



# BRDO INTELLIGENCE FACTS, OPINIONS, ANALYTICS



**Sasha Kubrakov**  
IT & Telecom  
Sector Head

## THOUSAND AND ONE NIGHTS: HOW LONG WILL IT TAKE TO HIRE A FOREIGN NATIONAL IN UKRAINE



Competition for talents has become global. And this is especially true for IT industry. Ukrainian software companies employ developers from all over the world. But they face high international competition along with Ukrainian regulatory barriers.

Among such barriers there is a need of foreign worker to make an extra ride from and to Ukraine while receiving permits for work.

To work in Ukraine a foreigner needs to obtain:

- 1 | Work permit;
- 2 | Long-term visa (not needed for CIS countries);
- 3 | Residence permit.

The problem is that Ukrainian bodies don't issue long-term visas in Ukraine. Therefore, after obtaining of work permit in Ukraine, a foreigner needs to leave Ukraine to get long-term visa in his home country. Only after this he or she can come back to Ukraine to obtain a residence permit.

At the same time, this problem in theory shouldn't touch citizens of CIS countries: they don't need long-term visas. But Ukrainian Migration Service has another opinion. They require foreigners to re-enter Ukraine after work permit obtainment. Without this extra ride they won't be able to obtain residence permit in Ukraine.

BRDO ITC sector experts doesn't consider this regulation to be effective. Simply put, this causes waste of time and money for companies and employees.

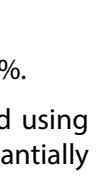
We are developing draft of regulation which will allow foreigners to obtain all necessary document during 1 visit to Ukraine.

*More on the topic [here](#).*



**Oleksiy Orzhel**  
Energy Sector Head

## A CARROT WITHOUT STICK: INCENTIVES FOR ELECTRICITY DISTRIBUTORS



The Ukrainian national energy industry regulator (the National Commission for Regulating the Energy Industry and Public Utilities, NKREKP) has taken a controversial decision about introduction of stimulating tariffs setting for natural monopolies, so-called RAB regulation. This is a tariffs setting system for market players that are natural monopolies in which a company's income depends on the quality of services and goods it provides.

Ukraine hasn't introduced stimulating regulation in the electrical energy industry yet, although the proper subordinate regulatory and legal acts were adopted in 2013. But since then, significant changes have been made to subordinate acts regarding RAB regulation:

an NKREKP decree dated 2015 reduced/downgraded power supply outage maximum figures fourfold (to 150 mins for a city/town and 300 mins for a village, which are 3 to 6 times above the EU's average figures);

an NKREKP decree dated 2017 (hasn't come into effect yet) increased the rate of return for «old» assets from 5% to 12.5% (in fact, it was the fourth change – the first edition contained figures «1-5%», the second one «0-5%», the third one «5%»);

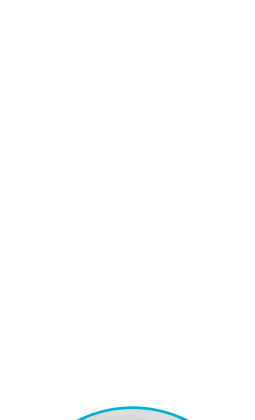
the same decree decreased the rate of return for «new» assets from 14.79% to 12.5%.

It should be noted that the value of the assets of energy companies determined using the methodology developed by the State Property Fund of Ukraine exceeds substantially the amount of money invested in them. For example, during privatization of «Kyivenergo» PJSC, its current owner paid 1 bln UAH to the state. As a result of re-evaluation of the assets, their value grew to 12 bln UAH, and now, in accordance with NKREKP's decisions, the company's owner will receive 12.5% of its re-assessed value every year. That is, in the first year of RAB regulation alone, the owner of «Kyivenergo» PJSC will get 50% more than he paid for the company.

RAB regulation should be introduced in Ukraine, but first it's necessary:

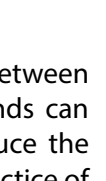
- 1 | To evaluate assets based on their privatization value. In this case, the rate of return can be tied to the NBU's interest rate (12.53%);  
OR  
To provide that the rate of return should be 1-5% if it is assigned to assets whose value has been assessed using the existing methodology.
- 2 | To tighten the requirements for the quality of services provided and make the rate of return conditional upon it.

