Ukraine. Taking the Path of Change

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Oleg Nemchinov,
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Dmytro Sennychenko,
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What has independence given me? is a rhetorical question, isn’t it? Independence is an opportunity for everyone: for society, for the community, for the nation as a whole. Thirty years ago, Ukraine gained its independence, and this has provided opportunities to build an effective state, a free economy, a thriving culture, and a proud nation.

During this period of time, a parallel story of business has taken place which has also changed in its attitude towards employees, processes, and goals. Over the last thirty years, Ukrainian business has changed and matured: businesses have redefined themselves and developed, merged and been absorbed by foreign companies, been forced to adapt to new digital realities and new consumer preferences, but all businesses have changed in this time.

In the 1990s, focus groups were held asking people if it was safe to buy food in private stores. At the time, this question did not seem strange; the state was responsible for the quality of products and everyone was accustomed to this reality. Now we can safely say that both business and consumer attitudes have grown up in the last thirty years.

We called this issue of the magazine "Ukraine: Taking the Path of Change" because this journey is ongoing and far from over. Who will we become? What will the country be like? Where is the state moving and how will it do so hand-in-hand with businesses, foreign partners, and society in general? What are our prospects? We sought the answers to these questions in this anniversary issue of KPMG Review Magazine together with our guests: representatives of various sectors of the economy, political experts, foreign partners, and business leaders.
What was the impact of COVID-19 responses on companies development strategies?
What has changed in their long-term vision?
Did the pandemic affect business models and investment decisions?

Take the survey right now

This autumn, together with more than 1,300 companies CEOs from all over the world, you will have access to key insights that help business leaders in Ukraine in addressing strategic issues.
Vinnytsia plans to build Crystal Technology Park by 2027 which will become a platform for the development of creative industries and startups in the city. Vinnytsia Municipal Center of Innovation (VMCI) has been following its creation closely. Tell us more about this project.

We actually already started the construction in May of this year and, if the funds are available, we will complete both stages of this facility by 2024. Crystal will be the first municipal innovation and technology park in Ukraine and will not just have an impact on the city or Vinnytsia region but will also contribute to the formation of the innovation ecosystem in Ukraine as a whole. The goal of the project is to strengthen existing high-tech and creative industries as well as creating new

Svitlana Yarova: «Vinnytsia is a magnet city: safe, comfortable, innovative».

According to Forbes Ukraine’s rating, Vinnytsia is the second-best city in Ukraine for doing business. An interview with Svitlana Yarova, Director of Municipal Enterprise Vinnytsia Municipal Center of Innovation (VMCI) tells us about the unique benefits of the city for investors, the creation of the new Crystal technology park and the secrets of Vinnytsia’s high investment rating.

Vinnytsia is a magnet city: safe, comfortable, innovative.

Audio version of this interview

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Vinnytsia Municipal Center of Innovation was established in 2017 as part of the Vinnytsia 2020 Development Strategy to attract investment into the city’s economy and effectively support investors.

The main functions of VMCI include legal support for investors (such as obtaining all the necessary permits for “Vinnytsia Industrial Park” participants), post-investment support for investors, and construction and reconstruction efforts of the Crystal innovation and technology park. VMCI implements its activities within the framework of Memoranda of Understanding with various companies, such as HEAD, TCS, AGRO OIL, KNESS Group, etc., and is involved in the second stage of construction of the Green Cool plant by UBC Holding.

According to the plan, there will be about 8,500 metres squared of innovative space which will house more than 100 offices, an IT school, a children’s technology center, a coworking space, and laboratories equipped with modern equipment. The infrastructure around the technology park provides all the conditions necessary for recreation, cultural events, festivals, hackathons, and more.

Did the pandemic affect the realisation of the project?

Yes, as much as the world economy as a whole, we also felt the influence of the pandemic. However, we did not deviate from our strategic course and continued the implementation process. Currently, we are seeking international financial support programmes or a programme of funding from the Ukrainian state budget for the development of innovation and technology parks. The cost of reconstruction is UAH261 million. Right now, we only have UAH23.5 million, of which: UAH10 million comes from subventions for socio-economic development of certain territories, UAH4.5 million from the State Fund for Regional Development, and UAH9 million from the budget of Vinnytsia City Territorial Community.

The IT sector is one of undisputed drivers of economic development in the world. How comfortable conditions that Vinnytsia’s offers to IT entrepreneurs?

We are well aware that the world is moving towards deindustrialisation, and added value shapes the final price of products and, accordingly, shapes overall value. In 2020, the volume of IT product exports already exceeded the volume of grain exports. 20 percent of companies that are the world leaders in the field of software development for mobile platforms have offices in Ukraine. Vinnytsia is one of the most promising Ukrainian cities in the context of IT business location. The number of companies in the city is growing rapidly and the growth rates of the sector are ensured by local higher education institutions, from which more than 700 qualified specialists graduate every year. It is worth noting that in terms of the number of IT specialists, Vinnytsia ranks sixth among all cities in Ukraine which is undoubtedly a significant indicator.
Over the past few years, three industrial parks have been founded in Vinnytsia. How are these projects developing now?

There are three participants in the development of these new parks and there is still the opportunity to form another land plot of up to 20 hectares for those wishing to deploy new production facilities. Construction of the HEAD company plant began on 12 May this year. The site is located in the Winter Sport industrial park. In total, the construction of three plants is planned. Completion of the first plant is scheduled for 2023 so, in a year and a half, HEAD products with the inscription “Made in Ukraine” will be on sale in stores around the world. This is a huge symbol of success for Vinnytsia city, as well as the regional and central authorities and the investment agency UkrainInvest which jointly performed a lot of work to attract this investor in 2018.

Secondly, UBC’s first plant has been operating in the Vinnytsia refrigeration engineering cluster for three years now and design works have been started to accommodate the new production facilities.

The third park will be Vinnytsky Industrial Park. Preparatory works are currently being carried out in accordance with agreements signed with the participants of the park.

The main part of the works for constructing the infrastructure and networks for the participants of all three industrial parks has already taken place and their combined total area is 80 hectares. However, another UAH160 million is required to complete the construction all the necessary infrastructure. Nonetheless, a customs control zone has already been created in one of the parks and areas are planned for the creation of a logistics hub, as well as import and export terminals.

If we talk about the demanding interests of foreign investors, what are the advantages of Vinnytskyi Industrial Park (VIP) in your opinion?

First, Vinnytsia has a favorable location. The city is at the intersection of several international highways, as well as in relative proximity to both the Ukrainian capital and Black Sea ports. This extremely advantageous geographical location is confirmed by the number of logistics centres currently under construction in Vinnytsia.

Secondly, Vinnytsia is the first city in Ukraine that will connect park participants to the electricity supply networks completely free of...
In July, Vinnytsia once again gained high ratings of investment attractiveness. Specifically, the local IBI-Rating was “invA+”, or “high investment attractiveness”, as well as a credit rating of “uaINV5.” What, in your opinion, is the reason for the city’s consistently high investment ratings?

Fortunately, Vinnytsia Mayor Serhii Morgunov clearly realises that the ecosystem in the city is formed by small and medium-sized businesses, while the budget is replenished by large enterprises. Accordingly, since 2010, strategic work has begun to create the most comfortable city for business in Ukraine. For six years in a row, Vinnytsia has been the leader of Ukrainian city comfort in ratings conducted by the International Republican Institute. I will add that Vinnytsia ranks first in the “Transparency Rating of the Investment Sector of the 100 Largest Cities of Ukraine” (from Transparency International Ukraine) and in the Regional Doing Business rating.

What influences such success? There is a certain complex of factors: convenient logistics, security, favorable conditions for investors, and quality infrastructure. Vinnytsia also guarantees reliable protection for business, and inspires confidence in the activities of the public authorities as a partner.

As a result, 80 percent of investment is represented by foreign direct investments from the European Union. Exports of goods in 2020 amounted to almost USD900 million, and foreign trade operations were carried out with partners from 125 countries.

How does decentralisation affect the development of the city?

Positively. Decentralisation reforms have allowed Ukrainian cities to manage most of their tax revenues. It is highly likely that the next decade will be a decade of rapid development for Ukrainian cities and communities, owing to the new powers and significantly greater resources that communities have received as a result of decentralisation reforms.

If we talk about challenges, Vinnytsia will be transformed over the next 10 years into an urban territorial community, which includes territorial communities neighboring Vinnytsia. The formation of an integrated community of ‘Greater Vinnytsia’ will require new solutions in all spheres of community life; including mobility, compliance with standards, as well as access to quality administrative and communal services, organisation of social and cultural life, and spatial planning. To identify a list of opportunities and threats, strengths and weaknesses, we always turn to external experts for consulting services.

What does the “Vinnytsia 2030” development strategy envisage in terms of building the city as one of Ukraine’s leading investment centres?

Вінниця – місто-магніт: безпечне, комфортне, iVinnytsia is a magnet city: safe, comfortable, innovative. Everyone will benefit from it. The new Strategy focuses on a breakthrough in the development and ability to be a competitive community at both regional and national levels. The core values of the strategy include transparency and a zero-tolerance policy to corruption, as well as high quality and accessible municipal services for all people and businesses.

The Strategy envisages six priority areas, each of which has purpose, with measures and projects needed for implementation. These include: digitalisation of municipal space, an integrated community (meaning quality and affordable municipal services for all), municipal investment, the green economy, ecology, and smart specialisation.

The task of the Vinnytsia Municipal Center of Innovation is to help create the right conditions for entrepreneurs so that they can create something and pay taxes in Ukraine while selling their products all over the world.
This issue of KPMG Review Magazine is dedicated to Ukraine: its achievements, challenges, successes and prospects. What do you think are the most important changes that happened in Ukraine over the last 30 years?

Most probably, the greatest success of Ukraine in the past years has been the Association Agreement with the EU. It has strengthened the political relations with the EU it has deepened the common values between Ukraine and the European community, and strengthened significantly the economic ties between the two markets.

Another very significant achievement has been the macroeconomic stability which has been reached over the past few years.

In the opinion of Matteo Patrone, EBRD Managing Director, Eastern Europe and the Caucasus, the pandemic has opened up new opportunities for Ukraine. The country’s ability to seize them depends on the willingness of business to change its usual approaches, the ability of the Ukrainian government to enforce the rule of law, and geopolitical stability.

Interviewed by Andriy Tsymbal, Managing Partner, KPMG in Ukraine.

Matteo Patrone: «The real competitive advantage of this country is its human capital».
And the third achievement, given the circumstances post 2013, 2014 has been the cleaning up of the banking system. We have seen the result of that in the way Ukraine has gotten into the pandemic crisis last year with a very strong banking system; very liquid and very much able to sustain and help the real assets to weather the impact of the crisis.

In the context of the Association Agreement with the EU, do you still see a lot of potential for Ukrainian businesses to pursue the opportunities and benefits from cooperation with the EU?

Absolutely. The FTA is clearly a very important source for bolstering the ties and increasing the trade volume between the EU and Ukraine. It has also been a very good way of anchoring the improvement of business practices and production standards: in particular, in the industrial sector in the country.

