



CENTRE
FOR ECONOMIC
STRATEGY

POLICY PAPER

CONSTRUCTIVE CAPITAL IN UKRAINE



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The Centre for Economic Strategy is an independent research agency on public policy issues. The CES's mission is to support Ukraine's reforms to achieve sustainable economic growth. The Centre contributes to the development of Ukraine's economic growth strategy, performs an independent analysis of the most critical aspects of national policy, and works on strengthening public support for reforms. It was established in May 2015.

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- Economic freedom (liberalization, deregulation, privatization)
- Free and fair competition
- Reducing the role of the state due to improving its effectiveness
- Information transparency and freedom of speech
- The rule of law and the protection of private property
- Healthy and stable public finances
- Knowledge-based economy

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The content of this report is the result of the authors' judgments and reflects their opinions on the subject of the study. The information provided in this research is open to interpretation and should be considered as an opinion and not as the ultimate truth. We have provided a well-researched and balanced perspective by drawing upon a variety of sources, including open sources of information, legal basis as a source of reference, and other reputable materials. Opinions, calculations and interpretations in this report may not encompass all possible viewpoints. Readers are encouraged to consider multiple sources and consult experts or relevant authorities in the field for a comprehensive understanding of the subject.

1. EXECUTIVE SUMMARY

Constructive Capital is a key determinant of the development of the Ukrainian national economy. Ukraine has embarked on a path of transition to a market economy, striving to become developed and integrated. Over the past 30 years, the country has undergone numerous reforms, and various enterprises have been established. Capital has transformed from corrosive to constructive and vice versa, and continues to do so today.

We have identified the following types of capital in Ukraine:

- **Foreign Capital** (constructive and corrosive);
- **Public Domestic Capital** (government and municipal);
- **Oligarch Capital**;
- **Other Corrosive Capital**;
- **Private Constructive Capital**.

For a number of companies, the type of capital remains to be determined.

The object and purpose of this research paper is Private Constructive Capital.

The fundamental definition of Constructive Capital and its needs was formulated by the Center for International Private Enterprise (CIPE). In the respective studies, the concepts of Constructive and Corrosive Capitals are distinguished, outlining their key differences and unique characteristics. This study is based on the Cornerstones of Constructive Capital, which have been identified by earlier CIPE research.

Ukrainian Constructive Capital, according to our estimates, accounts for at least 15%. In addition, some companies with capital type to be determined may also be Constructive Capital. Thus, the **aggregate share of Constructive Capital in the Ukrainian economy may amount to 20-25%**.

Currently in Ukraine, Corrosive Capital prevails over Constructive Capital, constituting about 46% of the total volume. This is a significant problem in the context of Ukraine's sustainable development. An increase in Constructive Capital has the potential to exert a positive influence on both economic and social growth.

Oligarchic capital dominates in industrial sectors of the economy, such as metallurgy, coal mining, oil extraction, electricity and natural gas distribution, etc. These sectors are limitedly competitive and are therefore limited for access to Constructive Capital. Government accounts for more than half of the entire banking sector.

This research paper includes the insights of a number of interviews with Founders and/or CEOs of business, which we consider representatives of Constructive Capital, representatives of business associations, and policymakers to explore key barriers in the path of Constructive Capital development and identify tools to facilitate its establishment in Ukraine.

During the stakeholder interviews our interviewees shared information on the following topics: stimulus for starting a business and the main challenges of the past; competition with other types of capital; the impact of different types of capital on the business environment; supportive trends in responsible business and investment; the state of rule of law in Ukraine; transparency of Ukrainian businesses.

Subsequently, the following two recommendations were formulated based on the insights of the discussions, which can be determined that need to be implemented in Ukraine to increase the share and impact of Ukrainian Constructive Capital. **Establishing uniform rules for all** businesses is essential to ensure equal opportunities, and promote fair competition within the business landscape. **Deregulation** is essential for

economic growth, entrepreneurship, investments, and enhanced competitiveness by simplifying processes and reducing bureaucratic obstacles, creating a favorable environment for business development.

In addition, the business emphasized such other postulates of the development of Ukrainian Constructive Capital: protection of property rights, judicial reform, comprehensive privatization, customs reform, military risk insurance, predictable tax policy, tariff liberalization, anti-corruption reform, EU and NATO integration, implementation of the tax on repatriated capital, adjustment of the education system to labor market requirements.

As this research marks the first of its kind in Ukraine, the matter of capital types, particularly Constructive Capital, may be subject to further investigation in subsequent researches, including but not limited to:

- Establishing a comprehensive methodology for determining capital types in Ukraine;
- Researching capital types in key industries of Ukrainian economy;
- Investigating the impact of Constructive Capital on the economy and society of Ukraine;
- Determining recommendations for transitioning Corrosive Capital into Constructive Capital.

2. INTRODUCTION

Since the beginning of Ukraine's transition to the market economy, two forces have been shaping the economic structure—Corrosive and Constructive capital. Since 2019 CES's focus has been on researching the Corrosive Capital — Russian, Chinese and oligarch-owned Ukrainian. In 2020 with the CIPE assistance, we presented a study on the Corrosive Russian Capital, drawing attention to this topic. In 2021 CES published a similar study on the Chinese capital, expanding our policy recommendations on the investment screening. After the Ukrainian President Volodymyr Zelenskyy initiated a deoligarchization we moved our attention to the corrosive local capital—the capital of oligarchs.

However, despite the strong influence of the Corrosive Capital, Ukrainian business was able to develop and become competitive both in the domestic and the foreign markets. We need to understand the forces behind it and how to strengthen them.

In the new study, we propose to focus on the Ukrainian Constructive Capital that played a key role in building the competitive market economy in Ukraine, focusing mostly on the 2010 plus period. We want to explore which market conditions, domestic and foreign demand, dedicated (or not) government policies gave a boost to the rise of Constructive Capital in Ukraine.

