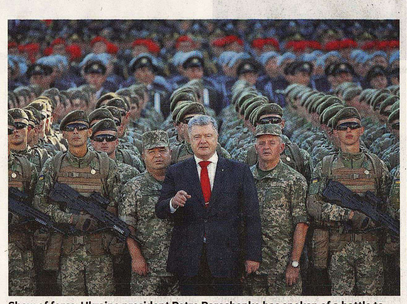
The parade on August 24 underscored the Ukrainian government's determination to send a message, to its citizens and to the world, that Kiev will not give up in what its leaders see as a grim, life-and-death struggle to defend the national freedom symbolised by the 2014 democratic revolution which overthrew pro-Russian leader Viktor Yanukovich. "Our generation's major goal is to make our independence irreversible, to turn Ukraine into a strong and great country, without the possibility of returning to the zone of Russian influence," Petro Poroshenko, Ukraine's president, told the parade crowd.

Closing the door on Russia, and opening it to the EU via a trade deal (see page 2), has been a boon to Ukraine's domestic companies and foreign investors in sectors from IT to manufacturing.

But the conflict with Russia and Moscow-backed separatists in the south-eastern Donbas region, now in its fifth year, remains a major threat to the economic recovery.

The 210 Javelin missiles and 37 launchers added to Ukraine's arsenal of modern weaponry will not determine the military outcome. But the missiles are a source of reassurance to the government in Kiev, fearful that support in Washington and other western capitals may diminish over time as the conflict drags on, with no obvious prospect of a comprehensive settlement.

"The Javelins are important in symbolic as well as material terms," says Ivanna Klympush-Tsintsadze, Ukraine's deputy premier for European and Euro-Atlantic integration. "With clear bipartisan support in Congress, we've been reassured that US policy towards Ukraine is coherent and designed to support Ukraine's independence, territorial integrity and sovereignty under international law."



Show of force: Ukraine president Petro Poroshenko has spoken of a battle to 'make independence irreversible' — Reuters/Valentyn Ogirenko

In July, Kiev feared that President Donald Trump and Vladimir Putin, his Russian counterpart, might use their Helinski summit to reach an understanding about the Donbas conflict, and the Russian annexation of the Crimean peninsula that preceded it. Some policymakers in Kiev were aghast to hear Mr Trump speak warmly of Mr Putin and make no public criticism of Russian policies towards Ukraine.

But Kurt Volker, the US special representative for Ukraine negotiations, says these worries were overblown. The US will keep sanctions on Russia until it changes its behaviour and, more specifically, does not support the Kremlin's proposal for a referendum to settle the status of the Donbas, Mr Volker says. Anxious politicians in Kiev fret nonetheless that western policymakers will come to regard the Donbas war as comparable with so-called "frozen conflicts" in the former Soviet republics of Azerbaijan, Georgia and Moldova, where fighting has ended, but without a political solution. These conflicts erupted around the time of the Soviet Union's collapse in 1991 and, having never been resolved, created ample opportunities for Russia to wield political and military influence in the space that it views as its "near abroad".

> 'Can Ukraine alone cope with a Russia armed to the teeth? No'
> **Former prime minister Arseniy Yatseniuk**

A similar outcome in the Donbas would not only leave Ukraine — already a truncated state after Russia's action in Crimea — without certainty of regaining control of a strategically important region. It would also give the Kremlin powerful leverage over Ukrainian politics and leave a question mark over the very concept of Ukrainian statehood.

"They'll do whatever they can to undermine Ukraine's democracy and its pro-western course, and to discredit the idea of Ukrainian independence," says Oleksandr Danylyuk, a Ukrainian military analyst of Russian hybrid warfare.

Russia denies direct involvement in the confrontation, despite widespread evidence to the contrary. For their part, Ukrainian government ministers and defence officials say the conflict, far from being "frozen", is very much a "hot" one. Every week brings numerous violations of a ceasefire agreed in 2015 but rarely heeded since. Casualties are

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