This also opens up quite significant opportunities for the agribusiness. We are used to thinking about Ukraine in terms of primary farming but I think there is quite a lot that can be done further down the value chain in terms of more added value in terms of both agricultural production and the processing of food.

The pandemic has shown that global value chains should be reconsidered. As a result of the pandemic and the overall disruption of the supply chains around the world, nearshoring and onshoring practices have spread globally. This may open quite a lot of opportunities for Ukraine, especially given the ability of the industrial sector here to respond to challenges in terms of technology and know-how. We have seen that, for instance, in the IT sector. Ukraine has an opportunity to play a significant role in this nearshoring process, an inevitable process in my view as a result of the overall disruption of supply chains around the world.

I am deeply convinced that the real compelling competitive advantage of this country is its human capital. The SME entrepreneurial ecosystem is showing that at its best and agility is, indeed, a significant element of that advantage.”
Do you see this is more for big businesses, or SMEs can also gain from it? For instance, EBRD is known to be very supportive of the SME sector development with a lot of initiatives, seeing this as one of the key pillars of future development of the Ukrainian business. What are the EBRD’s goals?

The SME sector is crucially important for the development of Ukraine, and this is why it's crucially important for us. The SME sector is an area of focus for the EBRD in terms of financing: we have a portfolio for over EUR300 million in SMEs. In addition, we provide advisory and support services to approximately 120 – 150 clients each year. In total, we have a portfolio of 1,300 clients in the SME sector.

I am absolutely certain that SMEs can play a role in both the nearshoring process and in the overall process of developing the country's economy in a sustainable way. I'm referring to issues like Paris Agreement alignment, climate action, and the green agenda, but also to digitalisation. SMEs are more nimble than bigger groups in addressing these issues.

When you talk about prospects of digitalisation for SMEs, can you elaborate a little bit?

We have seen during the pandemic that the way of conducting business had to be changed, and digitalisation is an absolutely crucial part of the process. Let me give a simple example. We used to provide our advisory services to SME’s by sending both local and foreign consultants to companies in those regions for weeks and weeks. Today, we use Zoom or any other online platform. This is a new way of doing business that SMEs should exploit. The entire IT sector, which is flourishing and very vibrant in Ukraine, is an area that could be presenting significant potential.

Very interesting that you touched on this ability to adapt quickly. In KPMG, we conduct an annual CEO Outlook, a survey of the CEOs of the biggest companies, and every year they rate agility, i.e. an ability to adapt quickly to their changing environment to achieve continued growth, as one of the key qualities for the success of their businesses. What is your opinion on that?

I am deeply convinced that the real compelling competitive advantage of this country is its human capital. The SME entrepreneurial ecosystem is showing that at its best and agility is, indeed, a significant element of that advantage.

I think Ukraine is clearly going in the right direction. Reforms are never a linear trajectory, there are always ups and downs, but if you look where Ukraine was in 2014 and where Ukraine is now, amazing progress has been achieved. That creates very fertile ground for further development of operations, that is a very strong partnership which we will continue to engage in.

One of the areas where we want to continue focusing is attraction of foreign direct and portfolio investment in the country. However, when it comes to foreign direct investments, the track record is not as positive as we wished.

In 2020, the ecosystem did not present itself in the best possible way, such as recent developments in the renewable energy sector which was one of the biggest destinations of foreign direct investment. The retroactive change of the tariff system and the way that negotiations have gone have not give a sense of predictability in the long term. But on the other hand, we had very successful cases of concessions, for instance, in the infrastructure sector. We had seaport concession projects in Olvia and Kherson. Hopefully, we will see more concessions and PPPs and more attraction of private sector investors, including foreign capital in the development of Ukrainian infrastructure.
In terms of foreign portfolio investment, the development of local capital in commodity market of Ukraine could be conducive to an increase of that volume of investment. We have recently signed the memorandum of understanding between the EBRD, the prime minister and the governor of the NBU, together with USAID and American Chamber of Commerce, for the development and the consolidation of an integrated platform for the commodities and securities market in the country as part of the NEXT-UA initiative. There is a lot of work to be done yet, and the journey is going to be very difficult and challenging, but it also presents very promising opportunities for attraction of capital for both local and professional investors, as well as for the private equity sector.

In this context, the attraction of state-owned enterprises in the course of privatisation in public markets through listing IPOs is obviously very important and would be instrumental for that to happen, but you need to make sure that the corporate governance of state-owned enterprises and state-owned banks is preserved.

Can you tell us about the progress of the NEXT-UA initiative? What do you believe are the key factors for this initiative to be successful and really be the driver of increasing foreign direct investment in Ukraine?

There are many factors that are actually common to this initiative and the general investment climate in the country. The first one is, obviously, rule of law. Investors, whether they are foreign direct investors or local investors, they want predictability and credibility of the ecosystem. Second, Ukraine needs infrastructure. The private sector can play a significant role in the development of infrastructure but only if assets are put on the market. That is why I was referring to the opportunity that we have in terms of privatisations and IPO listing. But for those assets to be palatable for investors, you need to ensure that the governance of those assets is up to the standard that international investors would expect. It’s important to understand that corporate governance is probably the most important ingredient for the value increase of companies and banks. So it is not just a nice thing to have, it is something which is crucial if you want to increase the value of your assets.

There is an overall consensus that a significant state component in the banking sector should be reduced. What do you see as the right strategy for Ukraine in terms of banks’ privatisation? What kind of specific steps should be taken?

I think that the government set itself an ambitious but absolutely doable target to reduce significantly the presence of the state in the banking sector by 2025. We are absolutely supportive of that strategy. The system where more than 50 percent of banking assets are in state ownership is not conducive to the proper development of a country’s economy. We already play a role in that process by providing technical assistance to Oshchadbank and the Deposit Guarantee Fund in the process of commercialisation. Of course, we also work with state-owned banks because that is a very efficient way for us to channel funds to the SME sector through the very granular network of branches.

If you look into the future, where do you see Ukraine in the next five years?

I’m extremely optimistic about the future of Ukraine. If the geopolitical conditions remain stable, then I am certain for the reasons we have discussed: human capital and the reform path that has been already woven through in the past seven or eight years. I think Ukraine is clearly going in the right direction. Reforms are never a linear trajectory, there are always ups and downs, but if you look where Ukraine was in 2014 and where Ukraine is now, amazing progress has been achieved. That creates very fertile ground for further development.

This can be seen in commitment to upcoming reforms like the land reform, the concession law, and the efforts made to attract private capital in the development of infrastructure and the aforementioned reform of the banking sector. Smaller privatisation efforts that have already been put in place pretty successfully and now we are moving towards bigger privatisations which I’m sure will attract even more interest. All those steps are in the right direction. If we take a time horizon of five years, I think we are set for success.
Support for public-private partnership projects

The success of a PPP project, in addition to the appropriate regulatory framework in place, depends on a proper assessment of the project’s economic feasibility, its structure, and clear coordination of the work of all parties. That is why the assistance provided by an experienced consultant is of particular importance.

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This year Ukraine celebrates the 30th anniversary of the country’s independence. In your opinion, what significant steps has Ukraine taken during this time?

For me, this has been a 30-year process of restoring independence, forming a state territory, adopting a state Constitution and recognising the nature of Ukraine as an independent state in general. At the same time, it is impossible to imagine the history of Ukraine in isolation from its struggles for liberation in the twentieth century. Despite the fact that Ukraine is the successor to the Ukrainian Soviet Socialist Republic, the country has also largely preserved

Oleg Nemchinov, Minister of the Cabinet of Ministers of Ukraine believe that the coronavirus crisis has put a halt to state governmental system reform. However, while the crisis has presented challenges, it has also offered opportunities. The extent to which the state government sector takes these opportunities to increase its self-confidence as an attractive employer depends on the willingness of government institutions to change from the inside, implement modern technologies, invest in employee training, and modernise effectively.

Interviewed by Dmytro Romanovych, Associate Director, Consulting, Government Projects and International Development Projects, KPMG in Ukraine.

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the heritage of those prior states that were proclaimed by our ancestors in the twentieth century. If we look back at the history of the twentieth century, we should recall that the Baltic states existed a mere 19 years before Soviet occupation in 1940. That is why 30 years of Ukraine’s independence is a very serious matter. That is why preserving that independence and the institutionalisation of the Ukrainian state are the most important things for the future of this country.

What fundamental changes are currently moving Ukraine forward?

I would say that the two revolutions, those of 2004 and 2014, changed Ukrainian society in many ways. Life under the pressure of a certain ideology, which was how the majority of the population of Ukraine lived in Soviet times, especially after World War II, formed a certain type of Soviet Ukrainian. One who forgot about how their parents or grandparents lived. We rediscovered who we were in many ways in the 1990s and 2000s, forming and rewriting the recent history of Ukraine. People like me were born in Soviet times; by Ukrainian independence I was already 14 years old, I was a teenager. Now we are seeing people, including in the Ukrainian government, who were born after independence and this is a good thing. This generation does not know any other state, they are Ukraine-centric and I hope that they will remain so.

What are the guidelines of the government’s strategy?

Our guideline is to build a service state that should remain invisible to Ukrainians until they need it. A number of modernisation initiatives and projects are under way; such as completing the process of digitalisation, the strategy of abandoning paperwork, and concentrating points of contact between citizens and public authorities. We are completing public administration reforms to help avoid an excess of administrative procedures and their impact on the average Ukrainian, as well as adopting new laws regarding administrative procedures. In terms of the infrastructural development of Ukraine, we are implementing the “Great Construction” and “Great Restoration” projects and improving social infrastructure of construction and reconstruction of sports facilities.

All of this is dependent, unfortunately, on how we overcome the COVID-19 pandemic which is still an acute issue for this country, as well as how we develop our medical infrastructure. And of course, we should not forget that we are also in the midst of a military conflict so it is very important to defend the state and provide all the security necessary to the relevant sectors of our military; the Armed Forces of Ukraine, border guards, the National Guard, etc. as well as making fair provisions for military personnel.

Why do you think Ukraine needs change?

I do not consider the state to be an effective owner in all its manifestations. We have a legacy of total state ownership. My experience of working in various government positions, from a specialist in [Lviv] city government to Minister in the Cabinet of Ministers of Ukraine, suggests that the
state should be deprived of unusual powers. One such power is economic asset management. The policy pursued by the Ukrainian government now – the policy of large-scale privatisation, competitive tenders, returning objects that tenants use inefficiently to state ownership of – this seems right to me.

In my opinion, the same policy should be pursued at the local level as local communities are more effective than the state. Nevertheless, we need to look at the realities of Ukraine which has had a negative experience of privatisation. I therefore believe that open procedures – selling through Prozorro and various types of auctions – should restore confidence in private property, openness, and transparency. The most important thing is that government bodies, especially ministries, should formulate policy but not manage their enterprises.

If we talk about the state government system reform, do you think that this is one of the key reforms for Ukraine? How so?