The stimulating approach in the regulation of natural monopolies is one of the world's best regulatory practices. But it should be implemented when there's an effective and professional energy industry regulator. Otherwise, consumers may get high tariffs without real improvement in the quality of services.



**Denys Malyska**  
Deputy Head

## PUTTING A PRICE TAG ON LIFE: THE UKRAINIAN APPROACH TO COST-BENEFIT ANALYSIS



Life – 11.8 mln UAH, rescuing from disability – 3.5 mln UAH, preventing being raped at a prison – 208,000 UAH, preventing an act of terror on board a plane – 1 bln UAH. This is not a fake healer's price list, nor reflection about the future, nor artistic fiction. This is just an example of a price tag which every government body should use in its day-to-day activity, and here's why.

In many countries, the issue of monetary estimation of intangible items of value is part of government bodies' routine work. For the purpose of government regulation, the value of statistical life (VSL) in the USA is about 9 mln USD, in New Zealand about 4.2 mln USD. And this figure isn't pulled out of thin air, it is based on how much people themselves are ready to pay to reduce the risk of dying. For example, if you're ready to pay for a bicycle helmet no more than Y UAH, which will reduce your risk of dying by, say, 1/1,000,000, you actually value your life at Y x 1,000,000. Or it can be calculated by how much the average salary of workers who face a certain occupational risk of dying (for example, 1/10,000) exceeds that of workers who don't. If the former is higher by 600 USD, the value of one life will be 600 x 10,000 = 6,000,000 USD.

Ukraine has the basic framework for cost-benefit analysis. Every executive body, when developing a draft regulatory act, prepares so-called analysis of regulatory effect which, in theory, should contain a description of both the costs and of benefits from introducing the new rules. But there's no scale that would enable comparing non-monetary benefits with monetary costs in our country.

There're just a limited number of regulatory acts that contain a hint at monetary evaluation of intangible items of value. For example, Article 187 of the Criminal Code of Ukraine virtually puts the sign of equality between grievous bodily harm and damage in the amount of 200,000 UAH, Article 189 puts one between the same harm and as much as 480,000 UAH, and Article 194 equals the same 480,000 UAH to a person's death. But where these estimates came from and why they're different even within the same law is anyone's guess. In the absence of adequate domestic studies, in theory, foreign published works could be used. For example, one of this year's foreign analytical materials says that the value of statistical life in Ukraine must be about 454,000 USD.

If this figure is taken as a basis, what conclusions can be drawn? For example, in 2016, 3,410 people died in traffic accidents. This means that (even if we disregard the number of those injured in traffic accidents) the government's potential expenditure on a 100% successful traffic safety programme can be justified at a level of up to 1.5 bln USD annually. If we add the number of non-lethal injuries, the amount could rise at least twofold.

Introduction of an effective evaluation system will enable objective competition between certain reform initiatives. Since the government's resources are limited, and funds can only be allocated to a handful of projects, only those initiatives that will produce the highest benefit/cost ratio should be chosen. This will help to get away from the practice of politicians choosing immediate actions intuitively or taking account of just reputational or rating consequences.

*More on the topic [here](#).*



**Olena Shuliak**  
Construction  
Sector Head

## DANCES WITH WOLVES: UKRAINIAN DEPENDENCE OVER RUSSIAN GLASS DESPITE ITS OWN RESOURCES



98% of raw materials for glass production is exported by Ukraine to Russia and Belarus, and then the finished glass products are imported from these countries. So, do not be surprised why Ukraine still remains a raw-materials appendage in the global market.

Ukraine ranks second in Eastern Europe in terms of available stock of raw materials for glass manufacturing. Most of the deposits, and there are about 100 of them, have confirmed stocks of 5 million tons each. Each year, 2% of the extracted raw materials are processed into low-quality products that our construction industry cannot use due to outdated technology, which has not changed since the beginning of the 19th century. Another 18% is bought by Belarus. But the other 80% is exported to Russia. Last year, exports to this country amounted to 300 thousand tons making up 6 million US dollars. And this is at the time when the domestic market's demand makes up about 3.4 billion square meters of modern construction glass; at the time when we have 245 million tons of explored deposit reserves of raw materials which may be enough for about 130 years, and even more.

