SEPTEMBER 2024

Removing Bottlenecks for the Private Sector

Ukraine's Current State of Reforms

By Romina Bandura, Daria Figlus, and Ilya Timtchenko

Ukraine is an incredibly resource-endowed country in terms of its land, talented workforce, and geographic proximity to Europe, Asia, and the Middle East. Once the war is over, Ukraine has the potential to be an economic powerhouse in Europe. However, its economy has inherited many Soviet-era ailments, including a centralized and inefficient energy system, excessive red tape, and endemic corruption, making the business environment difficult. Russia's war of aggression has added even more challenges to the economy. As a result, companies operating in Ukraine have limited access to financing, are dealing with labor shortages, and suffer from the infrastructure damage the war has caused, particularly on energy facilities, transportation networks, housing, hospitals, and schools.

Despite this complicated scenario, Ukraine has been undertaking a series of reforms to combat corruption, prepare the country for EU membership, and improve the overall business environment. From strengthening anticorruption institutions to reinstating asset declaration requirements and bolstering competition, the Ukrainian government—with the help of civil society actors and international donors—is working to build a modern economy aligned with the West. This short paper provides an overview of some of the country's most important reforms aimed at strengthening the private sector and attracting foreign direct investment. It also highlights the bottlenecks that the business community is still experiencing and offers principles that the Ukrainian government and the international community could follow to better engage the private sector.

Framework for Reforms

Despite fighting a brutal war, Ukraine wants to build a modern economy within the EU family. This requires changing laws and regulations across sectors, building new institutions, and attracting fresh investments into the economy. If there is a silver lining during this difficult time, it is Ukraine's (and Moldova's) current path to EU membership.

CSIS | CENTER FOR STRATEGIC & INTERNATIONAL STUDIES

The prospect of EU membership has emerged as one of the most positive developments in Ukraine since Russia's full-scale invasion in 2022, according to an **EBA survey of company managers**. Ukraine received EU candidate status in June 2022, and by December 2023, the country had fulfilled the seven requirements **set** by the European Commission to start negotiations for full membership. As a result, on June 25, 2024, the European Union launched formal negotiations on Ukraine's future membership.

> *The prospect of EU membership has emerged as one of the most positive developments in Ukraine since Russia's full-scale invasion in 2022.*

The road to EU membership is not straightforward as it requires significant reforms in **35 chapters**, or areas, where Ukraine has to "adapt . . . [its] administrative and institutional infrastructures and to bring . . . [its] national legislation into line with EU legislation in these areas." To assist Ukraine in this process, numerous initiatives have been offered and implemented, such as the Organisation for Economic Co-operation and Development (OECD)'s **Ukraine Country Programme**, which supports the reform efforts with technical assistance in six policy areas, including taxation, good governance, and competitiveness.

The EU accession process is not the only source of a comprehensive framework for reforms in Ukraine. The country is also subject to conditions from International Monetary Fund (IMF) and World Bank programs. The IMF has put forward a set of conditions as part of the **Extended Fund Facility Arrangement**, which focuses on maintaining fiscal, external, price, and financial stability; improving corporate governance; and strengthening public institutions. Meanwhile, the World Bank's **Growth Foundations Development Policy Operation** focuses on enhancing Ukraine's economic policy structure and improving macro-financial stability to incentivize sustainable growth. The systemic reforms of the World Bank program include mitigating the anticompetitive effects of state-owned enterprises (SOEs), encouraging investments in renewable energy, implementing the EU customs and tax system, improving regulatory systems, and more.

This translates into a long list of reforms that Ukraine has to undertake in order to have a robust market economy within the European Union. To that end, in June 2024, the Ukrainian government presented its **Reforms Matrix**, a live consolidation of all of the reform requirements into a one-stop shop format. This evolving platform summarizes the reforms Ukraine has been implementing or has been asked to implement by its Western partners. The platform also serves as a management and monitoring tool of the reform process, containing a series of more than 200 reforms and over 400 indicators that Ukraine will undertake.