While in Central Europe, FDI shaped the landscape of the new post-communist economy, in Ukraine with the lack of FDI the local capital played this role. However, its impact is under-researched, and no policies explicitly support this type of capital. Moreover, we expect that this capital was the most vulnerable to the impact of war, reinvesting profits and having no foreign support. So, foreign and Ukrainian policymakers should help these businesses keep up and growing.

To better understand this new Ukrainian capital, we could have a sectoral look at it. We held interviews with companies representing various sectors of the Ukrainian economy, including large, medium and small businesses.

In this paper, we analyze the Ukrainian Constructive Capital's role in building the competitive market economy in Ukraine. We define the Ukrainian Constructive Capital as the new local private capital that was built in Ukraine after 1991 from scratch (but with focus on 2010 and later due to detailed data availability). A special focus will be small and medium businesses (SMEs), whose share in the economy has been growing during most observable years. These SMEs do not involve the privatization of the Soviet SOEs as a core of the business. We also do not consider subsidiaries of multinational companies here—while they played a crucial positive role in Ukraine's market transition, FDI and related policies have been extensively studied before.

The study has the following objectives:

- Describe Ukrainian Constructive Capital, analyze and explain the role that it played in building the competitive economy of Ukraine, and communicate this role;
- Understand the impact that the Russian war against Ukraine had on this capital;
- Design key elements of the post-war support program for the Ukrainian Constructive Capital;
- Develop policies that will strengthen the Constructive Capital in Ukraine — e.g. access to bank financing, the rule of law, anti-corruption, business integrity and other compliance safeguards, tax policies, and advocate for them;
- Provide recommendations on the best ways to support constructive local capital — e.g. funding for rebuilding their businesses, military risk insurance, building international partnerships and expanding exports, and advocate for them.

3. LITERATURE REVIEW

3.1. THE NEED FOR CONSTRUCTIVE CAPITAL

The Center for International Private Enterprise (CIPE) distinguish between two types of capital:

- Corrosive Capital – opaque capital flows lacking market orientation with motives to exploit governance gaps to influence economic, political, and social developments in recipient countries.
- Constructive Capital – well-governed investment flows that serve transparent, market-oriented, and accountable purposes at both funding sources and destinations.

CIPE has elaborated these two contrasting concepts of capital flows to encourage good governance across a range of institutions and create an enabling environment for business and entrepreneurship. A solid foundation of integrity, with the participation of the private sector, will help support investments with a constructive impact. Local economies will benefit from new opportunities, including through connections to global value chains. Moreover, such factors will also stem the flow of investments with a corrosive impact.

Constructive Capital refers to financial flows that are well-governed at the funding source and destination. It supports markets and the rule of law, promotes transparency, and improves governance by holding governments accountable for ensuring a level playing field for the private sector. Such benefits are often positive externalities of purely market-based investments that target enterprises and local markets. This supports sustainable and equitable economic growth. Together, they can increase profits and expand business opportunities in the future. Constructive Capital can start a cycle of investment and improvement of the business environment. This further supports the development of sound market institutions and good governance. As global standards of business conduct increase, decision makers are increasingly reluctant to invest in less open markets.

A key driver of efforts to support Constructive Capital is the need to deter Corrosive Capital. The pervasive effects of Corrosive Capital can lead to further deterioration of the conditions that support Constructive Capital.

Corrosive Capital refers to financing, whether state or private, that lacks transparency, accountability, and market orientation. This is the opposite of Constructive Capital. This type of investment undermines trust in institutions, weakens the rule of law, promotes opacity and can strengthen monopoly power. There are flows from authoritarian regimes to emerging markets that pose a fundamental threat to democracy and inclusive markets. Investments that are opaque in origin, linked to political pressure or lack of oversight often undermine the very market institutions that attract Constructive Capital. When a certain level of Corrosive Capital dominates the market, it can lead to increased corruption and weakened institutions. This creates a toxic business environment that stifles local business innovation, reduces equality and hinders development prospects.

3.2. CORNERSTONES OF CONSTRUCTIVE CAPITAL

The CIPE understanding of Constructive Capital is built upon a set of six precepts that provide both a normative and practical foundation. These are referred to as Cornerstones of Constructive Capital. Capital flows that align with these cornerstones are considered as constructive, while capital flows that weaken them are considered as corrosive.

The cornerstones of Constructive Capital are comprised of:

- Positive peace;
- Rule of law;
- Accountable institutions;
- Political and economic freedom;
- Social and economic inclusion;
- Values-driven private sector.

Positive peace

Peace is essential to human security and flourishing. The UN considers the vital role of peace as the main achievement of those, underscoring the link to just and inclusive societies.

The eight pillars of positive peace can serve to reinforce the conditions for Constructive Capital: well-functioning government; sound business environment; acceptance of the rights of others; good relations with neighbors; free flow of information; high levels of human capital; low levels of corruption; equitable distribution of resources. This cornerstone represents stability and prosperity, and also helps to reach a favorable business climate and to take reasonable investment decisions.

Rule of law

The rule of law is another essential component of a sustainable society. As a multi-faceted precept of good governance, it helps sustain the political and economic conditions for Constructive Capital. There are several linkages to the rule of law:

- Investment Flows: For the investors are crucially important such elements of the rule of law as integrity, stability, and transparency in foreign direct investment (FDI) decision-making and risk analysis;
- Corporate Responsibility: No less important is the factor of the private sector's own responsibility, that contributes to the rule of law by acting responsibly through the support of voluntary codes, multilateral guidelines, and collective industry initiatives;
- Economic Inclusion and Access to Justice: The rule of law helps ensure that the benefits of investment flows and business activities extend to the wider population, it facilitates the legal empowerment of women and of marginalized communities and so on;
- Sustainable Development: As it was affirmed on the Rio+20 Conference, the rule of law as also democracy and good governance, is essential for sustainable development, including sustained and inclusive economic growth. Moreover, target: “promote the rule of law and ensure equal access to justice.” was estimated as SDG 16.3 on Peace, Justice and Strong Institutions.

