

Position Paper on Measures to facilitate Economic inflows in Ukraine

European Enterprise Alliance, Union of Entrepreneurs and Employers (ZPP) and Union of Ukrainian Entrepreneurs (SUP) express our support for the Ukraine Facility, an innovative and strategic initiative that holds the key to shaping the economic recovery and modernization of Ukraine. Our exploration delves deeply into vital sectors, offering actionable examples and detailed recommendations to bolster the Ukraine Facility's efficacy and foster sustainable economic recovery. We believe the following steps are necessary to facilitate economic inflows into Ukraine.

Strategic State Property Management System

Ukraine's economic foundation necessitates the establishment of a robust State Property Management System. Within this framework, the identification and legislative delineation of strategic companies emerge as imperatives. Notably, entities such as "Ukrposhta," the national postal service, and "Ukrzaliznytsia," the national railway company, serve as linchpins in Ukraine's infrastructural framework and connectivity matrix. Introducing foreign entities into these strategic sectors holds promise for catalyzing technological innovations, refining service delivery, and optimizing operational efficacy. To navigate this collaboration, an unequivocally transparent bidding mechanism, fortified by rigorous regulatory oversight, is paramount. Concurrently, Ukraine's governmental apparatus should proactively curate a comprehensive database, delineating eligible organizations poised for foreign investments. From the European Union's vantage point, this symbiotic engagement crystallizes a conduit for intensified economic harmonization with Ukraine. Such collaboration harbours the potential to invigorate trade corridors, stimulate investments, and nurture mutual growth trajectories. Furthermore, the infusion of European acumen and technological prowess augments Ukraine's infrastructural landscape, catalyzing advancements, and modernizations across pivotal sectors. Consequently, for Ukraine, this collaborative nexus metamorphoses into an avenue for accelerated infrastructural progression and technology assimilation.

Capacity Building at the Local Level

In the wake of the invasion, the imperative lies in prioritizing the reconstruction endeavours of local communities (hromadas). To enhance their efficacy, local governing entities necessitate comprehensive training initiatives, specialized technical acumen, and requisite financial allocations. The inception of regional development funds serves as a catalyst, empowering hromadas to spearhead pivotal infrastructure undertakings, ranging from the refurbishment of thoroughfares to the rejuvenation of educational and healthcare infrastructures. Collaborative frameworks, notably encompassing public-private synergies, become instrumental in engendering knowledge

dissemination, galvanizing resource allocation, and fostering robust community engagement. Such mechanisms ensure that the tenor of reconstruction resonates harmoniously with localized imperatives and aspirations. From the European Union's strategic standpoint, the cultivation of stability within contiguous territories emerges as a linchpin. Through amplifying support mechanisms for localized governance paradigms and developmental trajectories, the EU champions the realization of a harmonious and prosperous European environment. Furthermore, the deep-seated interregional collaborations fortify diplomatic and economic bonds, thereby cultivating a propitious milieu conducive to expansive trade, investments, and multifaceted partnerships. For Ukraine, this manifests as a pivotal juncture for grassroots empowerment, endowing communities with the requisite instruments and mandates to orchestrate their developmental blueprints. This overarching strategy accentuates the ethos of inclusivity, ensuring an equitable distribution of benefits across all regions vis-à-vis Ukraine's expansive reconstruction and developmental ventures.

EU Support: Joint Investment Funds and Guarantees

To invigorate and channel private direct foreign investments, Ukraine's collaboration with the European Union becomes imperative in establishing synergistic investment frameworks and assurances. Consider the conceptualization of a "Ukraine-EU Investment Fund" as an exemplar, facilitating the amalgamation of financial reservoirs, risk attenuation, and offering enticing fiscal incentives tailored for foreign investors. Instituting safeguards for a designated portion of investments serves to assuage apprehensions stemming from potential political volatility, legislative modifications, and currency oscillations, thereby galvanizing foreign enterprises to venture into burgeoning sectors encompassing renewable energy, technological innovation, and advanced manufacturing. Such collaborative endeavours between Ukraine and the EU are paramount to invigorating private foreign direct investments, underpinned by the creation of collaborative investment mechanisms that attenuate associated risks, thereby fashioning an alluring investment milieu within Ukraine's promising sectors. From the vantage point of the European Union, the ramifications are manifold, encapsulating accelerated economic proliferation and enriched trade conduits with Ukraine. Such investment ventures not merely invigorate economic dynamism but also engender strategic congruence, bolstering regional stability and affluence. Conversely, for Ukraine, this symbiotic engagement bequeaths a plethora of advantages, encompassing substantial financial influxes, infrastructural amplification, and catalyzed innovation trajectories. The acquisition of EU-endorsed investment assurances augments investor trust and confidence, constituting a quintessential linchpin for Ukraine's multifaceted recuperation, contemporary evolution, and sustainable growth trajectory.