The platform includes four main clusters:

1. European Commission recommendations for Ukraine's EU candidate status
2. IMF loan conditions
3. The Ukraine Plan under the Ukraine Facility
4. World Bank conditions and development policy loan

Going forward, as part of the financing from the IMF and the European Commission (under the Ukraine Facility), Ukraine will be undertaking a series of **transformations** in 16 areas of the economy between 2024 and 2027. This is a huge endeavor considering that the country is also fighting Russian aggression within its territory.

State of Reforms and Achievements

The Ukrainian government has already instituted a series of reforms within these frameworks. Among the most important achievements include the relaxation of some of the wartime restrictions and measures meant to fight corruption and enhance the business environment. These efforts signal Ukraine's strong commitment to building confidence with the international business community and to making progress toward EU accession.

1. ***Currency liberalization:*** In early 2024, Ukraine started relaxing currency restrictions that were enacted at the beginning of the war to **prevent** a panic-induced outflow of hard currency. As the war progressed, these regulations began to deter the **entrance** of new foreign capital and investors into the Ukrainian economy, limiting their ability to contribute to the recovery process. In early May of 2024, Ukraine's central bank introduced its largest wartime currency liberalization measures aimed at easing restrictions for businesses and softening many of the strict capital controls immediately imposed after the full-scale invasion. The new regulations lift currency restrictions on imports of goods and services, permit cross-border payments under lease agreements, allow for businesses to repatriate new dividends, and relax restrictions on repayments of newly contracted cross-border loans and on transfers of foreign currency from representative offices to parent companies.

2. ***Anti-corruption reforms:*** A major success story is Ukraine's progress on the anti-corruption front. It is important to acknowledge that the country's civil society has been at the forefront of driving the success of these efforts. In a recently published **report**, Transparency International Ukraine provided a detailed analysis on this issue, highlighting progress in high-profile investigations as well as structural advancements such as the establishment of a separate legal entity for the Specialized Anti-Corruption Prosecutor's Office, the creation of the Public Integrity Council, the establishment of a qualification assessment of judges and the Kyiv City District Administrative Court, and the completion of the first independent audit of the National Agency for Corruption Prevention and the appointment of the body's new head.

   Moreover, Ukraine's parliament **approved** an updated version of the law on asset declarations on September 20, 2023, after President Volodymyr Zelensky was **pressured** to make asset declarations of public officials publicly available. Almost two weeks earlier, the parliament **had passed** an amendment that would have delayed public access to the asset declarations of officials for another year through a loophole. The bill for immediate public access to asset declaration was **signed** into law by Zelensky on October 12, 2023.

   In addition, the business community in Ukraine has advocated reforming and improving the functioning of the Bureau of Economic Safety (BES), a body in charge of detecting economic crimes. The **aim** of this bureau is "preventing, detecting, terminating, investigating as well as disclosing economic crimes." The Verkhovna Rada (i.e., the legislature) finally adopted **Draft Law No. 10439** in June of 2024. Incorporating the position of the private sector, the draft law declares a transparent and competitive process for selecting the head of the BES, that employees be subject to recertification, and that international experts be included in the selection process for new BES employees. This law has been supported by Ukraine's largest business associations and is one of the conditions of the IMF's extended financing program.

3. ***Improvements in corporate governance:*** Another important improvement has been on the corporate governance front. State-owned enterprises (SOEs) in Ukraine have a **history** of being poorly managed, corrupt, and used for political gain, often by oligarchs. After the implementation of martial law, many SOEs centralized control, monopolizing their industries to ensure security, but this has also prevented the introduction of competition and deterred foreign investment. As a result, on March 8, 2024, **Law No. 3587** ("On Amendments to Some Legislative Acts of Ukraine Regarding the Improvement of Corporate Governance") came into force, focusing on the reformation of all of Ukraine's state-owned enterprises. The international community strongly supports the law as it promotes best international practices and **incorporates** OECD guidelines for the corporate governance of SOEs. In addition, the law **strengthens** SOE leadership independence and management. For example, supervisory boards now have more authority and responsibility in overseeing an SOE, as they are responsible for the approval of the enterprises' strategic and financial plans and the appointments of SOE CEOs. Due to martial law, however, these reforms **may be delayed**, undermining the law's effectiveness. Nevertheless, this reform is the biggest step forward of the last decade.