Accountable Institutions

The next cornerstone of Constructive Capital is a key to countering corruption. Integrity, including transparency in decision-making, is one of the primary features of accountable institutions. They also promote inclusiveness, ensuring that people have equal access to economic opportunities and public services. The OECD has certain recommendations for a public integrity strategy with three pillars of system, culture and accountability. It was established that the enhancement of social trust is not just a matter of utility or instrumental value – it is of fundamental importance for sustaining society.

Accountable institutions can support the flow of Constructive Capital and thereby reduce the impact of Corrosive Capital.

Political and economic freedom

A dynamic understanding of freedom can raise awareness of the risks of Corrosive Capital and foster conditions supportive of Constructive Capital. A fundamental document in this field is The Universal Declaration of Human Rights (UDHR) adopted by the United Nations General Assembly in 1948, that has many points, but the most absorbing are: the will of the people as the basis for the authority of government, the right to own property etc.

Social and economic inclusion

The cornerstone of social and economic integration encourages the involvement of government, business and society. Diversity, equity and inclusion (DEI) initiatives that transform leadership, workplaces and cultures across sectors are essential. Policy development must increasingly focus on social inclusion, equal opportunities, public services, citizen participation, diversity and group legitimacy. The private sector also plays a crucial role in promoting social and economic inclusion.

Values-driven private sector

The private sector has a critical role in shaping common values and creation of progressive and accountable business cultures. It considers the huge scope of values, role of leadership and governance (culture as a “corporate asset”), stakeholder engagement (“shared values” as a long-standing feature of responsible business conduct), long-term perspective, entrepreneurial community (“Over time, the strengthening of governance and markets can foster a supportive ecosystem of laws, regulations, culture, and institutions that foster innovative enterprises and create wealth for a broader section of society”), and trust.

3.3. BRIDGING THE GOVERNANCE GAPS

Understanding of both negative impacts of Corrosive Capital and the positive impacts of Constructive Capital brings into focus the question of governance gaps, which may involve inadequate procurement procedures, lack of transparency and oversight, failures in regulatory enforcement, and disadvantages in judicial processes, etc.

Investment: private capital flows to developing countries

Overall, in the past decades the allocation of capital flows to emerging markets and developing countries (EMDCs) have changed. Since the 1980s, the private sector has become the main recipient of capital flows in EMDCs from developed countries, which thereby supported EMDCs development efforts. FDI, in addition to having a constructive impact on the recipient, is a long-term investment that will create jobs and develop support services at the local level.

The lack of disclosure and transparency may have legitimate reasons to maintain the confidentiality of financial transactions between private entities. This can create an environment conducive to malfeasance and corruption. The result is wasteful investment projects that increase the country's indebtedness, but not its ability to repay the debt.

Being market-driven and transparent, FDI contributes to the development of the corporate sector of recipient countries, including the legal and regulatory environment for companies. Infrastructure investment can enhance economic growth and other conditions conducive to other forms of Constructive Capital, but there is a risk of Corrosive Capital if funding gaps are not addressed.

Integrity: anti-corruption norms, institutions, and accountability mechanisms

Integrity depends on an ecosystem that minimizes corruption. Minimizing corruption improves business efficiency and increases economic and investment opportunities while reducing legal risks and business costs. At the international level, anti-corruption and bribery norms are reflected in multilateral conventions, and there are also a large number of international and intergovernmental organizations dealing with the problem of corruption, such as the G20, the UN, and the OECD. They operate within a large network of national and sub-national governments, which then develop and implement anti-corruption ideas on the ground. Most governments operate under the United Nations Convention Against Corruption (UNCAC), which includes five broad areas of anti-corruption activities: prevention, criminalization and law enforcement, international cooperation, asset recovery, and technical assistance and information sharing.

Accountability includes three key elements: definition of responsibility; responsibility (obligation of subjects to provide information and explain their actions); and enforcement (sanctions and disciplinary action, including legal and regulatory sanctions). The main feature here is transparency, which provides access to complete and non-falsified information, openness of state processes, procedures, documents, and data for public viewing.

3.4. SUPPORTIVE TRENDS IN RESPONSIBLE BUSINESS AND INVESTMENT

The main goal of the Constructive Capital framework is the development of the wider environmental, social and governance principles (ESG) by means of various strategies. The role of ESG factors in global investment processes is growing every day.

ESG factors in investment decisions consider:

- Environmental factors focus on climate change, toxic pollution, land and water, biodiversity, and deforestation;
- Social factors focus on labor and human rights, local communities, and issues of inequality and discrimination;
- Governance factors focus on roles and responsibilities of corporate boards, executive management, and shareholders (for public companies), as well as on compliance and risk management processes.

Responsible business and responsible investment is achieved by personal and corporate efforts with business focusing on voluntary commitments regarding human rights, working conditions, environmental measures, and anti-corruption.

Companies will be encouraged to implement policy and transparency commitments, due diligence systems, and grievance mechanisms if they want to be attractive partners to global businesses. These rather tough requirements may help to enhance flows of Constructive Capital and root out Corrosive Capital.

The UN Global Compact (UNGC) is anchored in SDG 16 implementation and informed by ESG practices and reinforces the rule of law that is addressed through its Action Platform for Peace, Justice and Strong Institutions. It helps companies to identify business risks and opportunities, engage in stakeholder dialogue with civil society and other actors, share best practices, and demonstrate leadership.

Values-driven private sector is the most important determinant of all relations. Business composes, supports and develops the culture of the wider social and environmental goals, and sets trends in this field.