Yes, I consider state government service reform to be part of public administration reform, as well as the reform of local self-government bodies and the completion of institutional reform in terms of decentralisation. We must complete all of these reforms in accordance with the government’s action plan via the programme that we plan to submit to the Verkhovna Rada. First, though, we need to discuss this in the Cabinet of Ministers of Ukraine. When envisaging the continuation of this reform, one of its components will be wage reform. We want to continue the pilot project that began in May 2020, namely the systematisation and distribution of positions by grades and the definition of job categories. We aim to make wages transparent. We have already completed the first stage of implementing the electronic HRMIS1 system which will allow all central executive bodies and local authorities to participate in this optimisation process.

Currently, we have approximately 33,000 vacancies out of almost 184,000 state government service positions. This is a very large proportion, there are bodies where the vacancy rate is over 70 percent. The vacancies are held because there is a bonus fund through which the head of the state government service has the opportunity to stimulate state employees with low salaries to perform their official duties more efficiently.

Has COVID-19 changed the strategy or approach to state government system reform?

Yes, of course. There wasn’t enough time to complete the plan for the state reforming strategy in full until 2021. We had planned to reform the ministries and complete the reform of the policy directorates in the ministries in 2020. However, when the pandemic began the Verkhovna Rada passed a decision terminating any competitive recruitment. Moreover, the remuneration fund was redistributed in favour of a fund for counteracting coronavirus infection. There was a direct ban on the formation of new units and on new employment of workers involved in policy making. As such, this part of the reform strategy remained unfurnished for longer that we had anticipated.

However, the crisis has not only been a problem but sometimes an opportunity. We have taken a huge step towards e-government: for example, about 90 percent of meetings take place online. There are new requirements for electronic document management: we have almost completed the process of transitioning to online documentation and even those bodies that previously did not want to switch, or could not switch for various reasons, now use it.

Documents that have certain stamps for official or confidential use remain in a paper format. Naturally, of course, citizens’ appeals remain on paper: we cannot restrict the right of citizens to apply on paper. However, these appeals to the authorities are digitised and then are used in internal document management via a digital format.

We have prepared a draft for a new strategy for public administration reform and I hope it will be adopted soon. This new strategy envisions the completion of the stages I have already named, including the separating the functions of policy formulation and implementation, transitioning to ‘paperless’ paperwork, and adopting amendments to the law regarding the Cabinet of Ministers, central executive bodies, and so on.

How did the Cabinet of Ministers adapt to remote work? How were state employees trained and were there any difficulties in adapting?

If we talk about the Cabinet of Ministers as a collective body, it adapted very quickly to the new requirements and restrictions of working remotely. As for the secretariat, it was quick enough. Employees switched to overtime work, then switched to remote work. Our employees were provided...
with access to offices when public transport in Kyiv was not running but there was a need to work from the office. We went through the process of adaptation relatively quickly, as did other services. We have a government contact centre, for example, where hundreds of people provide online assistance, both by phone and in chats, processing a large number of calls. They also managed to quickly switch over to remote work.

The transition to working remotely requires new skills, such as working with online tools, and critical thinking skills, digital literacy, and cybersecurity awareness are all gaining weight in a competitive labour market. Are state employees ready for new challenges?

I do not see a problem at all. There are few chimney sweeps and lyre players left in Ukraine, after all, but they do still exist. Many professions that were once more widely needed have not disappeared completely, instead they transform and remain. Let me give you an example: the number of staff in the Pension Fund of Ukraine has decreased significantly over the years because some processes have been automated and therefore do not require human intervention. In Soviet times, large military enterprises had workshops with hundreds of people engaged in accounting. Then they were replaced by machines with perforators, then calculators, and then a computer.

The skills of a state employee must develop. To that end, the position of Deputy Director for Digital Transformation has been introduced in both the ministry and for all central executive bodies. Their responsibility is not only to automate processes but also to provide digital literacy training to staff. Therefore, any state employee should be able to meet the requirements of the modern world, regardless of age, and to be competitive.

There has been a shortage of qualified professionals in the private sector for several years so companies are investing time and money in employee training. What challenges do you face when looking for state employees?

If we talk about the top positions, then we have shortcomings in the competition procedure. At present, some central executive bodies are announcing triple competitions for positions which makes it difficult to find specialists, so the Minister or the head of that
particular department cannot find a person for their team. With this in mind, the National Public Service, together with the Secretary of the Cabinet of Ministers of Ukraine, are drafting amendments to laws to improve tendering procedures.

As for basic-level specialists, we’ve seen an insufficient level of dedicated training. A person who takes a position in the central executive bodies as an expert, one who is involved in a policy-making ministry, needs to be trained. I am not in favour of someone’s work in the ministry being the first entry in their employment record book. In terms of my own experience, I was a first category specialist in the Youth Department of Lviv City Council; immediately after university, I had experience working in a public organisation and student government. Then I came to work on a competitive basis, where I started with lower positions and eventually reached the position of State Secretary, a higher position in the ranks of the state government system.

Quality training of state employees should be an important element of education. The State Government Service Academy has been reorganised in Ukraine and its local institutes have become part of higher education academic institutions in the relevant regions. There are quality public administration training programmes in private universities, such as the Ukrainian Catholic University or the Kyiv-Mohyla Academy. There are many MBA programmes that train public administration professionals. A person who wants to build a career in the sphere of state government can do so, and our task is to create such conditions that, after receiving a quality education, specialists have quality working conditions where their ambitions can be realised and they are adequately remunerated with a decent salary.

Do you think that public service is an attractive and prestigious place of work among young people?

There are rather attractive destinations to start a career. As for professional growth, there are opportunities here as well. For people who already have some experience, public service is a good chance to try out category A positions. These high-level positions are, in the vast majority, compensated with a decent level of salary. Unfortunately, however, during our analysis we found that salaries of the heads of various central executive bodies can differ by more than 10 times. Some bodies have a special status and the level of remuneration for those positions is not regulated by the Law of Ukraine ‘On Civil Service’ but rather by other, specialised laws.

On the other hand, young people entering the public service need to realise that the state government service is primarily about serving the people. You can realise ambitions, develop a coherent worldview, and then use this experience in the public, scientific, pedagogical, or even private sectors. Not every state employee is a good entrepreneur but that’s no reason why they can’t be a good manager.

And finally, how do you see Ukraine in five years?

I see a Ukraine with currently occupied territories returned. For me personally, it is very important that we return these territories so that the people living in uncontrolled territories who are now persecuted, whose rights are restricted, can return to a normal society where we have all become one.
The Delegation of the European Commission to Ukraine was opened in Kyiv in September 1993, two years after Ukraine had proclaimed independence in August 1991. So, EEAS is one of those organizations that has been observing the whole independent path of Ukraine, the path of challenges and changes until now.

Frederik Coene: «Ukraine’s civil society the driver behind its democratic transformation»

Upon your observations what are the 3 most successful and significant changes during the last 30 years that happened in Ukraine?

The EU has had a presence in Ukraine since the 1990s. And you might say that both modern-day Ukraine and the EU in their current form are still relatively young. But history marches rapidly. It is Ukraine’s people who determine the direction of this country and they have had three revolutions since 1990, each arguably bringing about the most fundamental of changes. From our perspective of course, the Revolution of Dignity and Ukraine’s choice of political association and economic integration with the European Union is the most significant factor that determines our relationship to this day and our work in taking this forward together. There have been many successes along the way already such as the significant structural reforms implemented by Governments since then, that led for example to the EU granting visa-free travel to Ukrainian citizens. But we have a long way to go to ensure that we can consider all these reforms demanded by Ukrainians a success.
What are the most critical topics in Ukraine state agenda that drive changes in the country?

Judiciary reform is “the mother” of all reforms currently, which is why the two draft laws adopted by the Verkhovna Rada in the past two weeks are so important. Strong rule of law and a genuinely determined fight against corruption will help ensure the success of all the other important reforms, such as in the areas of energy and climate action or the successful corporate governance of state-owned enterprises.

What are the key drivers that may enhance or even bring sustainable development in Ukraine forward?

The European Green Deal offers many opportunities and incentives to Ukraine to adopt reforms that will ensure it remains at the forefront of green and sustainable economic development. As to the entire world, COVID has posed many challenges to Ukraine – responses can generate solutions beyond managing the pandemic, for example, in the area of digitalisation. And finally, Ukraine’s civil society, the driver behind its democratic transformation, still remains a motor of reform and positive change.

What are the most successful reforms that happened in Ukraine for the last few years?

“Success” in reform terms is not so simple to measure. New laws need to be carefully prepared, through dialogue with voters and other stakeholders such as civil society. Implementation then requires enforcement and continuing dialogue and assessment. I have mentioned the EU’s granting of a visa free regime to Ukraine. This was a result of the fulfilment of a significant number of benchmark reforms relating to the rule of law, including the creation of new anti-corruption institutions. I could also mention Public Administration Reform and decentralisation. All of these have been successes. But their continued success requires continuing reforms. We are here to support Ukraine in this.

The EU programme of financial and technical cooperation supports Ukraine’s ambitious reform agenda. More than 250 projects are currently being carried out across a wide-range of sectors, regions and cities in Ukraine. Given the COVID-19, pandemic influence on digitalization and support for business are among the hottest topics worldwide. So, we would like to pause on the two initiatives: EU4DigitalUA and EU4Business.

EU launched EU4DigitalUA in 2020 that planned to be in place till June 2024. How would you estimate the progress? What has changed in the initiative since COVID-19 jumped into the agenda?

The EU4DigitalUA project came just in time to support the Ukrainian government’s ambitious plans of the State in Smartphone programme and overall digital transformation of the country.

With focus on e-government and electronic services for citizens and business, EU4DigitalUA has already started actively working on the analysis of state informational electronic systems, methodology for digitalisation of public services, support to the Diia platform, support to the launch of the e-baby service and immediate support to cybersecurity in Ukraine. Digital technologies have been vital in coping with the pandemic, substituting physical interaction and reducing the risk of infection in numerous areas of human activities. In June 2021, responding to an urgent request from Ukrainian authorities, EU4DigitalUA started to support the development of digital COVID certificates in the national e-health system.

Talking about digitalization through all the processes on the government level, what are the main areas Ukraine should focus on?

Undoubtedly, the process of building the e-government and introducing better electronic public services is deeply inter-related with the Public Administration Reform (PAR). Ukraine needs to focus on adopting both proper legislation on PAR and in the e-governance area, creating a consistent and solid basis. Legislation like the Law on Administrative Procedure, the Law on the National system of Registers and numerous by-laws and technical regulations, still need to be adopted and harmonised with the EU norms.

What are the main challenges Ukraine faces while implementing digital solutions? What goes wrong?

When it comes to e-government, the main problem is a lack of understanding regarding the benefits of digital
solutions, lack of inter-institutional coordination, and some anxiety among civil servants that IT solutions might cut their jobs. There is also a certain lack of investments into the digital infrastructure of the public sector; the needs are enormous and the state has limited resources.

What do you think, private sector is able to help ensure trust in the digital transformation in Ukraine? Do you think the public-private partnerships (PPPs) may enhance success?