   Moreover, Ukraine recently announced a privatization plan that could get rid of inefficient assets and pave the way for increased investments into the country. The state property fund announced the **Large Scale Privatization-2024** project, which would privatize a series of large and small assets, including the four-star Hotel Ukraine, located in Kyiv; UMCC, Ukraine's largest mining and titanium ore processor; Aeroc, a manufacturer of aerated concrete products; Demurinsky GZK, a mining company and processor of titanium and zirconium; and Kyiv's largest shopping center, Ocean Plaza.

4. ***Decentralization of Ukraine's energy matrix:*** Ukraine's Soviet-era energy system is very centralized, making it both extremely inefficient and a major risk since Russian attacks to such a concentrated system wreak havoc on millions of users. Ukraine wants to move to a more decentralized and green system by generating "**more energy in smaller amounts closer to users**." To that effect, on June 30, 2023, the Verkhovna Rada adopted **Law No. 3320-IX** ("On Amendments to Certain Laws of Ukraine on the Restoration and Green Transformation of the Energy System of Ukraine") to enable the country's green energy transformation and energy diversification and to incentivize the development of a competitive renewable energy market. The law permits electricity consumers to actively participate in the electricity market via self-generation and to sell excess electricity to the grid. Furthermore, the bill proactively encourages the use of biomethane and green energy production via the establishment of **guarantees of origin** issued by the National Energy and Utilities Regulatory Commission, Ukraine's national energy market regulator. Overall, the law **strengthens** Ukraine's transition and integration into the European Union's energy market. Relatedly, Ukraine has lifted all taxes

and duties on **imports** of energy equipment, making it easier for citizens and business to access alternative energy sources.

5. ***Improvements in accessing finance:***

Rural finance: To ease access to financial support and lending for farmers, on March 5, 2024, Ukraine's president signed the law "**On Agrarian Notes**," which had already been passed by the Verkhovna Rada. The law will go into effect on January 1, 2025, and is **supported** by the business community. Significantly, these notes can only be issued electronically via a depository system and without the need for notary certification, thus eliminating the need for an intermediary. Importantly, these notes can be backed by a wide range of pledged collateral (including livestock), increasing creditor confidence in a borrower's commitment to repay the loan. Lastly, these agrarian notes will be used as securities that can be traded within the capital markets. All in all, this is a major improvement within the agricultural sector of Ukraine.

Small- and medium-sized enterprises: The **Affordable Loans 5-7-9 Percent** program played an important role during the first two years of the full-scale invasion. Originally **launched** in 2020 by the Ukrainian government, the program subsidizes interest rates so that the SME sector (with a heavy **emphasis** on the agriculture, trade, and services sectors) can take out loans at affordable interest rates—5, 7, or 9 percent, depending on the size of the business. Since the start of the invasion, this program has been extended to **larger** businesses. During the March 2022-October 2023 period, the program financed $4.3 billion, mainly for **operational activities** of the private sector. Approximately **90 percent** of new business loans are now provided under this program.

Although considered a general success, the program has room for improvement as there are some areas of concern. First, the program moved away from its initial goal of only financing SMEs and now covers a wider set of companies—including large enterprises and those in high military risk zones—putting them in competition with SMEs, and the latter already have fewer sources of funding. Second, **changes** were made to the program, which led to cases of lending to unreliable companies and an increase in nonperforming loans. Third, international private players such as Credit Agricole and ProCredit have been decreasing their participation within the program, possibly because the government has been delaying interest compensation by months. Moreover, the program seems to favor a particular group of banks—specifically state-owned banks—when there should be fair rules to increase competition between banks.

Building a modern capital market: Though long overdue, Ukraine is starting to put in place the infrastructure necessary for a functioning capital market. The European Bank for Reconstruction and Development (EBRD), the Warsaw Stock Exchange, and Ukraine's National Securities and Stock Market Commission **are working together** to strengthen Ukraine's capital markets in order to spur economic growth in different ways, such as attracting international and local investment. Importantly, these joint efforts are meant to integrate Ukraine's capital markets into the European Union's market and regulatory framework. As part of these reform efforts, the government has passed **Law No. 3585** ("On State Regulation of Capital Markets and Organized Commodity Markets"), which streamlines the work of the country's National Securities and Stock Market Commission and aligns it more closely with EU best practices, thereby laying the foundation for a robust capital market for the country.