3.5. ADVANCING A FRAMEWORK FOR CONSTRUCTIVE CAPITAL

Constructive Capital should rely on the stakeholders within a given jurisdiction who are already working on questions of investment, integrity, and impact, such as business community, to include companies of all sizes and sectors, financial institutions, professional service firms, research and training institutes, business and trade associations, multi-stakeholder partnerships, and others. Vital to the concept is involvement of investment promotion agencies, port authorities, and special trade zone administrators. Outreach should include a range of civil society and local community representatives.

Stakeholder engagement can bring clarity to a range of issues and help identify emerging priorities for action. There are some of the specific actions for different groups of stakeholders application of Constructive Capital:

Governments

- Integrate the Framework into various aspects of government programs and oversight procedures;
- Collaborate with Investment Promotion Agencies on effective strategies tied to rule of law commitments;
- Re-evaluate investment treaty regimes, notably in view of current critiques about justice in economic governance;
- Apply innovations in metrics, including benchmarks;
- Apply data, analysis and toolkits developed by international financial institutions and other agencies involved with economic governance;
- Ensure the effectiveness of domestic legal regimes and procedures at all levels, notably through transparency and accountability mechanisms;
- Identify weaknesses in various phases of the procurement process and undertake needed reforms;
- Enhance due diligence procedures regarding inbound investment, especially for long-term projects and infrastructure;
- Enhance processes for assessing overall government outcomes.

Business and financial sector

- Enhance transparency and due diligence procedures throughout business operations and value chains;
- Integrate the Framework into investment evaluation and decision-making processes;
- Examine the implications of trends in sustainable investment and finance for FDI strategy and ESG factors;
- Enhance the benefits of portfolio investment, including through initiatives such as Sustainable Stock Exchanges;
- Expand the application of impact-related metrics, measurement, and management;
- Consider how private sector activities may support the Cornerstones of Constructive Capital through direct operations, value chains, and collective action.

Business associations

- Create opportunities for dialogue between stakeholders on issues of cross-border capital flows and their impacts, raising awareness and driving action;
- Respond to relevant policy developments and coordinate business positions;
- Share best practices in responsible business conduct and investor relations;
- Identify emerging industry-sector issues in relation to Constructive Capital;
- Enhance training in corporate governance, compliance, risk assessment, and reporting;
- Facilitate the role of small and medium-sized enterprises, including in supply chains;
- Contribute to strengthening integrity measures throughout the local economy.

Civil society

- Hold governments accountable for implementation of relevant laws and international standards in order to close governance gaps;
- Promote the scope of accountability for business, through both compliance and stakeholder impact;
- Continue to leverage global policy developments such as SDG 16 implementation;
- Develop processes for engagement with stakeholders and diffusion of information;
- Identify relevant priority areas for advocacy campaigns, including to promote diversity, equity and inclusion.

Professional bodies

- Raise standards of conduct among the constituency; for example, lawyers assessing their own influence on integrity safeguards given their role as advisors with certain clients or projects;
- Reinforce relevant legal regimes and accountability mechanisms, especially those with extra-territorial dimensions;
- Monitor regulatory and reporting developments on topics such as ESG standards and accounting practices;
- Collaborate with other professional bodies for knowledge-sharing;
- Create professional training programs on evolving issues such as corporate governance.

Think tanks and academia

- Conduct interdisciplinary research grounded in theoretical and empirical analysis;
- Clarify the concepts of Constructive Capital and Corrosive Capital, along with their impacts;
- Identify areas for potential policy reform;
- Investigate the corrosive consequences of investment projects to expose governance gaps;
- Guide the practical steps for advancing the Framework.

Due to the changing nature of the context and modalities for actions to advance Constructive Capital, businesses need certain "hints" to determine the priorities and opportunities for stakeholder engagement:

- **Influence of Corporate Purpose.** *Statement on the Purpose of a Corporation*¹ committed to lead their companies for the benefit of all stakeholders – customers, employees, suppliers, communities and shareholders. Research and engagement program on *the Future of the Corporation*², which has defined the purpose of business as “profitably solving the problems of people and planet, and not profiting from creating problems”;
- **Momentum for ESG Investment.** It provides the opportunities to support Constructive Capital and obstruct Corrosive Capital. These processes are accelerating within implementation of the sustainability standards, social and environmental requirements into companies development strategies;
- **“Shared Space” between Civil Society and Business.** “Successful, sustainable business and investment environments require accountable governance bound by rule of law. Such environments can only be maintained when the rights that define the shared civil society space – freedom of expression, assembly and association – are respected and protected.”, as stated in a report on Shared Space Under Pressure: Business Support for Civic Freedoms and Human Rights Defenders.³

¹ <https://opportunity.businessroundtable.org/ourcommitment/>

² <https://www.thebritishacademy.ac.uk/programmes/future-of-the-corporation/>

³ <https://media.business-humanrights.org/media/documents/fdfe07e3d812cfcfed4235fbbf820a3d77599b13.pdf>

4. METHODOLOGY

4.1. TYPES OF CAPITAL

For a detailed analysis of the Constructive Ukrainian Capital's role in building the competitive market economy in Ukraine it is necessary to understand the share of Constructive and Corrosive Capital in the Ukrainian economy. For this purpose, we have to answer the question of what Ukrainian Constructive Capital is. In this report we distinguish between the following types of capital that are considered to be **Capital in Ukraine**, which have their own structural features.

The first type we highlight is **foreign capital**, which includes the following categories of capital: foreign Corrosive Capital and other (presumably Constructive) foreign capital. **Foreign Corrosive Capital** includes Corrosive Capital of non-Ukrainian origin. **Other foreign capital** is presumably defined as constructive, but remains the subject for further investigation. All types of foreign capital cannot be classified as Ukrainian Constructive Capital by definition.