The private sector is already in many ways ahead in the process of digital transformation, understanding that without using modern technologies they will lose to those who quickly adapt. The high competiveness of the Ukrainian ICT business sector confirms that.

At the beginning of June, it was announced that Ukraine and the EU launch Dialogue on Cyber Security. Among other topics it was highlighted the importance of cyber security as an important element in ensuring trust in the digital transformation efforts and committed to stepping up the support in this area. What exactly would you recommend Ukraine focus on in ensuring trust in the digital transformation efforts?

International co-operation is vital in maintaining a safe, open and secure cyberspace in Ukraine. Ukraine can protect itself only together with international partners such as the EU and the US.

What are the next steps of that Dialogue on Cyber Security?

The key results of the dialogue we are aiming at will be the increased understanding between its parties of the legal and institutional framework of cybersecurity in the EU and Ukraine, identification of a particular direction of cooperation, and direct contacts between the key stakeholders.

In February 2021 EU publishes EU4Business Report on SME Support in Eastern Partnership. The report said, that EU disbursed €187.7 million to support a total of nearly 80,000 SMEs, a third of which are owned by women. This resulted in over 117,000 new jobs and €1.3 billion in extra income generated by EU-supported SMEs in Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine. Which economic segments EU focus on first in Ukraine? What kind of support Ukrainian entrepreneurs received from EU last year?

For the EU, the focus on SME support in Ukraine is of utmost importance. In Ukraine, the EU uses a range of specifically tailored instruments to support small business, with the EU4Business programmes mainly covering three pillars: access to finance, business development services, and business enabling environment.

In access to finance, SME incentive grants linked to loans, currency hedging subsidy to enable local currency lending and direct grants to SMEs were the three key tools we used in 2020. In business development services, the main instruments used were consultancy services for SMEs, support to incubators, facilitation of B2B activities, and capacity building of business support organisations. In the business enabling environment area, we focused on the regulatory reform, public-private dialogue, and capacity building of policy makers/regulators.

Currently, there are 37 EU-supported SME projects active in Ukraine. In 2020, the EU supported almost 8,000 SMEs in Ukraine – about twice more than in 2019 – disbursing EUR 40.5 million. Our projects also targeted slightly smaller SMEs in 2020 compared to the previous year, while budgets of EU projects supporting Ukrainian SMEs rose. So, we have more money for more and smaller businesses, most of them created by ordinary citizens. 30% of the projects we supported in 2020 are women-owned. In 2020, EU-supported SMEs created over 20,000 jobs in Ukraine. EU-supported SMEs
increased their staff by 8.4% on average in 2020 despite the pandemic.

How would you estimate the development of SME sector today in Ukraine?

SMEs are an important social and economic power in Ukraine. They provide jobs to the majority of employees and account for more than half of the country’s production output. According to Ukrsstat, the State Statistics Service of Ukraine, in 2017, almost 2 million SMEs operated in Ukraine, which accounts for 99.98% of the total business population. The vast majority – ca. 96% – of SMEs are individual and micro-enterprises.

Ukraine has come a long way in supporting the SME sector development.

The country has improved informational support for SMEs by ensuring the availability of data and online resources. Licensing has improved, business liquidation eased. SMEs now have access to public procurement, and public-private dialogue is promoted. Ukraine has eased SME access to finance through commercial and non-bank institutions.

Simplifying tax administration, Ukraine has enabled VAT refunds for SMEs through an automatic mechanism. The government is using an e-procurement system to protect SMEs from late payments.

Ukraine is also working to boost SME export and internationalisation by implementing the legal framework and implementing EU standards.

But there is, of course, always a room for development: Ukraine should further strengthen its institutional framework in promoting a favourable environment for small business growth. A strong emphasis is needed on further improving SME access to finance.

Ukraine to work even more with international partners to expand programmes for SME access to finance and broaden the use of credit guarantee schemes, while promoting non-bank financing.

In a wider context, Ukraine should continue promoting competition within the banking sector, which would be critical for ensuring affordable financing for SMEs. To further simplify tax administration, the government needs to ensure consistency in tax payments and refunds, and better address late-payment issues. Finally, Ukraine should work more towards skills-building and developing an entrepreneurial culture.

If to speak more generally about economic development, can you describe top-3 economic reforms needed to speed up economic recovery of Ukraine?

Reforms are needed both for economic recovery in the short- and mid-term and for systemic changes in the Ukrainian economy in the long-run.

Based on this approach, the top three priorities for Ukraine would include reforming the state-owned enterprises sector, improving governance particularly in the context of the decentralisation reform and improving the business climate.

By improving business climate, I mean not only economic reforms. On top of the agenda should be strengthening the rule of law, implementation of the long-awaited judicial reform, as well as antitrust and competition legislation reform. Cheek by jowl, these will ensure positive investment climate change and boost the country’s EU and Euroatlantic integration.

It is an active dialogue and negotiations on the Green Deal between EU and Ukraine now: how Ukraine is integrating into the EU’s new environmental policy? What actions have been done and how COVID-19 has changed perspectives?

International co-operation is vital in maintaining a safe, open and secure cyberspace in Ukraine. Ukraine can protect itself only together with international partners such as the EU and the US.

Ukraine’s political leadership expressed interest in the European Green Deal since it was announced in late 2019. The shared appetite for cooperation in these new green economy areas resulted in the establishment of a dedicated dialogue.

Indeed we, as the EU, are already mobilising significant assistance. In this area. Over 300 million EUR in grants are already enabling at least 700 million EUR in investments via blending mechanisms with IFIs in Energy, Energy Efficiency, green transports, climate and environment actions in Ukraine.

Let me stress that the European Green Deal is first and foremost an economic growth strategy based on digitalisation and “greening”. Achieving economic growth while reducing emissions and pollutions can go hand in hand.

Prime Minister Shmyhal and Executive Vice President Timmermans kicked off a dialogue on the European Green Deal and Ukraine’s green transition February 2021.
He was the Head of Section for Local and Human Development for two years.

Frederik Coene
Head of Cooperation at the EU Delegation to Ukraine

He previously served as the Head of Cooperation in Belarus (2013-2018), Tajikistan Desk officer at the EEAS (2011-2013), and was posted to Georgia (2009-2010) and Tajikistan (2005-2009).

Prior to joining the European Commission, he was working for humanitarian NGOs in the Northern Caucasus and Abkhazia.

Frederik was born and grew up in Belgium.

He holds an MA in Economics, and MA in Caucasian and Central Asian Studies, and a PhD in Political Science.

He is married, with two daughters.

Its aim is to set up a coherent and systematic set of policies and actions supporting green economic transition.

Operational task forces were established for both sides and they are currently jointly looking into best ways to cooperate and support Ukraine in its Green Transition. A first meeting of the task forces headed by Vice Prime Minister Olga Stefanishyna and Katarína Mathernová, Deputy Director General for Neighbourhood Policy and Enlargement Negotiations and Head of the Support Group for Ukraine at the European Commission, already took place on 19 May. It covered climate governance, green transition financing, transition of coal regions, clean Hydrogen and EU industrial alliances. The process is ongoing and our dialogue will be gradually expanded.

The economic growth potential of the green economy is recognised on both sides, and so is its mutually beneficial potential. On 13 July, Prime Minister of Ukraine Shmyhal and Vice-President of the European Commission Šefčovič launched a partnership on raw materials and batteries between the EU and Ukraine.

Economic development, creating added value in the mining and battery sectors, integrating EU value chains can drive the economic and social development also at local level. Joint actions are expected to facilitate investment and funding opportunities to modernise the industry and enhance responsible mining practices.

When it comes to COVID-19 changing the perspective on the Green Deal - to give a short answer it has not. New challenges that emerged from the crisis and the real cost of the pandemic need to be confronted, both when it comes to our economies as well as restoring fairness and equality in our societies.

But the urgency of taking action against climate change and the biodiversity crisis has not gone away. The cost of non-action will dwarf the cost of doing something about it now, because very often we only talk about the costs of transition, but we should compare it to the cost of non-transition, which both in human terms and financial terms is much higher. That is why within the EU we strongly support a green recovery, to avoid the ‘pound smart, penny foolish’ approach to rebuild our economies whilst restoring the economy of the past. If the public investment mobilised for rebuilding after the COVID pandemic are used to do so in a green way we will accelerate our actions against the two other crises - the ones in the climate and biodiversity.

How do you see the future of Ukraine in 5 years?

I think the biggest wish one can have for this country is of course the end of the conflict and the undermining and threats to its territorial integrity, sovereignty and independence. But independently from this, it is important that Ukraine keeps using and further growing its resilience. Despite a revolution and an ongoing conflict, the country has managed to conduct democratic elections twice and is implementing large-scale reforms. Progress is uneven and challenges remain, but the overall picture is positive. Therefore, I am rather confident that the outlook will remain optimistic. For sure, the European Union will remain a reliable partner and friend of Ukraine and continue supporting its reforms for the sake of all Ukrainians.
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Register
What are the prospects for large and small privatisation in Ukraine? How are conditions for investors changing? In what format can a private investor be involved in assets of strategic importance? For the answers to all these questions and more, read our exclusive interview with Dmytro Sennychenko, Chairman of the State Property Fund of Ukraine and Taras Yeleyko, Deputy Chairman of the Fund.

The interview was led by Oleg Neplyakh, Partner, Investment and Capital Markets, Head of Energy & Natural Resources, KPMG in Ukraine.

What trends in the economy do you see today?

Dmytro Sennychenko: Ukraine has embarked on a steady trend of economic recovery. We have a moderate budget deficit, and growing demand from investors is clearly seen in the work done by the State Property Fund. The global economy now has a lot of spare monetary resources, stock indices are at their peak, and investors are targeting profitable and attractive assets. From a strategic investment perspective, Ukraine is still quite a risky, transitional economy. However, Ukraine has a competitive advantage in that it can offer potential hyper-high yields on certain investment projects in the national economy.

Which industries are in the highest demand today and have the greatest prospects for future growth?

Taras Yeleyko: The period of 2020 to 2021 turned out to be very interesting from the primary state asset market perspective. It required unprecedented political will...
Imagine how no such large-scale process has taken place in Ukraine since 2005. Privatisation is one of the most effective ways to combat the kind of corruption that is mostly entrenched in state-owned enterprises and the public sector of the economy as a whole. It is also an investment in abandoned businesses that have been affected by inefficient management for many years.

In August this year, an auction for large-scale privatisation of the United Mining and Chemical Company (UMCC) will be held. Preparation for large-scale privatisation of Bolshevik Plant and President Hotel in Kyiv are both in their final phase. Furthermore, we are currently selecting a team of professional privatisation advisers to work extensively on the privatisation of regional power supply companies and other facilities. Preparation for attracting investments in the Odessa Port Plant is also underway.

Are foreign investors expected to participate in the privatisation of the United Mining and Chemical Company?

Taras Yeleyko: We see great interest from foreign investors, from well-known foreign mining companies, as well as financial companies and large investment funds. Naturally, we expect a high level of competition. We hope this will be an active auction.

What other assets can be included in a large-scale privatisation? And what kind of difficulties do you face in this area?