Incentives for significant private investments: Ukraine also has special **incentives** for large-scale projects. The law "**On State Support for Investment Projects with Significant Investments in Ukraine**" provides tax and customs exemptions for projects over €12 million as well as incentives for construction (for example, related to industrial parks), up to 10 years of income tax relief, and reimbursement for grids and infrastructure.

Wartime Challenges and Pending Reforms

Despite substantial progress on many fronts, Ukrainian businesses still face challenges and would like to see more changes. According to an **EBA survey** among company CEOs, the top priority reforms for the Ukrainian government should be fighting corruption, reforming the judiciary, establishing rule of law, and ensuring macroeconomic stability. Another **survey by the American Chamber of Commerce** in Ukraine indicates that the top current priorities should be ensuring clear and transparent reservation procedures for military mobilization, implementing real and effective judicial reform, and ensuring predictability and stability of tax legislation.

> *Despite substantial progress on many fronts, Ukrainian businesses still face challenges and would like to see more changes.*

Taken together, these developments mean that Ukraine will have to continue its reform process in a number of areas, even as it continues to fight the Russian invasion. While some of these challenges are a result of the war, others have been entrenched in Ukraine for a long time.

WARTIME CHALLENGES

1. ***Changes in mobilization and military service deferment:*** Eligibility for military service has been an ongoing issue for the private sector since the beginning of Russia's full-scale invasion. In particular, in May 2024, the Ukrainian government passed a mobilization law that makes changes to categories of men between 18 and 60 years old who were previously eligible for military deferment. For example, previously deferment-eligible men such as those enrolled in higher education institutions or those that have children but have child support arrears can now be drafted. These changes impact companies' ability to hire and retain staff, especially highly skilled workers. Moreover, the instability of the rules prevents companies from planning. Although war is always unpredictable, **companies** that export goods or supply the military are the most concerned. According to the American Chamber of Commerce in Ukraine, **81 percent** of members stated that military mobilization impacted their business performance, with the reservation of employees from military service being the key challenge. The government is still working out the details of the rules defining which men can defer enlistment due to the economic needs of the country. Businesses and the government are actively debating introducing an **economic reservation** program that would work in parallel with the strategic reservation system. **Bills 11331 and 11332** propose creating opportunities for companies and entrepreneurs to reserve an employee if the employer pays an increased military levy for them. Although

businesses need this change to keep critical employees working, the government is reluctant to introduce a system which has the potential to create social tensions.

2. ***Demining process:*** Another challenge created by the war is the **prevalence of landmines**, which not only poses immediate threats to the use of the land but also brings contamination to the soil and nearby water resources. Russian forces scattered a wide variety of mines on the land they occupied, all of which present a lethal danger to civilians and an economic loss for farmers. In fact, Ukraine is the most mined country in the world, with at least **2 million landmines** spread across approximately **11 different regions**. As Ukraine liberates those regions containing rich arable areas, the war and persistent regulatory and logistical barriers make the dangerous activity of demining even more painstaking. Since the beginning of the full-scale invasion, at least **1,000 civilians** have been injured or killed due to these unexploded ordnances. The Ukrainian military and humanitarian organizations are working to clear mines, but it is a long and dangerous process. Moreover, excessive **bureaucracy** and red tape hinder the pace of the demining process; it is unclear which government institution is responsible for the process (i.e., the Ministry of Emergency Services, Ministry of Economy, or Ministry of Defense). Additionally, a long certification process for new equipment and a lack of sufficient domestically manufactured equipment slow down demining. The government of Ukraine, by implementing a "Made in Ukraine" economic policy to encourage domestic manufacturing, has **identified** the production of demining machinery and equipment as a promising industry for Ukraine's economic recovery as well as a method to expediate the onerous mine clearance process. **Experts** say it could take decades to clear the existing mines, not accounting for those the Russian forces are still spreading across the battlefield. **Uncertified** civilians have attempted to clear their own land of these unexploded weapons, leading to injuries or deaths.