Instead, last year the import of high-quality glass only for the production of double-glazed windows reached 314 thousand tons. And those 673 tons of glass, which we have produced the same last year (using the method of drawing and casting with grinding), gather dust in warehouses.

The reason is simple – they cannot be used in modern construction according to the technical norms of the European Union which the country pledged to introduce within the framework of the Association with the EU.

Ukrainian developers and domestic window makers have long adapted to this situation and simply import glass from the same Russia and Belarus, pumping almost 80 million dollars annually to the economies of these countries. But such a model ultimately burdens the citizens. After all, all currency fluctuations and rising prices for modern windows are covered by them.

Today, the world practices demonstrate that for a sustainable supply of domestic glass, it is necessary to have one glass-hardening line with a capacity of 200 square meters per hour for every 1 million people.

That is, Ukraine needs at least 40 such lines. For their construction, the country has all the prerequisites, with the exception of a comfortable business climate for the investor and clear and effective regulatory rules for the functioning of business in this segment. It is a question of a chronic 'soviet school' of rules and regulations that makes Ukrainian producers dependent on imports. This is especially true for the segment of modern energy-efficient window systems. It is possible to solve this problem, as well as the problem of the market as a whole, by attracting a systemic investor, and introducing transparent and friendly rules for business.

To do this, one has to take several simple regulatory and organizational steps.

Firstly, it is necessary to ensure transparent and non-corruption access to the development of glass quarries.

Secondly, it is necessary to provide special conditions for the allocation of land and connection to engineering networks for investors in the industries which are critical for the development of Ukraine.

Thirdly, it is necessary to guarantee the security of investments by efficient regulatory framework.

Fourthly, it is necessary to create the preconditions for profitable operation in the market.

Fifthly, it is necessary to start negotiations with investors at the state level, preliminary having analyzed the performance of the top glass producers in the world.

And then, perhaps, the Ukrainian economy will be able to retrieve at least 70 million in convertible currencies annually, which Ukraine pays to other countries for glass imports. With a little bit of effort, additional 200 million euros of direct investment can be obtained, which the investor will spend on the construction of a modern glass factory.

*More on the topic [here](#).*



**Olena Shuliak**  
Construction  
Sector Head

## APOCALYPSE NOW: UKRAINIAN URBAN PLANNING AND ARCHITECTURE



In all European countries, building rules are strictly regulated by law, and a deviation from them will cost dearly. Absolutely all cities, towns and villages have development plans, and these plans – and, in fact, all urban planning documents – are available to the general public. Every citizen or entrepreneur can see who is building what in an area where there're vacant plots and what is planned to be done on these plots in the future.

In Ukraine, only 72.6% of populated places have development plans, and only 24% of them are available to the public. It should be noted that most of these plans date back to Soviet times. So, it's not surprising that we have chaotic urban development, unfinished and unauthorised projects, building in preserve and green areas and «manual» management of land resources with high corruption risks.

Today, in October 2017, although the necessary legal framework exists, urban planning documents that are the guide for the planning and development of cities, towns and villages and their infrastructure, from networks to traffic flows, are still not available both to the general public and to the business community.

Why is this so important and how making them public will benefit each of us? First, giving the public access to urban planning documents, part of which are – however surprising it may be in the 21st century – still marked «for official use only», will ease tension in the society, especially with regard to illegal construction in parks and preserve areas. Second, it will help people make the right choice when purchasing immovable property and safeguard them from wrong investments. Third, open access to urban planning documents will raise foreign investors' interest in Ukraine, because today they, having not found necessary information in public sources, aren't willing to spend time and money on searching for brokers, contacts with local authorities, filing requests and obtaining copies of documents.

With support from the Ministry of Regional Development and the MATRA project of the Kingdom of the Netherlands, BRDO is launching the project «Participatory Spatial Planning (pMAP)». As part of the project, a web-site will be created where all information on urban planning documents in Ukraine can be found.

We've already started working, and we plan in a year or a year and a half to give Ukrainians and investors a convenient working tool with full and open data.