Dmytro Sennychenko: The division into large- and small-scale privatisations is rather conditional. According to the law, an asset with a book value of up to UAH250 million are categorised as ‘small-scale’, while those over UAH250 million are ‘large-scale’ privatisations. In contrast to small-scale privatisation, preparation for large-scale privatisation requires the involvement of professional advisers, auditors, and investment banks.
Of course, Ukraine needs a more clearly articulated policy at the Government level as to which assets should be transferred to the Fund for privatisation. Currently, 96 Government authorities – ministries, departments, agencies – manage 3,600 state-owned enterprises. The Fund’s activities on the assets’ privatisation only start upon the Government’s decision to transfer them to the Fund.

In the State Property Fund, we have already put in place a transparent and systemic process for transforming unproductive, non-operating facilities into productive ones. There are many positive examples when investment in an asset post-acquisition were well above its acquisition price.

To give an example, I recently took part in the opening of the renovated Kyiv Central Bus Station. The monumental building, erected in 1960, stood without reconstruction for more than half a century. We found a new, efficient owner that has already made private investments in the amount of over UAH100 million in the reconstruction. Now we have a modern transport hub in the heart of Ukraine’s capital city. And this is just one of so many examples!

This is a contribution to the economic development of the country. Entrepreneurs better understand which products are competitive and which are not. The more private entrepreneurs invest in Ukraine, the more competitive the economy and the state itself will be. Ukraine needs to become a more service-oriented economy. To realise this, all functions must be ensured: fair taxes, clear regulatory powers, and judicial reform.

There are also a large number of non-core assets that are managed by the state, such as hotels, ski resorts, and holiday homes. These are often abandoned and unprofitable areas. However, they are located in the central part of cities and could become an object for investment and additional value. The State Property Fund can also find investors for these facilities.

Many strategic enterprises, such as Energoatom, are not included in the privatisation list. In your opinion, does it make sense to leave them in state ownership?

Dmytro Sennychenko: No. However, first of all, systemic and high-quality corporate governance should be established for such enterprises, while the policy making and implementation functions should be clearly separated. There are several options for privatisation. For example, state-owned companies may have a private investor with the state retaining control over the company. The state provides its functions through these companies which attracts investors in a way that allows the state not to lose control of said functions.

Another option is a full-fledged concession. We have recently initiated a decision by the Ukrainian Cabinet of Ministers that makes it possible to restore the country’s historic buildings through investment by private owners. An investor could allocate EUR10 million, for instance, and restore the building before then leasing it on preferential terms. Historic sites can receive investment in this way while remaining in state ownership, this practice is widely used around the world.

The Ministry of Infrastructure has implemented two successful port projects with the involvement of donors. A foreign investor was attracted and, at the same time, the state retained partial control over the investee. Are you considering using a similar mechanism for facilities that are under your management?

Dmytro Sennychenko: Of course, yes. We are currently discussing this with colleagues from the Economic Policy Committee of the Verkhovna Rada. There are large strategic infrastructure facilities, i.e. ports or airports, that should remain in state ownership so we are not considering them for privatisation. They are definitely more likely to be leased under concession arrangements.

However, there are also certain facilities that are smaller in size and therefore not subject to privatisation but that should instead operate through public-private partnerships. This is a rather difficult balance between the interests of the state and the private owner so, in our view, the legislation on both leases and public-private partnerships needs to be updated.

What processes are taking place in relation to the companies managed by the Fund that are not being privatised at the moment, or not even planned for privatisation in the future?

Dmytro Sennychenko: Over the last two years, various ministries and government agencies have transferred more and more entities into the Fund’s management than over the past 15 years. These are mostly ‘defunct’ assets in a state of bankruptcy or liquidation. Of our 3,600 state-owned enterprises, by our estimates about one-third are no longer subject to privatisation; they just need to complete the process of liquidation or bankruptcy. If we talk about such assets in general, the problem is the lack of any clear policy.

That is why today we are working with the Verkhovna Rada on systemic changes to the legislation. We have drafted a comprehensive bill that amends 27 laws and three Codes of Ukraine that we hope will be adopted by the end of the year. This will address gaps in the law, such as writing off bad debts or extending the statute of limitations so that the new owner can sue for artificial debts.

Government assets other than state-owned enterprises need to be addressed separately. We took an inventory of such property which revealed that about 15 percent of all real property leases are in the ‘grey’ or ‘black’ zone. Nationwide, this refers to 28 million metres squared of spaces that are currently abandoned: about 200 times the size of the National Olympic Stadium. However, they could attract investment either to create co-working spaces or for other purposes. Therefore, the next task is to establish a process to systemically transfer inefficient assets to private owners. Together with non-strategic state-owned enterprises, this could bring as much as UAH200 billion to the state budget.
We see very positive trends in the field of small-scale privatisation. How many companies have already been sold, and how many more will be sold in the coming years?

Taras Yeleyko: I think it is worth mentioning a radical change that has occurred in the approach to small-scale privatisation. We have made the process of preparing small privatisation assets as similar as possible to classic M&A deals. We now see positive trends; the State Property Fund holds about 2,000 such auctions a year. The average number of participants after these changes has almost doubled which has had a positive effect on average price growth.

At present, we privatise an average of more than 400 assets annually, comprised of both state-owned enterprises and separate property items. This year, we plan to privatise about 500 such assets and expect to receive at least UAH3 billion from small-scale privatisation. For comparison, proceeds from privatisation amounted to UAH270 million in 2018, UAH550 million in 2019, and UAH2.2 billion in 2020.

We move away as much as possible from any onerous terms for the investor, particularly post-privatisation commitments, instead focusing on the social and environmental aspects of investor obligations. That is to say, investors obtain assets from the state in a manner similar to their acquisition from a private owner.

Small-scale privatisation is gathering a robust pace. Why is the large-scale privatisation process less vibrant?

Taras Yeleyko: Large-scale privatisation has more complex mechanisms. Preparing large properties takes about one year. Additionally, during the first wave of the pandemic (March to November 2020), large-scale privatisation deals were banned at the legislative level. When the auction preparation process was unblocked in the autumn, we prepared the United Mining and Chemical Company for privatisation as quickly as possible. Therefore, when the restrictions on auctions were lifted in the spring, we were able to take the final steps and announce the auction date.

I can say that we have taken an important step by completely changing the procedure for the competitive selection of privatisation advisers. This process now runs in two stages. First, we qualify advisers without linking to a specific project. Only then do we select candidates for a specific project from among these qualified advisers. Qualification criteria are quite strict, and the processes are all transparent. We hope that these changes in our approach will result in successful privatisation of a large number of assets; including regional power distribution companies (oblenergos) and Odessa port plant.

Where do you see the State Property Fund in five years’ time?

Dmytro Sennychenko: Abraham Lincoln once said, “The best way to predict the future is to create it.” We create the future by focusing on tactical and strategic spheres.

In tactical terms, the Fund implements the policies formed by the President, the Verkhovna Rada, and the Cabinet of Ministers; aiming for rapid, high-quality, and transparent privatisations. We are also making systemic changes that will last for many years.

In order to stimulate the privatisation process, eliminate a significant share of restraining factors, and fully protect both state and investor interests, the State Property Fund has drafted a new, comprehensive bill on privatisation, investment attraction, and job creation.

We are introducing systemic changes in the valuation business. The reform comprises four blocks:

- cutting out middleperson services;
- introducing automated free-of-charge real property valuation;
- eliminating so-called ‘fractional appraisals’, where buildings and land are appraised separately; and
- carrying out transition to international valuation standards.

We are implementing a completely digitalised lease procedure, from a potential tenant submitting an application to post-lease contract monitoring.
We are also currently working on changes in the functions of the State Property Fund related to the maintenance and storage of four national registers to ensure their full transparency.

The overriding goals, those on which we strive to lay the foundations for many years to come, are quality state property accounting and full access to information for management decision-making; where everyone can see everything.

Another area is the elaboration of a development strategy for the State Property Fund itself based on international experience, the specifics of the Ukrainian business environment, and legislation. Within two or three years, the Fund should turn into a compact, digitalised organisation to maintain registers and facilitate technological management of state-owned real properties. That way, everyone has the opportunity to use their knowledge about state property and how it can be used as efficiently as possible.

The Fund’s top management represents specialists who have moved from private business to the public service to help the state take confident steps towards a successful future. We involve young people and actively implement digitalisation projects. The State Property Fund recently introduced the investment supermarket ‘privatization.gov.ua’; a unique tool that ensures transparency by containing all the documents necessary for a potential investor. This is a significant step forward.

Where do you see the country in five years?

Dmytro Sennychenko: Ukraine has to become a place of power in Europe. We must ensure the best environment for attracting investment. Ukraine has got everything necessary for this: natural resources, competent specialists, and a favourable geopolitical location. The state should be open to international business and create conditions where Ukrainian businesses that currently offshore money return to the country. Ukrainians should not look for a better life in Poland, as they have been doing for many years in a row now, unfortunately. And Poland, incidentally, has come a long way in terms of its own privatisation. Out of the 8,000 state-owned enterprises, only fifty remain in state ownership, with investors attracted for the rest.

Ukraine’s government has developed its National Economic Strategy 2030, which envisages a reduction of the state’s share in the economy. Privatisation is obviously a necessary component here. The majority of the world’s developed economies have followed this path: one where the state should regulate, set rules, license, but should not try to do business. So let’s move forward, we have a lot of work to do!
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Current M&A market analytics
Sergii Naumov: «The banking system is a mirror of the economy».

The investment attractiveness of the banking sector depends on the state of Ukraine’s economy says Sergii Naumov, Chairman of the Management Board of Oschadbank. The extent to which the banking industry will develop in Ukraine, and whether five years will be enough for positive change, depends on the readiness to build a strong economy and a digital, constitutional state without corruption, highhanded law enforcement authorities, and bureaucratic hurdles.

The moderator was Yuriy Fedoriv, Director, Investments and Capital Markets, Head of Financial Services and Restructuring, KPMG in Ukraine.

How do you assess the situation in the banking market, such as the corporate sector, small and medium-sized enterprises, and the retail service segment? How is our economy doing in general today?

In my opinion, this crisis has not hit our economy and the banking sector as hard as expected. It is safe to say that the transformation of the banking sector over the past five to six years has made it possible for the industry to overcome the crisis quite easily. Of course, during the crisis, many businesses experienced a decline in business activity and, as a result, the growth rate for many companies has been falling. However, we
now see cautious optimism among businesses and signs of economic recovery. Consumer demand is increasing, there is a slight industry growth of 2.2 percent, and some growth in agriculture. The retail segment increased by 14 percent since the beginning of the year. The construction industry has seen a slowdown, though this can be remedied by increased funding for the ‘Large Construction’ programme. The logistics industry has prospects and remains interesting for potential investors. This trend contributes to gradual credit growth recovery in the banking sector; up 1.3 percent in the first five months of 2021, while the deposit portfolio grew by 2.8 percent. The pace is slow because it is unclear how the economy will recover further. Accordingly, businesses are in no hurry to invest and prefer to keep their money in accounts, mainly in foreign currency.