Simplification of Tax Administration

Traversing the intricate labyrinth of Ukraine's tax architecture presents formidable hurdles for Micro, Small, and Medium Enterprises (MSMEs). The imperative lies in orchestrating a more streamlined tax milieu, necessitating the recalibration of fiscal statutes, diminution of administrative impediments, and proffering stimulants tailored for nascent ventures and SMEs. Consider the implementation of a graduated tax framework tethered to revenue metrics, dispensing fiscal concessions to enterprises

propelled by innovation, and instituting a specialized hotline dedicated to addressing tax quandaries as pivotal mechanisms fostering an amiable commercial ecosystem. Engaging with global tax mavens, periodic evaluations, and assimilating digital innovations serve to refine fiscal protocols, augment compliance metrics, and catalyze economic momentum. The simplification of Ukraine's fiscal landscape emerges as a linchpin for nurturing an amicable commercial milieu, wherein the revision of fiscal statutes, diminution of bureaucratic impediments, and incentivization converge to galvanize entrepreneurial dynamism, innovation, and commercial expansion. The simplification also provides both parties with better trade opportunities and market access, it can simply encourage European businesses to invest and operate more freely in Ukraine. Conversely, for Ukraine, this presents entrepreneurial growth, economic diversification, and job creation.

Reforms in Property Rights Protection, Judicial System, and Anti-Corruption Measures

Enhancing property rights, instigating meaningful judicial reforms, and fortifying anti-corruption measures stand as indispensable pillars for Ukraine's governance and economic progression. The introduction of transparent land registration mechanisms, coupled with an invigorated commitment to judicial independence and the inception of specialized anti-corruption tribunals, holds the promise to substantially elevate investor confidence and ensure a just societal framework. It would be prudent to explore innovations like blockchain in land registry processes, prioritize comprehensive training modules for the judiciary, and institute stringent anti-corruption statutes accompanied by consequential penalties.

Insurance and Reinsurance of Investments

In a volatile post-conflict environment, insuring and reinsuring investments become essential. Ukraine can collaborate with international insurance agencies, financial institutions, and risk assessment firms to develop customized insurance products tailored to investors' needs. Offering political risk insurance, property insurance, and investment guarantees can safeguard foreign investments, mitigate risks associated with geopolitical uncertainties, and foster long-term partnerships. Creating a dedicated investment protection agency, offering incentives for insured investments, and establishing clear dispute resolution mechanisms can further enhance investor confidence and attract capital inflows. This is a basic requirement for mutual trust and collaboration that lays the groundwork for a transparent, predictable business environment.

Financing green transformation

On June 23, 2022, Ukraine gained the status of a candidate for accession to the European Union¹. The experience of other countries shows that accession to the EU usually requires considerable effort and time from candidate countries, especially in terms of economic and regulatory reforms. Thus, the

¹ European Council. "Ukraine." www.consilium.europa.eu, 10 Feb. 2023, www.consilium.europa.eu/en/policies/enlargement/ukraine/.

national economy will face profound transformations related to the EU requirements and standards implementation. The “green” energy transition and achieving carbon neutrality are among the most significant issues that have always required significant financial resources. And in the context of war, along with constant shelling and logistical constraints, the cost of each green project for business increases significantly.

The Ukraine Facility is one of the updates to the EU’s Multiannual Financial Framework, which should complement existing mechanisms to support Ukraine on its path to the EU. It is expected that 78% of the funds will be allocated to the state budget to ensure macro-financial stability, and 16% will be used to create an investment instrument to cover risks in priority sectors². Only 5%, or €2.5 billion, will be allocated to support reforms and economic transformations necessary for European integration, including environmental and climate protection.

At the same time, the EU plans to replace some other support programs with the Ukraine Facility. As a result, not only will Ukraine not receive €923 million for green transformation under the MIP (a separate seven-year plan (Multi-annual Indicative Program, MIP) approved for Ukraine in 2021 as a signatory to the Association Agreement with the EU), but it may also forget about €3.5 billion in aid it would have been eligible for under the Instrument for Pre-Accession Assistance until 2027³. Therefore, it is advisable to consider supporting the green transition of the Ukrainian economy within the Ukraine Facility, for example, in the form of grants or other forms of co-financing for projects in leading industries. Taking into account that only a minor part of Ukraine Facility funds will be allocated to support reforms for environmental and climate protection, it is vital to keep and expand other sources of funding as well. Moreover, not only small and medium-sized businesses, but also large industrial companies should have access to financing. At the same time, every project should comply with the EU taxonomy framework. This would be in line with the established practice of supporting EU candidate countries.

Also, in the process of implementing joint projects, the European Commission will receive a positive signal about our country’s steps toward harmonizing the economic and climate goals of Ukraine and the EU. The experience of European institutions in supporting the “green” transformation of the economy will contribute to the development of similar financing instruments in Ukraine.

Conclusion

The European Enterprise Alliance, Union of Entrepreneurs and Employers (ZPP), Union of Ukrainian Entrepreneurs (SUP) and European Business Association (EBA) advocate for strategic reforms, capacity-building initiatives, EU collaboration, tax simplification, governance strengthening, and investment protection measures. By providing concrete examples and detailed recommendations, we

² “Proposal for a REGULATION of the EUROPEAN PARLIAMENT and of the COUNCIL on Establishing the Ukraine Facility.” 20 June 2023.

³ NEIGHBOURHOOD, DEVELOPMENT and INTERNATIONAL COOPERATION INSTRUMENT MULTI-ANNUAL INDICATIVE PROGRAMME (2021-2027). European Commission.



aim to ensure the Ukraine Facility's success, support Ukraine's economic recovery, and pave the way for sustainable growth, prosperity, and European integration.