In previous research, CES has already partially analyzed Ukrainian Corrosive Capital. These reports include Russian and Chinese economic footprints in the Ukrainian economy, which we define as foreign Corrosive Capital. Besides, some types of foreign Capital can also be determined as corrosive by its origin (Belarusian, Iranian, etc.). These capital shares require special research, but upon preliminary estimates their share in the economy has significantly declined compared to the period before the full-scale Russian invasion. As of 2021 Belarusian capital had a notable share of other Corrosive Capital, but during the full-scale invasion in 2022 this share reduced significantly. For the purposes of this report, we also identify as foreign Corrosive Capital the entities included in the list of international war sponsors of the National Agency for the Corruption Prevention (NACP) as of the date of publication of the study, without examining and evaluating the criteria by which these entities objects were included in the list of NACP.

Figure 1. Types of Capital in Ukraine (key types of capital for the current analysis highlighted in yellow)



Source: CES research.

The following type is **domestic capital**, which consists of public domestic capital and private domestic capital. **Public domestic capital** includes **government** and **municipal capital**. Since the subject of the research study is private Constructive Capital, public capital is not a subject for a deep investigation in this research paper. Accordingly, the domestic capital that is not classified as public is **private domestic capital**. The goal of this research paper is to distinguish **private Constructive Capital** and **private Corrosive Capital**, that can be either oligarchic or non-oligarchic. In addition, for part of the non-Corrosive Capital at this stage of the research, the available information is not enough to consider this capital as constructive or corrosive.

4.2. FEATURES OF CORROSIVE AND CONSTRUCTIVE CAPITAL

The study of capital requires a comprehensive and in-depth assessment, because capital is affected by many more factors than just ownership. In accordance with the definition of CIPE, Constructive Capital refers to well-governed financial flows, it supports markets and the rule of law, promotes transparency, and improves governance by holding governments accountable.

Proceeding from this approach and taking into account the main types of capital, we identified the characteristic features that contribute to the determination of capital as corrosive:

- Share of public procurements in revenues;
- Connection to persons with tarnished business reputation;
- Sanctions lists;
- Criminal investigations;
- Guilty verdicts and executive orders;
- Tax debts;
- Using offshores;
- Mass fictive “individual entrepreneurship”.

It is also important to mention that the presence of the features listed above does not always determine the corresponding capital as corrosive.

According to definition, Constructive Capital is investment flows that serve market-oriented purposes. If an enterprise in share of its revenues has for the most part flows of **public procurements**, such enterprise can hardly be classified as Constructive Capital.

Next characteristic features are conditionally united in one group - Rule of Law, and first point is **Connection to persons with tarnished business reputation**, which is logical in the context of the definition of Constructive Capital, that refers to integrity, stability, and transparency. Second one, **Sanctions lists**, is rather obvious given the importance of institutional perception and attitude towards entities.

The following features can lead to some circumstances, in which non-Corrosive capital can be prevented from becoming constructive. For instance, **Criminal investigations** that indicate possible dishonesty and other violations. **Guilty verdicts and executive orders** issued for the same reasons - the possibility or already established dishonesty. And the last but not the least in the group Rule of law is **Tax debts**, which also does not indicate the finality of the definition of capital as corrosive, but also does not allow such capital to become constructive.

Lack of transparency is also an important factor that affects the corrosion of capital. Here we have elaborated two aspects: as for the **use of offshores** by business, it can be noted that it is not a characteristic feature of Constructive Capital; **mass fictive Individual entrepreneurship** is tax evasion through the simplified tax system.

The Constructive features are less presented in this methodology, but still worth mentioning. Constructive Capital reinforces Sustainable Development Goal 16 and its focus on peace, justice, and strong institutions.

As well as boosting SDGs, Constructive Capital can be promoted as a means of enhancing ESG factors, which focus on environmental, social, and governance factors.

All capital type estimations presented in this research study are value judgments based on publicly available or other available data and are not intended to be exclusively accurate. At the same time, in an aggregated form, the data make it possible to display the general picture of the Ukrainian economy with sufficient accuracy.

4.3. LEGAL FRAMEWORK

The definition of integrity may differ from the legislation of different countries, so we give the Ukrainian interpretation of this concept. The National Bank of Ukraine has approved the following Bank Licensing Regulations, which are used to determine the impeccable business reputation of individuals and of legal entities.

Signs of a legal entity's impeccable business reputation differ in nature and features. The following sections describe the structural groups of such features, according to the classification of the National Bank of Ukraine:

1) compliance with the law and public order:

- imposition of sanctions on an entity by Ukraine, foreign states (except for states that carry out armed aggression against Ukraine), interstate associations or international organizations;
- inclusion of a person in the list of persons associated with terrorist activities or subject to international sanctions;
- significant violation of tax obligations;
- entity provides false information to the NBU, which, in the professional judgment of the NBU, influenced or could have influenced the NBU's decision-making;
- Non-fulfillment of personal obligations and/or letters of guarantee provided to the National Bank;
- the entity is registered or is a tax resident or its location is in a state that carries out/has carried out armed aggression against Ukraine.

2) fulfillment of financial obligations:

- improper fulfillment by a person of obligations to pay taxes, duties or other mandatory payments, which is not a material breach of tax obligations;
- violation (non-fulfillment or improper fulfillment) of a financial obligation by a person, the amount of which exceeds \$82K, and the period of breach exceeds 90 consecutive days.

3) business activities:

- the entity is included in the list of issuers with signs of fictitiousness maintained by the Securities Commission;
- public restrictions or prohibition of trading in securities of a legal entity or suspension of the placement of shares in connection with the recognition of the issue as unfair or the application of special economic and other restrictive measures (sanctions).