As far as Oschadbank is concerned, we see the demand for loans and our portfolio is growing due to SME and retail lending. These positive signals give us hope that the economy will continue to grow in the future.

You mentioned several economic sectors, including industry, agriculture, and trade. Are these the areas the bank is currently looking at?

We are looking primarily for stable customers. There is no clear separation by what kind of industry we look at and those we do not pay attention to. It just so happens that some industries are going through tough times, but there are leaders who continue to hold fast to their positions. We always consider all components, i.e. an industry’s stability and risk, the state of the company, and both the industry and company growth prospects.

Agriculture is always a priority as Ukraine is an agrarian country. Oschadbank is very willing to finance this industry, with agriculture representing about 50 percent of our SME portfolio. We offer both investment loans and crop loans, as well as working capital loans.

One of our studies in the banking sector suggests that the relationship between a bank and a customer will change significantly in the near future due to digitalisation. How do you feel about technologies and digitalisation? Has Oschadbank managed to take steps towards digital innovation?

Yes. To that end, we have done a lot in the last six years: we have built mobile banking almost from scratch, we were among the first to introduce GooglePay and ApplePay, and we have launched new, exotic products; namely, MiPay and SwatchPAY.
Small and medium-sized enterprises remain our strategic focus. For this business segment, Oschadbank has CorpLight; an application for SMEs which was recognised as one of the best applications of 2020 according to Mobile Business Banking’s 2020 international rating.

What is the current development strategy of Oschadbank?

Our shareholder, i.e. the Ukrainian government, has laid down certain directions for the development for the public banking sector. Every state-owned bank, including Oschadbank, has goals and objectives to be achieved by 2024.

The first objective of Oschadbank is commercialisation. We need to change our asset structure, otherwise it will be impossible to attract investors and successfully go down the path of privatisation by 2025. It is difficult to attract investors, after all, when more than half of the portfolio is state-owned companies. We therefore need to develop cooperation with new customer segments, such as small and medium-sized businesses, retail customers, and private companies. Oschadbank continues to work with state-owned enterprises while also focusing on developing commercial relations with the private sector in order to learn how to compete better in this market.

Other objectives are digitalisation, which I have already mentioned, and profitability. The best financial result can be achieved by both optimising costs and optimising processes, which will have a positive effect on the speed of decision-making and efficiency in general. Operating cost optimisation is the search for areas where the bank has unapplied reserves: this activity is related to the processes of budgeting, control, monitoring, and procurement. I am sure that, from a comprehensive perspective, this will increase the bank’s efficiency. At the same time, it is important to remember income; I do not want a situation where “the cow is milked more often but not fed”. We must therefore maintain a balance in this respect.

Please tell us about the centralisation project that you are implementing with the support of the EBRD.

This project is being implemented with the participation of KPMG in Ukraine and we have high hopes for it. The purpose of the project is to show how Oschadbank’s business model can be optimised: to eliminate duplication of functions and improve the quality of customer service.

How has the pandemic affected the share of non-performing loans (NPLs)?

Currently, the share of NPLs in Oschadbank is 42 percent, according to calculations using the National Bank of Ukraine’s methodology. At the beginning of the year, it was 9 percent higher than it is today. We understand that a high level of NPLs will not facilitate investments and we are therefore actively working on resolving this issue.

If we talk about the SME segment, the share of NPLs today is about 1 percent. To sum up, Oschadbank saw the largest build-up of NPLs before 2014 and we are actively working to tackle NPLs. As for our new portfolio, the scope of problem loans is within the acceptable limits as we manage risks well.

What is your opinion on the sale of loans through auction? Is it possible for Oschadbank?

It is still difficult for a state-owned bank to sell a loan. In fact, there is currently a mechanism that has been established at the legislative level. However, to use it a bank must have its own properly structured procedure, as well as its own internal documents detailing how the bank will do this and which procedures are relevant. Appropriate calculations must be made to decide on the sale of the loan. Oschadbank is currently finalising these procedures and the formalities to be completed. We need to submit this for approval to collegial bodies, in particular to the Supervisory Board.
2020 was not an easy year, especially for banks. How can you further use the anti-crisis experience you have gained?

Banks have learned to work remotely. It was necessary to quickly reconfigure their processes. It turned out that you can work remotely and communicate with customers, even in the banking sector which is traditionally cautious about innovations such as online channels. The crisis has made it clear that office space is not needed as much as before and identification can be carried out remotely, and so on.

We gained experience in another area, namely experience in restructuring. At the beginning of 2020, Oschadbank developed a proper model of communication with borrowers who began to experience debt-servicing difficulties. Restructuring corporate and retail loans allowed us to avoid a significant increase in NPLs. We kept our clients. Of course, certain loans are under special control due to restructuring but this is a working portfolio and it works.

What changes do you see in the business models of Ukrainian banks over the next five years?

Ukrainian banks are successfully implementing digital technologies. I am sure that they will continue to move in this direction, and more neobanks will appear to provide remote access to products and services. In five years, our ‘digital’ banks may even become leaders in Europe. I hope that Ukraine’s economy will develop, that judicial reform will be successfully implemented, and the protection of creditors’ rights will be improved. Banks will not only increase lending volumes but also offer customers faster lending process thanks to these improved processes.

We have heard that Oschadbank will soon join the deposit guarantee fund. Can you tell us what this means for banks, for depositors, and for the financial system of Ukraine?

Our joining the guarantee fund is one of the elements of the development of the banking industry that aims to ensure equal opportunities for all market players. This step will have both a positive impact on relations with the IMF and the banking sector as a whole, as well as helping Oschadbank to become more competitive and more attractive to investors. The bank cannot be privatised until this has been accomplished.

Regarding risks, I do not see any cause for concern. Since 2012, there have been stories and articles in the media about an outflow of funds from banks due to joining the fund, and about the risks for depositors. I think it’s safe to say that Oschadbank is currently capitalised and liquid, there is no outflow of deposits. On the contrary, we have seen growth. Moreover, the state will remain an investor in Oschadbank even after we join the fund, and this gives certain guarantees.

How attractive are Ukrainian banks for international investors?

That depends on the attractiveness of the country’s economy as such. That is, if the economy grows, the investment climate improves, and the banking sector also becomes more attractive. Ukraine’s economy has huge potential: favourable geographical location, a diversified economy, an excellent education industry. We have everything to make the country economically stronger.

The main tasks of the state ahead are judicial reform, overcoming corruption, reducing the influence of law enforcement agencies and the overregulation of tax legislation: these are the main obstacles to positive change.

How do you see Ukraine in five years?

I want to see a Ukraine where justice and the rule of law prevail, and human rights instruments exist and work. I foresee a country free of corruption, a state where there is no highhandedness of law enforcement authorities, where there is equal opportunity for everyone and a decent salary. A ‘digital’ state with a developed economy, a country with no bureaucratic hurdles. However, five years may not be enough.
Comprehensive review of financial and tax reports to identify tax overpayment and opportunities for further improving tax efficiency

- Practical recommendations to increase efficiency
- Saving on taxes
- Improved communication with tax authorities

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**Tax efficiency**
Public services of the future: what changes does the system need?

Percentage of central government employees aged 55 or older

- Italy: 45%
- Iceland: 40%
- Spain: 35%
- USA: 28%
- OECD: 25%
- UK: 22%
- Germany: 20%
- Canada: 20%
- Australia: 17%
- Japan: 16%
- Korea: 12%

In Ukraine, the Civil Service Academy has been recently reorganised. Its regional institutes contribute to a pool of academic universities in the regions. Private universities, such as the Ukrainian Catholic University, have high-quality public administration training programmes, Kyiv-Mohyla Academy has a high-quality school, and there are many MBA programmes that provide knowledge and education in Public Administration. That is, a person who wants to make a career in the civil service has an opportunity for doing this.

Our task is to create appropriate conditions to ensure that, upon graduating universities, professionals have proper working conditions, opportunities to realise personal potential, and decent salaries.

Oleg Nemchinov
Minister of the Cabinet of Ministers of Ukraine

Recruiting with purpose and reshaping existing public sector workforces

Global populations are aging, and economies are feeling the impact as private and public sector organisations struggle to manage talent shortages that undermine their workforces and productivity, all while chasing the critical new skills needed for the digital age. Research by the Organisation for Economic Cooperation and Development (OECD) shows that about 24 percent of central government employees were 55 or older in 2015, while just 18 percent were under 34 and this gap has only grown in the interim. Italy’s government had the highest proportion of employees 55 or older at 45 percent.2

Today’s professionals are raising the bar in their pursuit of meaningful, purpose-led, socially conscious roles and careers that will ideally allow them to have an impact in driving positive social change. Fortunately, governments can meet this emerging workforce’s preference for meaningful and purpose-led work. However, this important value proposition should be augmented by governments and highlighted in future recruitment efforts, proclaiming civil service as a prime environment for young people who truly want to make a difference by enabling social change.

Implementing modern technology will play a crucial role. Governments are challenged by the fact that younger talent with modern technical

Governments also need to show flexibility in how their workforces, and the diverse roles within them, are organised and dispatched, especially when it comes to managing the shift to remote and hybrid workspaces. Governments need to take a proactive approach to attracting and retaining next-generation civil servants, deploy important new skills, and reshape workforces to keep pace with the development of digital society and be able to meet its needs. Reskilling and upskilling existing civil servants will be crucial for retaining valued professionals, overcoming talent shortages, and enhancing public services. To build civil services of the future, governments need a combination of experienced employees, those willing to acquire new knowledge and upgrade their skills, and young talents who want to modernise the system.

Government executives admitted that, compared to the private sector, their agencies now struggle to attract and retain skilled talent for the digital future. Skills can be deterred by what they perceive as a governmental lack of innovation. This will prove critical as governments continue to compete with the private sector for the best and brightest talent; those young people with the passion to move modernisation agendas forward. Beyond heightening their brand as employers of choice in the competition for talent, governments will also need to explore opportunities to engage private-sector professionals who can quickly deliver new skill sets, such as data scientists and customer-experience specialists. Reskilling (learning new skills to perform a different job) and upskilling (learning new skills to expand existing capabilities) of current employees will also be crucial in overcoming talent shortages and enhancing public services.

It should also be noted that government and public sector organisations, along with educational institutions and hospitality companies, reported the greatest reskilling needs. Upskilling existing employees, meanwhile, will be a valuable way for governments to retain employees that possess valuable institutional knowledge, years of experience, and an understanding of how government functions. Enhancing their skills will enable them to focus on more valuable tasks and fill positions in highly competitive fields, such as IT and cyber security.

Building talent through upskilling and reskilling was cited as a key factor in shaping the workforce of the future by 72 percent of human resources executive.

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Modernising government: agile, digital, and customer centric

Read the full version of the report
The future of government has arrived — early, abruptly, and without invitation. While the global pandemic magnified cracks in the workings of government (such as IT, supply chain, and back office limitations), it has also been a springboard for advancements in remote working, agile policymaking, and rapid service design.

We are approaching a new frontier — an emerging era of modern government that is customer and business centric, agile, digitally enabled, and prepared for future change.