PENDING REFORMS

1. ***Reforming the customs and tax system:*** Ukraine must still demonstrate substantial reform within its customs and tax services, the number one source of complaints to the Business Ombudsman Council of Ukraine. Thousands of **tax disputes** are submitted to the courts annually and resolution can take years. A **presidential decree** with recommendations has been submitted for Ukrainian law enforcement agencies calling for audits of criminal cases affecting businesses and a risk assessment monitoring system for VAT invoices. In recent months, the **business community**, including both the American Chamber of Commerce of Ukraine and the European Business Association, has been in active discussions with the leadership of Ukraine's customs services to address these issues and to make sure that Ukraine has a rules-based tax administration system. This will require a full reboot of the state tax and customs services, with a focus on independent recruitment of personnel, engagement of international experts, the re-attestation of key management positions, and the simplification of the tax code. Importantly, customs cannot regain their law enforcement role, as it would be a major step back after years of reform efforts. Moreover, there has been active debate on what the tax system should look like while the country is at war. The private sector has been advocating for a fair, transparent, and stable tax system that would create a more level and fair playing field and curtail the shadow (informal) economy, which is estimated to represent 30-40 percent of Ukraine's overall economy.

2. ***Judicial reform:*** The **European Union** and the international business community are strongly advocating for judicial reform as this is the largest issue impacting Ukraine's ability to recover and stabilize. Without a fair, transparent, and expedient judicial process, it will be difficult to conduct business, combat corruption, and protect rights. While Ukraine has implemented some justice reforms, more should be done. One achievement of the Ukrainian government was the **dissolution** of the most corrupt court in Ukraine, the District Administrative Court of Kyiv (DACK). However, the government has not yet properly **established** the courts that will replace the DACK. In 2021, the Ukrainian parliament attempted to reform the **High Council of Justice** (HCJ), responsible for dismissals and appointments, and the High Qualification Commission of Judges (HQCJ), responsible for judge selection. The primary goals of these reforms were to establish selection committees and appoint members to the two institutions. After two years, both bodies became **operational** and began their vetting processes of existing judges. However, the HCJ's and HQCJ's efforts produced **mixed** results, as the two groups did not dismiss several judges that were red-flagged by an advisory council. The presence of judges with poor integrity affects Ukraine's rule of law, stalls the country's reconstruction, and deters foreign investors. The next priorities for the Ukrainian government should be reinforcing disciplinary and vetting procedures as well as **ensuring** fairness and transparency in the appointment processes for the Constitutional Court and the Supreme Court. Reforming the **Supreme Court** is particularly important as it is the highest court in Ukraine's judicial system and has recently been affected by **corruption**. Involving **foreign representatives** in the vetting processes would positively impact the success of the reforms.
3. ***Strengthening property rights:*** The transition from a Soviet system to private ownership has been complex and fraught with challenges, particularly due to corruption, political interference, and lack of judicial reform. According to the Heritage Foundation's **Index on Economic Freedom**, Ukraine's property rights currently have a score of 23—beneath the world average of nearly 59—and such rights are classified as "repressed." Since the beginning of the full-scale invasion, existing property rights have been denied or ignored within the occupied territories as buildings and land have been destroyed or expropriated. Ukraine's already weak property rights are under additional threat as the government has proposed Draft Law No. 11195 on the protection of property rights of third parties, which is **strongly rebutted** by Ukraine's largest business associations. With this law, Ukraine's Cabinet of Ministers would have the authority to foreclose 100 percent of shares or stakes that are partially owned by sanctioned individuals. Ukrainian authorities could thereby also confiscate the shares or stakes of non-sanctioned owners. Major loopholes and the possibility of a lack of transparency are causes for concern; this could be seen as an unnecessary concentration of government power with significant potential for corruption. As the proposed law would enable stripping the power of non-sanctioned individuals to manage companies, businesses could potentially close, thus deterring foreign investors from committing capital to Ukraine; businesses could even be resold in a nontransparent privatization process for low value.
4. ***Enhancing the transparency and accountability of the e-procurement system:*** Ukraine has demonstrated substantial reforms and developments within the e-procurement space during the past decade, demonstrated by the **ProZorro** electronic public procurement platform, which announces government tenders in a transparent way, and the Digital Restoration Ecosystem for Accountable Management (**DREAM**), which was created in June 2023. The DREAM platform