4) ownership of a significant shareholding in financial institutions, including foreign financial institutions are:

- ownership of a significant share in a financial institution or a foreign financial institution as of any date during the year preceding the date of the bankruptcy decision/license revocation/exclusion from the register;
- the ability, regardless of ownership in a financial institution or a foreign financial institution, to provide mandatory instructions or otherwise determine or significantly influence the actions of a financial institution or a foreign financial institution as of any date during the year preceding the date of the decision on bankruptcy/license revocation/exclusion from the register.

Signs of an impeccable business reputation of an Individual entrepreneur include other factors which are beyond the scope of our research.

5. EVALUATING THE AMOUNT OF CONSTRUCTIVE CAPITAL

Note. This research uses data from the State Statistics Service, converted to the U.S. dollar equivalent using the following exchange rates:

- average rate for 2021: 27.2862 UAH/USD
- average rate for 2022: 32.3423 UAH/USD
- average rate for January-September 2022: 30.9335 UAH/USD
- rate as of October 1, 2022: 36.5686 UAH/USD
- rate as of October 1, 2023: 36.5686 UAH/USD

Starting from February 24, 2022, the real exchange rate of the U.S. dollar to the hryvnia exceeds the official rate set by the National Bank of Ukraine. On various days, the discrepancy between the actual and official rates ranged widely from 1% to 28%. This introduces a measurement error in converting enterprise reporting indicators into U.S. dollars.

General indicators of the activity of Ukrainian enterprises

To assess the share of Constructive Capital in Ukraine, it is important to understand its overall volume within the country. For the purposes of this study, we evaluate only the capital of companies and individual entrepreneurs, excluding private ownership from the scope of this research. Ukrainian legislation categorizes economic entities based on the number of employees and revenues into small enterprises (including micro-enterprises), medium-sized enterprises, and large enterprises.

- Companies with 10 employees or fewer and the annual revenue under €2 million, are considered micro-enterprises;
- Companies with 50 employees or fewer and the annual revenue under €10 million, are considered small enterprises;
- Companies with more than 250 employees and the annual revenue over €50 million are considered large enterprises;
- All other enterprises are considered medium enterprises.

Table 1. Ukrainian companies legislative classification

Employees	Annual revenue			
	<€2 mln	€2-10 mln	€10-50 mln	€50 mln+
1-10	Micro	Small	Medium	Medium
11-50	Small	Small	Medium	Medium
51-250	Medium	Medium	Medium	Medium
250+	Medium	Medium	Medium	Large

Source: Commercial Code of Ukraine.

The full-scaled Russian armed invasion of Ukraine has significantly complicated the analysis of the structure of the Ukrainian capital. The data from some of enterprises for 2022 typically do not fully reflect the asset losses incurred during the war. In 2022, the number of business entities in Ukraine fell significantly, from 1.956 million to 1.733 million (-11%), the lowest level since 2013. The majority of them are individual entrepreneurs – 1.471 million. Among legal entities, there are 206,213 micro-enterprises, 40,434 other small enterprises, 14,783 medium-sized enterprises, and 494 large enterprises. Based on the results of 2022, the total revenue of Ukrainian business entities amounted to \$343.9 billion, of which 80.3% were large and medium-sized enterprises. The number of these enterprises is only 6% of the total number of legal entities and 0.9% of the total number of all business entities.

Table 2. Division of Ukrainian business entities by type and revenue

Type of business entities	Quantity				Revenue			
	2021	2022	% of total quantity in 2022	2022 to 2021	2021, \$bln	2022, \$bln	% of total quantity in 2022	2022 to 2021 in \$ terms
Individual entrepreneurs	1.585 mln	1.471 mln	84.9%	-7%	50,3	2,7*	0,8%*	-95%*
Legal entities:								
Micro companies	304 650	206 213	11.9%	-32%	31,6	20,8	6,0%	-34%
Other small companies	48 072	40 434	2.3%	-16%	62,8	44,2	12,8%	-30%
Medium companies	17 811	14 783	0.9%	-16%	216,2	151,7	44,1%	-30%
Large companies	610	494	0.03%	-19%	188,4	124,4	36,2%	-34%
TOTAL	1.956 mln	1.733 mln	100.0%	-11%	549,3	343,9	100,0%	-37%

Sources: State Statistics Service, calculations of the Centre for Economic Strategy.

*According to official statistics, the revenue of individual entrepreneurs in 2022 decreased almost 16 times in hryvnia terms. Centre for Economic Strategy asked the State Statistics Service to provide an explanation for such dynamics.

According to the State Statistics Service as of January 1, 2023, the total value of assets of Ukrainian enterprises amounted to \$405.5 billion. The majority of this amount was accounted for by assets in the industrial sector – \$130.5 billion and the trade sector – \$85.6 billion. The fact that, despite the war, the assets of enterprises increased by 4% in hryvnias in 2022, is likely to indicate that enterprises have not always revalued or written off assets destroyed, damaged, or occupied as a result of Russian aggression. Such losses may be reflected in subsequent periods. Currently, the latest available reporting includes a portion of these assets, which creates additional errors, including in the assessment of the share of Constructive Capital in the Ukrainian economy.

In view of this, we believe it is advisable to assess the share of Constructive Capital in the Ukrainian economy proportionally to the revenue of Ukrainian enterprises. This approach has its own errors, particularly in considering companies with temporarily non-functioning assets that do not generate revenue in the analyzed period but have the potential to do so in the future.

In 2022, Ukrainian companies incurred their first aggregate loss since 2015, amounting to \$6.7 billion. The aggregate loss is entirely attributed to losses in the industrial sector, totaling \$7.1 billion. The primary adverse factor during this period was the full-scale Russian aggression that has been ongoing since February 24, 2022.