With massive sums of stimulus money being pumped into communities and economies during the pandemic, public debts are soaring to record levels. COVID-19 triggered an unprecedented global fiscal response of about USD12 trillion, according to the International Monetary Fund’s 2020 Annual Report: A Year Like No Other. In response to this financial outpouring, the IMF says it has received a record number of requests for emergency aid.

Governments may understandably be tempted to offset the pandemic’s overwhelming price tag with austerity: strict new fiscal restraints that are bound to limit necessary future investment in technology, new talent, 21st century digital services, and economic growth. As governments move quickly to manage this looming debt burden, civil services will naturally be under new pressure to do more with less.

Successfully navigating the debt journey ahead will likely require governments to abandon traditional thinking when it comes to cost-cutting. They should wisely replace the typical reliance on programme cuts and funding restraints by pursuing new opportunities for programmes, investments, and innovations that underpin sustained economic growth and advancement: generating research and development, capital investment, employment opportunities, vital tax revenues, and even more radical economic stimulation initiatives.

Forward-thinking governments are already pivoting their focus toward innovative initiatives and agile regulations, working in closer partnership with private industry to grow their economies out of debt and enhance future prosperity. The three core focuses of this fiscal strategy; speed to execution, stewardship, and impact analysis, are the fundamentals of a modern agile government.

Investment in revolutionary technologies, platforms, systems and processes — ultimately reshaping governments into a newly responsive, cost-efficient, customer-centred model — is the inevitable way forward. Here, ‘customers’ refers collectively to citizens, businesses, and other stakeholders that interacting with government as a service provider and an engine for economic growth.

We believe that the focus of global governmental attention is shifting to a new model built on digital technology, cloud platforms, collaboration with other governments, and new opportunities for partnership with industry. Digital transformation is shaping modern governments into institutions whose elements are interconnected and integrated. An agile government is one that is responsive and built to put its customers at the centre of everything it does. The pandemic has given the world, and governments themselves, an unexpected but highly revealing glimpse of what could be possible. Forward-looking governments are already leveraging this momentum they have created for themselves during the pandemic to seize an unanticipated “golden opportunity” for historic innovation.

8 out of 10 government organisations say they putting customer-centricity front and centre⁶

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⁵ IMF 2020 Annual Report A Year Like No Other,
⁶ Forrester Consulting survey conducted on order of KPMG, February 2020.
Five trends in public administration

- **Trend 1:** The future is customer-centered
- **Trend 2:** Modern government is trusted and agile
- **Trend 3:** Looking beyond yesterday’s borders
- **Trend 4:** Embracing the power of technology and data
- **Trend 5:** Modernising risk management in government

Click on the topics below to learn more about each trend.
Trend 1:
The future is customer-centered
Today’s consumers are more informed, connected, and demanding than ever. KPMG’s 2020 Global Customer Experience Excellence survey of more than 100,000 consumers illustrated the pandemic’s influence on customer loyalty, expectations and experience7:

— Consumer priorities have understandably shifted to health and safety, but also toward heightened convenience, reliability, authenticity, and transparency.

— Forty-five percent of consumers say digital channels will be their primary means of engaging with future services.

— Consumers favouring face-to-face commercial services fell to about 20 percent since the pandemic struck: down by just over half from about 43 percent.

Meanwhile, research of customer experience shows that governments provide poorer customer experience than virtually every private sector industry company.8

The insights from Forrester Consulting6 and from KPMG’s global organisation show that governments will continue to slowly centralise customer experience governance, with three trends that will be ongoing over the next few years:

1. More governments will create some form of Chief Customer or Experience Officer, charged with overseeing improvement of the customer experience.

2. More policy makers will issue stronger customer experience-related requirements for government departments.

3. Governments are expected to pass more customer experience-related bills containing mandates related to enhanced service standards, technology, monitoring, and reporting.

To work successfully in this new environment, public authorities need to take into account the expectations of stakeholders in order to always be able to meet everchanging consumer demands.

Governments’ stakeholders want to be treated like valued customers when interacting with government agencies, and there have been various surveys that reflect these paradigm shifts in attitude.

Trend 2:
Modern government is trusted and agile
The agility of governments was dramatically heightened practically overnight in response to the COVID-19 pandemic’s rapid, sweeping, and devastating impact. The simultaneous eruption of health and economic emergencies forced governments into uncharacteristically rapid response modes. We witnessed rarely seen levels of interaction, innovation, support, and short-term spending in the race to help the public.

This has been a marked shift from the traditionally slowermoving, due-process approach of government response that typically devotes significant time and resources to meticulous planning, and the balancing of conflicting requirements and demands.

The pandemic has proven the potential for governments everywhere to dramatically heighten their agility, slash response times, and meet public needs. One only has to witness the rapid launch of new services, benefits, and emergency processes: including temporary hospitals and digital health solutions, 24/7 call centers, and hefty stimulus packages.

Many governments will be undertaking their largest logistical challenge in the past 50 years as they mobilise and rapidly distribute COVID-19 vaccines to their populations. Along the way, of course, supply chains and procurement functions will need to be restructured and modernised. The pandemic has clearly revealed the fragility of prior supply chains and governments are now addressing how to rebuild and diversify logistics in order to make supply more agile, modular, transparent, and resilient.

This may best be achieved through technology and smart use of data. A predictive supply chain toolset can provide comprehensive visibility across supply chains while also delivering new capabilities that quickly identify and remediate emerging shortfalls. Government agencies may also need to review and bolster their scenario and contingency planning; including focused strategies for supply chains linked to disaster recovery and critical national infrastructure.

Some changes to heighten agility will no doubt take time, but there are a wealth of accelerators that can dramatically shorten a rigorous and robust service design process.

While roles such as policy-making, regulation, and funding will remain central; agile new approaches will enable governments to collaborate, partner, and interact even more responsively and cost-effectively with the public, private industry, and the marketplace.

This is already becoming critical as we look toward a future likely characterised by continued low economic growth and a need for creative solutions that harness emerging opportunities amid rapid change.

This sustained low economic growth will likely pose both challenges and new opportunities for governments to finance and deliver innovative programmes and services, while also positioning themselves to manage issues including: the Fourth Industrial Revolution, the next inevitable health emergency, natural disasters and climate change, aging populations, evolving demographics, economic and geopolitical uncertainty, national security, and more.

Localised, place-based solutions will likely gain prominence and allow governments to respond to challenges and issues with new levels of precision and speed. Consider how the pandemic’s abrupt impact revealed just what is possible when the governments of today tap into resources, expertise, and technology to manage extreme challenges.

Governments that are working more collaboratively than ever with business can drive and support industry innovation, a competitive regulatory environment, taxation reform and, ultimately, economic recovery and social progress.

At KPMG, we believe that interdependence between the public and private sectors can secure economic prosperity and that this relationship has never been more visible, viable, or vital. Modern government has the opportunity to continually enhance its role as an economic steward, replacing decades of rhetoric with bold new intentions and intervening far more proactively to support the marketplace and foster progress.

Political positions have caused government policy direction to tilt, attaching more importance to using public information and input; including through social media and contemporary technology platforms to inform policy direction.

An agile government is a flexible government, possessing the vision and tools needed to adapt to society’s everchanging demands and preferences. For example, the emergence of remote-working arrangements that for many employees in government and private roles have become the preferred “new normal”. Smart governments are already learning from their COVID-19 experience and looking ahead to embed the speed and efficiency of rapid-service design organisation-wide.
Trend 3: Looking beyond yesterday’s borders
How insights from other countries and other jurisdictions can help to address today’s public sector problems

Regardless of size or constituency, governments everywhere typically struggle with similar issues, including chronic deficits and rising debt, low economic growth, climate change, shifting demographics, rapid social change, economic disparity, and a lack of trust in public institutions. It’s safe to say that, when one takes a global perspective, there are often more similarities than differences when it comes to governance issues faced by various countries.

Adopting such a ‘bigger picture’ perspective, one that can utilise new forms of instructive collaboration with other governments and agencies, will help institutions to break through traditional barriers and accelerate reforms.

Smart, future-focused governments are already looking across borders and jurisdictions to acquire the vision, strategies, informed insights, and best practices employed by governments enduring similar circumstances. Ideally, these shared lessons will provide the necessary knowledge to turn today’s challenges into tomorrow’s opportunities.

Adopting such a ‘bigger picture’ perspective, one that can utilise new forms of instructive collaboration with other governments and agencies, will help institutions to break through traditional barriers and accelerate reforms.

Critical new communication and problem-solving channels can also extend into the private sector to enhance policymaking, and programme design and execution via a deep and sustained exchange of thinking, ideation, and shared best practices. The last decade has seen collaborative public-private partnerships between various levels of government and business demonstrate the speed and efficiency with which public services and infrastructure can emerge. The future is clearly collaborative and opportunities are rich when we look for shared interest.

In pursuing a global perspective that opens new pathways into public and private sectors, governments gain an overview of potentially ground-breaking insights, solutions, and opportunities for digital transformation. Consider data sharing, for example.

Many governments have traditionally operated under a ‘vertical legislation’ model that restricts the sharing of personal and business data that they continually amass. Placing customers at the very centre of government services will require a bold new capacity for secure data sharing both within and beyond government agencies.

Governments are also discovering how intelligent automation underpinned by data, AI, robotics, and analytics has the power to redefine government processes.
Embracing the power of technology and data

Trend 4:
Receiving benefits, accessing health records, registering companies, applying for licenses, voting: digital technology can make these things instantly accessible, intuitive to navigate, and less expensive to deliver. So what will it take to make governments digital?

A modern digital ecosystem that positions government to provide any service to any person or business on any platform using any device will be a key enabling factor. This will likely require four key components: 1) a centralised data-exchange platform; 2) secure online identification authentication; 3) modern legislation governing data use and sharing; and, 4) new and up-skilled talent who can work with and support emerging technologies to deliver a seamless customer experience to citizens. Governments that possess these game-changing innovations will likely position themselves for success in a new era of capabilities, demands, and expectations.

According to Leigh Harris, Partner and Government of Canada account lead for KPMG in Canada, “Nationbuilding investment for the future transcends spending on new transportation infrastructure, modern public health facilities and other important projects to include digital infrastructure and a sharp focus on digital society’s needs and preferences. Yesterday’s railroads are today’s digital channels.”

“Yesterday’s railroads are today’s digital channels.”

Governments have also jumped into the deep end of the data pool; compiling an endless array of information related to personal and business taxes, health, employment, benefits, education, immigration, licensing and permits, and beyond. Governments now know enough about their customers to be more precise and responsive in their policy-making and programme delivery.

Today’s challenge lies in building public trust in the government’s use of data, specifically; the sharing and centralisation of information being held across a multitude of government agencies and departments. While consumers are accustomed to providing personal information to online shopping or entertainment platforms, doubts still remain concerning public trust in governments’ data management.

A KPMG commissioned study conducted by Forrester Consulting in 2020 on behalf of KPMG shows that data security and privacy concerns are cited by 35 percent of governments as the leading barrier to their successful execution of customer-centric strategies.