aims to increase transparency, accountability, and efficiency via an electronic platform that coordinates reconstruction projects. The platform is meant to act as a one-stop shop for those interested in participating in Ukraine's reconstruction projects and is **integrated** with the ProZorro public procurement platform. Despite these strong beginnings, there is still plenty of work that must be done to ensure systemic change.

5. ***Updating public-private partnership (PPP) legislation:*** The government of Ukraine is in the process of improving its PPP framework in order to entice incremental private investment into Ukraine. **PPPs** are arrangements between government agencies and private sector businesses which can be used to finance, build, and manage public projects with the help of private sector expertise. **PPP laws** can determine the priority of PPP projects or implement a framework to ensure coherent procurement and application amid existing laws. During the second half of 2022, the Ukrainian parliament registered and adopted **Draft Law No. 7508** on improvement of the PPP instrument. However, the draft law is currently stalled and is not being considered for the second reading required to become law. Ukraine's largest business associations, including the American Chamber of Commerce in Ukraine and the European Business Association, support this draft law, which draws from lessons learned in earlier PPP projects.
6. ***Advancing on land ownership:*** For nearly two decades, Ukraine had a **moratorium** on the sale of land, meaning farmers could only lease land, not legally buy or sell it. This law has **limited** investment in the agricultural sector, decreased farmers' access to finances, and led to the mismanagement of farms. On January 1, 2024, Ukraine passed the **second stage** of its major land reform, which began in March 2020 when the Verkhovna Rada approved the long-awaited end of the moratorium. This second stage allows Ukrainian legal entities and individuals to purchase up to 10,000 hectares (24,711 acres) of land; foreigners remain unable to purchase Ukrainian land. Supporters of the reform, including the World Bank, have argued that land liberalization reform can bring significant investment and allow Ukrainians to use land as collateral, thus making bank loans more accessible. Critics counter that these reforms would only benefit large businesses at the expense of small- and medium-sized businesses or farmers unless the latter groups have financial support.
7. ***Labor reforms:*** Labor shortages are severely impacting the economy. At least 6 million Ukrainians have fled the country during the past two years, dealing a huge blow to the country's economy. Because of this drain, the outdated Ukrainian labor laws and standards have become even more critical to reform; the Labor Code of Ukraine was adopted in 1971 under the Soviet Union and is more than **50 years old**. While some parts of the law have been updated and several amendments have been added, it has not been fully replaced or modernized and contains some of the original unfair labor regulations. According to a U.S. State Department **report** from 2020, Ukraine lacked laws that prevented anti-union discrimination and, relatedly, workers often faced pressure when attempting to fight workplace corruption. Overall, the report described a lack of protection regarding the hiring, firing, and management of workers. Since the full-scale invasion, there have been mixed reactions to laws passed regarding labor laws and standards, with some saying the new regulations diminish workers' rights and the power of trade unions, while others say the laws give employers more flexibility and help attract investors. For example, **Law No. 2421** legalized zero-hour contracts, where an employer is not required to provide a minimum number of working

hours to employees. Critics argue that this results in uncertainty, while proponents say the law helps businesses survive and offers employees flexibility.

Moreover, there is a critical need for labor reforms to incentivize refugees to return to Ukraine and contribute to the reconstruction process. The Ukrainian government has already begun efforts to expand and assist its workforce, such as the creation of the **Human Capital Resilience Charter** by the Ministry of Economy of Ukraine, the EBRD, and the Folke Bernadotte Academy in June of 2024. This partnership aims to support refugees and veterans as they reintegrate into the labor market. This market must be **rebuilt** in a way that changes the 50-year-old laws for the better, while keeping the rights and opportunities of both workers and businesses in mind.