Ukrainian Enterprises by Types of Capital

To analyze the division of Ukrainian capital by types, we conducted a brief analysis of Ukraine's largest companies by categories. In this study, by the term "company," we refer to enterprises as defined by Ukrainian legislation (legal entities), even in cases where such a company is part of a group that prepares and publishes the consolidated financial statements of the entire group. The analysis of capital types will consist of an analysis of the largest enterprises, modeling the division by capital types for other enterprises, and a separate analysis of indicators of the banking system.

The data presented in this study should be perceived as an initial attempt to explore the position and volume of Constructive Capital in Ukraine. For a more accurate analysis in the future, it is necessary to implement a detailed methodology for determining Constructive Capital and conduct an in-depth analysis of Ukrainian enterprises regarding capital types.

Additionally, it is advisable to develop a roadmap for the transition from Oligarchic and Other Corrosive Capital to Constructive Capital. The majority of capital, from one historical retrospective or another, can be categorized as corrosive. Consequently, there is an evident need to delineate a clear pathway detailing how capital can transform from corrosive into constructive in the foreseeable future.

Largest Enterprises in Ukraine by Types of Capital

In 2022, the top 300 enterprises of Ukraine generated a revenue of \$142.0 billion, constituting approximately 42% of the total revenue of all enterprises.

According to our calculations, foreign companies account for about 15% of the revenue of the top 300 enterprises (including corrosive entities at 5%). The share of public capital is 23% (government - 22%, municipal- 1%), Oligarchic Capital comprises 28%, and other Corrosive Capital amounts to 6%. Constructive Capital constitutes 12% of the total, with an additional 16% of capital potentially classifiable as either constructive or corrosive based on supplementary company research data.

Approaches to Assessing Other Enterprises by Types of Capital

Smaller enterprises have a different capital structure compared to the largest companies in the country. In particular, in public capital, the share of government ownership decreases while the share of municipal ownership increases. Within the Corrosive Capital segment, oligarchic capital is decreasing with the reduction of companies revenues, and Other Corrosive Capital is increasing, primarily associated with entrepreneurs close to the current and/or former local authorities.

Furthermore, the proportion of enterprises with potentially Constructive Capital is growing, as smaller enterprises often lack comprehensive information compared to the largest ones.

Among the top 300 companies, there is no statistically significant correlation observed between the size of enterprises and the proportion of foreign capital within them. Therefore, our fundamental hypothesis is the

presence of foreign capital in smaller companies in the same proportion as in the top 300: 14%, including Corrosive Capital at 4%.

In Ukraine, there were 3,702 government and 14,245 municipal enterprises in 2021. Many government enterprises still do not have financial reports for 2022 due to the state of war. Those among them that are not among the 300 largest companies in the country and have reported for 2022 have a total revenue of no less than \$3.6 billion. The total revenue of municipal enterprises that reported for 2022 was approximately \$8.0 billion, and excluding the three largest enterprises within the top 300 in Ukraine, it was \$6.9 billion, constituting 2.5% of the total revenue.

In samples of enterprises with different revenue levels, the share of oligarchic and other Domestic Corrosive Capital has moderate deviations, averaging around 35%. Given the trend of decreasing Oligarchic Capital with decreasing enterprise revenue, for the assessment of enterprises outside the top 300, we estimate the share of oligarchic capital at 15% and other Corrosive Capital at 20%.

In this regard, we estimate the share of Constructive Capital in this group at 20%, with an additional 25% of enterprises potentially requiring further analysis to categorize them into a specific type of capital.

Banking System by Types of Capital

As of September 2023, Ukraine has the lowest number of banks in the last 30 years - 64. Of these, 5 belong to the state, 14 to foreign banking groups, and 45 to private Ukrainian investors. The net assets of the banking system as of September 1, 2023, amount to \$71.7 billion.

In the structure of net assets, government banks account for 53.1%, foreign owners for 28.3%, and private owners for 18.6%. Among private capital, Oligarchic Capital dominates, owning more than half of the net assets in this group of banks.

Since July 22, 2023 (after the nationalization of Sense Bank), there are no banks in Ukraine with Russian capital. At the same time, according to the above-described criteria for determining Corrosive Capital, we classify two banks with a total share of about 7% as Corrosive Foreign Capital.

The banking segment has a relatively low share of Constructive Capital. We identify only 4.1% of net assets as Constructive Capital, and an additional 2.2% of the capital requires further investigation.

Overall Assessment of the Share of Constructive Capital

The overall assessment of the share of different types of capital is calculated by weighting the estimates of the largest enterprises, the rest of the enterprises, and banking institutions by the size of their assets.

Considering the size of assets as of the last available date, the weight of assets for the 300 largest enterprises is 27%, for other enterprises - 58%, and for banks - 15%.

Overall estimated share of Constructive Capital in Ukraine is at least 15%. Another 20% of the capital could be constructive or corrosive based on more in-depth research, primarily internal private constructive or internal private corrosive, and less frequently, other types of Capital. Taking into account the expected division of capital in this category, the overall share of Constructive Capital in Ukraine could be approximately

22%. In this case, government and municipal companies will account for about a quarter of the total capital, and the share of foreign capital will be about 17%.

The aggregate share of Corrosive Capital is notably high, standing at 46%. This includes oligarchic capital at 21%, foreign capital at 5%, and other Corrosive Capital at 20%. Considering potential research inaccuracies, **the share of Constructive Capital in Ukraine with a high probability falls within the range of 20-25%.**

Table 3. Evaluation of the division of Ukrainian capital by types.