*More on the topic [here](#).*



**Oleksii Dorogan**  
Rolling Review  
Sector Head

## JURASSIC PARK: UKRAINIAN REGULATORY REQUIREMENTS AND HOW TO SURVIVE AFTER COMPLIANCE



In order for an entrepreneur to fully comply with the requirements of our legislation, and to collect an incredible amount of certificates, documents, licenses, etc., the entrepreneur simply has to forget that they have their own business for an indefinite period of time, and spend the latter to obtain permits. And the entrepreneur will still be to blame for something (that might come up). So, here is the question of how to do everything in accordance with the law, and at the same time not to go bankrupt, and not to drop into minuses. After all, every day of downtime in business entails certain risk and losses.

Now opening a business in Ukraine is a real challenge. Long, expensive, doubtful. We offer clear answers to complex questions in the PRO platform. It all began with the fact that in the PRO project – Better Regulation Delivery Office Project that we are implementing, we had the task to analyze the legislation in order to improve the rules for business. And our goal is not just to write another report which will deteriorate in dust on the shelves of another ministry, but to make a really efficient platform for those who are only planning to open their business, or have long been working on the market and are planning to grow and develop. And the information provided in the web portal could be updated, supplemented and used in a timely manner.

We have created a unique platform that has no analogues in the world. Anyone who visits our website, will be able to get clear instructions on how to run a certain business. At the moment, users can choose any business activity from the 15 cases that are available on the website: restaurant, beauty salon, sawmill, kindergarten, electric charging station, etc. By the end of the year, we plan to increase them to 30. The local authorities and NGOs of Vinnytsia, Mykolajiv and Chernivtsi have already joined the project.

In parallel with the development of the Platform, the experts of the Better Regulation Delivery Office Project made a convenient 'Ease of Doing Business. Regional doing business' in order to assess how easy and convenient it is to do business in the regions of Ukraine. The BRDO experts adapted the World Bank methodology and interviewed hundreds of domestic entrepreneurs. The basis of the study were the four aspects of entrepreneurs' interaction with the authorities, namely: payment of local taxes, obtaining permits for construction, registration of a land plot for real estate, and switching to the grid.

For example, in the Kherson region, you will be receiving a construction permit on average for 147 days, while in the Odessa region – for only 68 days. Such figures do not create favorable conditions for investment, and sometimes they are directly transformed into a stop sign for entrepreneurs. In order to make the life of entrepreneurs easier, and create the most comfortable business environment, BRDO experts have developed recommendations for amending such situations, as well as a number of other issues that were identified during the study in each region of Ukraine.

Most of the future entrepreneurs who want to open their business, such as a restaurant or bakery, are not always aware of the huge amount of work they will have to do, and all the risks they should have to deal with. And it is unlikely that they wake up with the idea "Which certificate should I get today?". This is a minor issue that ordinary people are not interested in, because most often they imagine a beautiful picture that they want to get in the end. They are interested in the whole package.

We took the first step, we standardized the work of our experts. And now everyone who goes to our portal, will be able to see the complete list of procedures that they need to go through in order to open a business, with minimal costs and losses. All procedures, licenses, descriptions of the licenses, sanctions, and what will happen if you do not receive a license.

Any entrepreneur can open the website, choose the appropriate case, for example, 'Restaurant', pass a kind of test and get a ready-made personalized answer: how many procedures are required, which documents must be obtained, and how much time it takes.

In this way, the entrepreneur will be able to protect themselves from 'sudden' inspections, stresses and bribes. Because everything will be okay. And also, taking into account our recommendations, the entrepreneur will be able to develop their own action plan, and not to go 'below zero' in profitability.

*More on the topic [here](#).*

# IMPROVING REGULATION IN UKRAINE

BRDO is an independent think tank. Our mission is to promote effective regulation and economic freedoms in Ukraine with a focus on small and medium sized enterprises as important drivers of growth.

BRDO is supported by a growing number of partners and donors, including the European Union's EU4Business Program (FORBIZ project) implemented by GFA Consulting Group, GIZ International Services, and Berlin Economics GmbH, the Embassy of the Kingdom of the Netherlands (MATRA program), EDGE - Expert Deployment for Governance & Growth Project (Agriteam Consulting/Global Affairs Canada), and the World Bank.