Supporting the Reform Agenda

The international community (i.e., the European Union, international financial institutions, and multilateral organizations), business associations, and Ukrainian civil society organizations are playing a critical role in helping Ukraine survive and build an environment for the private sector to function and grow, even as the country fends off Russia's ongoing invasion. Among many initiatives, in June 2024, the Kyiv School of Economics (KSE) Institute published an **Investment Guide** to showcase opportunities and warn of challenges for potential investors, highlighting priority sectors and specific projects. In addition, to better engage the private sector, a **Business Advisory Council** was created within the Multi-agency Donor Coordination Platform for Ukraine. Over 20 **companies** and business associations from the United States, Canada, the United Kingdom, Norway, the European Union, and Ukraine are advising the international donor community on matters aimed at improving the business climate in the country.

Although Ukraine is already undertaking significant reforms, with new initiatives being announced, the war and persistent regulatory and logistical barriers mean that the private sector is struggling to reach its full potential. In the short run, companies operating in Ukraine will require substantial support given the massive impact of Russia's invasion. To successfully support the private sector in these difficult times, strong political will from the government of Ukraine and international partners is essential for the following principles:

1. ***Predictability:*** The private sector in Ukraine has dealt with unpredictability since before the full-scale invasion, ranging from numerous legislative changes to unpredictable company raids. This problem of unpredictability has been exacerbated since February 2022, with businesses experiencing increased difficulty in predicting resource (e.g., electricity) and workforce availability. It is becoming increasingly difficult for companies to be able to plan more than six months in advance.
2. ***Fairness:*** Currently, companies that follow the rules in Ukraine are the ones that end up being worse off compared to those operating in the shadow (informal) economy. Clean and responsible companies pay more in taxes and properly report which employees are required for military service, which in turn affects their workforce. Businesses need a level playing field to continue operating in Ukraine.
3. ***Affordability:*** Infrastructure damage is driving myriad prices up for companies, from labor to transport to energy and more. Despite prices increasing, **27 percent** of companies would invest

more if they had access to affordable financing, according to a survey conducted in June by the American Chamber of Commerce and Citibank in Ukraine.

4. ***Scalability:*** Since the start of the war, many good ideas and initiatives have been put forward to either help companies access finance or war insurance. However, the challenge is to bring these successful individual projects to scale.
5. ***Coordination:*** The international community must be very clear with the conditions it attaches to financing and reform benchmarks, ensuring that they are thought through and are not at cross-purposes or overlapping in their demands. Thus, there is a need to work more closely with Ukrainian stakeholders to prioritize and sequence reforms. Such coordination would also help businesses better understand the rules of the game and what changes in legislation are forthcoming, enabling them to plan activities accordingly.
6. ***Openness:*** The international community and Ukraine's government need to ramp up their communication with the private sector operating in Ukraine. Continued dialogue and frequent communications among all stakeholders are key for successful policy reform and subsequent implementation.

In sum, the value of Ukraine's private sector must not be underestimated. It is the backbone of Ukraine's economy and resilience; it pays the taxes needed to fill state coffers and finance the country's defense; it employs people and generates wealth. The business community allows Ukrainians to innovate and export their goods, while also bringing a sense of normalcy to the war-beaten nation. A resilient private sector is essential to Ukraine's survival and is the key to the country's future economic prospects. Removing business obstacles and accelerating the pace of reforms will pave the way for Ukraine's successful recovery and modernization. ■

Romina Bandura *is a senior fellow with the Project on Prosperity and Development at the Center for Strategic and International Studies (CSIS) in Washington, D.C.* ***Daria Figlus*** *is a former intern with the Project on Prosperity and Development at CSIS.* ***Ilya Timtchenko*** *is a former program manager and research associate with the Project on Prosperity and Development at CSIS.*

This report was made possible by the generous support of the Japan International Cooperation Agency.

The report greatly benefited from interviews with business leaders and the views of experts at a private CSIS roundtable discussion held on May 30, 2023. The authors would like to thank Caroline Smutny for her research contributions and the six anonymous reviewers.