As the Embracing Innovation in Government report by the Organization for Economic Co-operation and Development stresses, governments need to be “transparent about the data they collect, and clearly demonstrate the value of the resulting products”. This is becoming increasingly important as the public gains a more sophisticated understanding of the algorithms being used by online platforms and the potential for data misuse.

These concerns are nearly ubiquitous. According to KPMG’s 2020 Global Customer Experience Excellence report, 98 percent of customers are concerned about their personal data and what happens to it. To improve internal operations and encourage trusted data sharing, governments will absolutely need to implement stringent cyber security protocols.

9Harvey Nash/KPMG CIO Survey 2020: Everything changed. Or did it?
10OCED. Embracing Innovation in Government: Global Trends 2019. The need for and the potential of innovation has never been greater.
Trend 5:
Modernising risk management in government bodies
Supporting accelerated programme development, delivery, and performance

The playing field has shifted: today’s digital consumer has high expectations for smart, secure use of technology and data and this will be increasingly applied to governments. To meet these demands, governmental institutions will need to respond with trusted and personalised services, faster response times, heightened transparency and greater accountability.

The COVID-19 pandemic has cut across the status quo and unlocked vastly different ways of working with relative success and ongoing improvements.

In effect, the pandemic has precipitated a new way of ‘incubating’ innovation at an unheard-of pace; one that governments have traditionally been averse to pursuing.

The pandemic has thereby shown a change in governments’ risk appetite regarding its processes; delivering digital technology implementation, real-time results tracking, smart data use, and electronic prescribing to meet the challenge of global catastrophe. All of these improvements have been on governmental to-do lists for years but have not seen substantial progress... until now.

In managing risk, leaders should ensure that the control environment accelerates matters rather than forcing the business of government to slow down.

This dramatic change in risk appetite has been driven by necessity. Governments have been forced to accept a higher risk posture in the face of the pandemic’s massive impact and the need for vastly accelerated decision-making and reaction times.

Having assurance frameworks in place to accurately measure the impact of government actions and programmes will also be necessary to reinforce agility and enhance future responses.

We expect governments will recognise the wisdom of staying the course rather than slipping back to a more traditional approach.
Dmytro Romanovych
Associate Director, Government Relations and International Development Assistance Services (IDAS), KPMG in Ukraine
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Developing and implementing public and international development projects

- Strategic consultancy
- Design and implementation of public projects
- Improved efficiency of public processes
- Organisational transformation
- Development of policies and regulations
- Implementation of international development projects

Contact us
Small that want to become big

We asked leaders of the small and medium-sized companies to express their opinion on how changes in Ukraine help their businesses grow and develop, what is missing and what they would improve.
The Intecracy Group consortium, which includes Intecracy Deals, has been involved in electronic document management for 20 years; taking over a significant part of the digitalisation of businesses. As early movers in this area, we could not help but notice that in recent years the course of digitalisation has been pursued not only by other companies, but also by the state itself.

I see a positive trend in digitalisation, including the development of Ukrainian projects on the market and increasing cooperation with the public sector. Authorities are putting more paper documents into an electronic format, there is a digitalisation strategy in place from the President and the Minister of Digital Transformation, and a law on switching to paperless mode has recently been adopted. This law prohibits government authorities from demanding paper documents, certificates, and testimonials from citizens, and all required information should be available from state registers. Such changes benefit both business and ordinary citizens.

Additionally, as the Head of the Information and Communication Technology Committee of the Union of Ukrainian Entrepreneurs (SUP), I’m in an ideal position to see positive changes in communication with the authorities. The Committee has come up with numerous initiatives for the Ministry of Digital Transformation, the Ministry of Economy, the Ministry of Justice, the NBU, etc. These government authorities interact with us, they listen to our proposals, and have already put some of our proposals into practice.

However, we would like to see more support from the state for the developers of Ukrainian IT products that help digitalise businesses, optimise business processes, and save natural resources. In Europe, such companies are given a lot of attention and sometimes even financial support. Such government incentive programmes are lacking in Ukraine, even though Ukrainian IT products are at least equal to foreign ones in terms of quality and usually cheaper. If our manufacturers are given priority when choosing a service, and their growth is promoted at the state level, they will be able to progress significantly and enter foreign markets.

Oleksandr Vernyhora
Director, INTECRACY DEALS
Over the last five to seven years, we have seen the positive impact of deregulation in Ukraine, which has removed the majority of regulations to simplify and reduce the cost of interaction between businesses and regulators. However, we still have a long way to go if we want businesses in Ukraine can feel as free as, for example, those in Poland or Romania. Today, the critical issue is the focus on team spirit. The pandemic has changed our reality; businesses need to be even more concerned about their employees and create a safe environment in the workplace, wherever that may be. Illogical regulations complicate accounting for work time and make remote work inefficient.

Bureaucratised construction procedures and network connections and chaotic digitalisation reform are both slowing down the process of attracting investment in infrastructure. Paper records are gradually being abolished, but electronic replacements have not been tested to a proper extent. As a result, we cannot replace the old way of doing things without causing complications and delays for the companies implementing construction projects. This is especially critical today, when many Ukrainian companies are modifying their workspaces, production facilities, logistics, and infrastructure to operate more efficiently and safely. Another problem is the lack of any sufficient paper backup for electronic procedures.

Meanwhile, the role of the state is gradually being reduced. This trend will result in the establishment of sustainable institutions that will not regulate businesses but rather interact with them. Interaction with local authorities is becoming more meaningful and important for businesses. Undoubtedly, decentralisation reform is useful as it gives us the opportunity to develop together with the communities affected by our business, particularly through the taxes used to finance improvements to general quality of life. We understand that the quality of life of a community is the quality of life of our people; the ones who create added value on site. The role of local authorities has also improved, as they have more direct experience than central government agencies. Local governments have become more flexible in the decision-making process.

Communication with business has been personalised. Municipalities are aware of who is responsible for what so local authorities have a better understanding of business needs and can respond better.

Vasyl Hoshovsky
Project Manager, HEAD Ukraine
Iryna Zemlyanukhina
Director, Aksimed LLC

The topic of sanatorium and rehabilitation treatment in Ukraine is pressing and important. Ukraine is only just beginning its journey in this direction.

As in any other business, consumers have changed when it comes to the field of medical treatment. State-owned sanatorium complexes in Ukraine are no longer meeting the demands of the contemporary client, patients expect a personalised approach and an appropriate level of service. From clients, we hear about the need to treat chronic diseases without isolation from their way of living. People value their time above all and are still waiting for an individual approach to solve their problem. Patients take into account the reputation of both their doctor and the medical institution, looking for high-quality treatment that matches the amount of money they spend. As our experience shows, there is demand for small medical institutions, such as testing centres and specialised medical centres which are within walking distance of home or work. According to recent statistical analyses, the market for private medical services in Ukraine is growing at a rate of 10 percent per year, indicating an understanding and a willingness of people to shift to paid services.

Our task, as a pioneer in this segment, is to create a positive experience of undergoing sanatorium and rehabilitation treatment that fits in the conditions of the usual rhythm of our client’s lives. Much needs to be adapted and implemented but I believe that my colleagues and I will be able to bring private medicine and medical tourism in Ukraine to new heights.

Iryna Zemlyanukhina
Director, Aksimed LLC
In 2014, the Ukrainian army faced an extreme challenge that we now call a "hybrid war." Today, the government has realised the importance of preparing the army to face any form of aggression, and businesses can offer solutions to improve the operating proficiency of Ukrainian service members. Closely cooperating with the services of the Armed Forces of Ukraine and the National Guard of Ukraine for the last four years, Skif Tech specialists have been developing and implementing high-tech tactical simulators that enable services to visualise and understand any military action scenario without the use of ammunition, saving tens of millions of hryvnias from budget funds annually.

Each year, more and more competent leaders enter into government offices, leaders who understand that balancing savings and high-quality results can only be achieved in cooperation with business. One of the important topics when it comes to the discussion around export activities is still the bias and complexity of regulatory policy when it comes to exports of dual-use and military goods. Currently, this is one of the most difficult barriers for businesses in the exports area. For their part, businesses are ready to offer flexible solutions that will ensure the preservation of defense technologies and attract currency revenues to the state budget.

Yuri Lavrenov  
Co-founder and Managing Partner of Skif Tech
Positive changes such as decentralisation are glaringly obvious, including the title transfer of individual land plots to amalgamated territorial communities (ATCs). From 2021, the power to dispose of land outside localities will be handed over from executive authorities to ATCs. A typical ATC is really interested in investment projects when its people realise that jobs will be created, taxes will be paid, and joint social projects with businesses will be launched as a result.

Furthermore, there is a real improvement in the freedom of the press, the number of independent professional media outlets is growing, and this is especially true of the Internet. Access to open (public) data is expanding rapidly, data that can be used by businesses on a day-to-day basis. These include data on existing networks and transformer substations, the location of Oblenergos as a surface layer on a public cadastral map, and an advanced state e-construction portal containing a lot of important information that used to be impossible or difficult to obtain in the past. These are just a few of the tools that have been developed to facilitate quick access to information.

As for deficiencies that must be addressed, I would say that the lack of stability of the local legal framework makes it difficult for businesses to plan their further development, even in the medium term. Continuously improving bye-laws and regulations is logical and this should go forward. However, the basic ‘rules of the game’ prescribed by law are changing which makes it difficult to build up a business. A striking example is draft Law 5600 which would increase the tax burden on business with the supposed stated aim of ‘fighting against oligarchs’. This law will hit individuals and small and medium-size businesses the hardest. Additionally, Law 5600 will enter into force almost immediately, ignoring the Tax Code’s principle of legislative stability and the early publication of changes to the tax legislation.

Maxim Lozovsky
CEO, Clars Group
Ukraine is changing gradually but confidently. The drivers of development, improvement, and positive changes for the country are the government, business, and people’s interest in accepting and implementing the changes.

After adopting the European vector for development, the ‘rules of the game’ became more transparent, levelling the field for players on the market. The government has become more open to cooperation with business.

In my opinion, one of the main impetuses for Ukraine’s development has been decentralisation. With a portion of the tax proceeds retained as a result of decentralisation, local governments have gotten a clearer understanding of the importance of business development. The better a business feels, the more taxes a city receives from it.

This is illustrated by the changes seen in industrial parks which are gradually giving substance to their form. Having defined the legislative regulatory field, authorities are considering the reasons why a site in an industrial park should be of interest to a potential investor over any other area.

A good example of cooperation between local authorities and business has been the creation of Vinnytsia Industrial Park, where the local authorities engaged the KNESS Group to facilitate the power supply. Today, Vinnytsia Industrial Park has created an infrastructure network around this industrial area, providing a strong argument for new participants to invest in this project and this location.

It is very important for business to see a transparent horizon when it comes to city and state development plans so that they can rely on clearly defined and effective legislation. A healthy relationship between government and business is the result of good will on both sides: when the purpose and goals of cooperation are jointly defined, and when everyone is interested in finding a solution that suits all parties, that’s a win-win strategy.

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