Weight	Category	Foreign Constr.	Foreign Corrosive	Gov't	Municipal	Oligarch	Other corrosive	Const- ructive	To be determined
27%	Top 300 companies	10%	5%	22%	1%	28%	6%	12%	16%
58%	Other companies	10%	4%	2%	2%	15%	20%	20%	27%
15%	Banks	21%	7%	53%	0%	11%	1%	4%	2%
100%	All capital	12%	5%	15%	2%	18%	13%	15%	20%
100%	All capital with estimated "TBD" breakdown	12%	5%	17%	3%	21%	20%	22%	-

Sources: YouControl, Ministry of Economy of Ukraine, National Bank of Ukraine, calculations and hypotheses of the Centre for Economic Strategy.

6. SUMMARY OF INTERVIEWS WITH STAKEHOLDERS

6.1. INTRODUCTION

To obtain a comprehensive understanding of the situation, interviews were conducted with business CEO/founders, heads of business associations, and policymakers. We conducted a total of 10 interviews. First of all we examine interviews with representatives of the Ukrainian business, which we consider to be Ukrainian Constructive Capital.

We have conducted 7 interviews with such founders of Ukrainian businesses:

- Igor Dulyn, founder and CEO of the chain of bakeries Vash Lavash;
- Taras Kytsmey, founder of the IT-company SoftServe;
- Artur Mikhno, founder and CEO of an online platform for job search Work.ua;
- Tomas Fiala, founder of the investment company Dragon Capital;
- Vitaly Sedler, founder of the IT company Intellias;
- Petro Pylypiuk, founder of the machine-building company Modern Expo;
- Volodymyr Mnogoletniy, founder of the IT company Genesis.

Also we conducted an interview with head of the business association:

- Kateryna Glazkova, head of the SUP (Union of Ukrainian Entrepreneurs).

Two interviews were conducted with policymakers:

- Olexiy Sobolev, the Deputy Minister of Economy of Ukraine for Digital Development, Digital Transformations and Digitalization;
- Yaroslav Rushchyshyn, the Secretary of the Verkhovna Rada Economic Development Committee.

We surveyed the stakeholders to inquire whether they were previously familiar with the concepts of Constructive and Corrosive Capital; all of them responded negatively. However, during the interviews, it became evident that they appreciate the ecosystem of this concept. Some have even started to incorporate the terminology of Constructive and Corrosive Capital into their discussions.

6.2. BUSINESS AND BUSINESS ASSOCIATIONS

Starting a business and the major challenges of the past

As a result of our research and interviews with representatives of Ukrainian business, we have analyzed and summarized the key trends in the motivation of entrepreneurs to establish their own enterprises, as well as the primary challenges faced in past years.

Most founders from among the surveyed companies established their businesses in the 1990s and early 2000s, during a period characterized by significant economic downturn, and poverty.

The primary incentive for starting their own business was cited as the low or average income at the time of business establishment and the desire to meet basic needs. Another significant factor that influenced the motivation to create their own product was the aspiration to develop a new, high-quality product based on resources and opportunities specifically within Ukraine. Additionally, the absence of competition in certain sectors of the Ukrainian market and an interest in its potential could also have been a motivating factor. A

notable example is the financial market and real estate market, which were underdeveloped at the end of the 20th century.

Most representatives of Ukrainian business emphasize the presence of significant changes in the business environment since they started their businesses in harder conditions. These changes are primarily favorable, and according to the perspectives of the entrepreneurs, are heading in the correct direction. Business believes that a substantial transformation of the Ukrainian market, the evolution of the Ukrainian economy and government regulation have taken place, although it is still necessary to carry out a considerable amount of work.

A substantial period of activity for the majority of companies under our study coincided with major economic and social crises, the so-called "Black swans". These included the 2008 financial crisis, Crimea annexation and the beginning of the war and in 2014, the beginning of the COVID-19 pandemic in 2020, and the full-scale invasion by Russia in 2022. Businesses across various sectors responded differently to these crisis events. The majority of businesses across various sectors experienced significant losses, some even were forced to close. However, businesses in certain sectors, such as the IT sector and the essential goods industry, observed positive outcomes or growth amid some of these crises.

The crisis of 2008 affected all sectors of the economy, with varying degrees of severity. It had the most significant impact on the financial and investment sectors according to surveyed businesses. One of the investment companies experienced a notable setback in its business, albeit less severe than other representatives in this sphere. The business attributed this to several reasons: the limited accessibility of foreign currency loans at the onset of the crisis and rational crisis management policies, including cost reduction. Other business representatives mentioned the overall slowdown of the economy as an effect from the global financial crisis of 2008.

The onset of **Russia's military aggression in Ukrainian territory in 2014** and the illegal annexation of Crimea staggered Ukraine's economy, compelling companies to review their values and strategies. After 2014, companies began to abstain from cooperation and any business activities in Russia. For example, at Modern Expo, a significant portion of whose market was in post-Soviet countries, particularly Russia, a strategic decision was made to completely exit the market of the aggressor country after the annexation. To compensate for the lost market share, the company initiated an expansion into the European Union and the Middle East, while maintaining its activity in other CIS countries except Russia.

The **COVID-19** pandemic had a nuanced impact on businesses across various economic sectors. It is widely known that many small and medium-sized businesses suffered greatly as a result of the pandemic and the subsequent lockdowns. However, some representatives of small businesses highlighted a positive effect of the pandemic on their business. They explain this phenomenon by increased demand for some goods and services. For instance, some businesses supplying social goods or IT services were able to reach growth in revenues. COVID-19 acted as a catalyst for the development of contactless commerce, online platforms for communication, learning, work, and leisure. The founder of a retail company discussed new business opportunities during the pandemic, such as exploring new markets and increasing interest in automated parcel terminals. The contactless commerce market saw significant growth during the pandemic. The company had already been developing this "last mile" sector before COVID-19, and as a result, the company's profits substantially increased.

Other businesses emphasized the characteristic short-term decline and relatively swift recovery of their business.

The full-scale Russian invasion of Ukraine in 2022 had a profound impact on the entire business landscape. The war affected businesses in various aspects. In particular, the need to provide mobilization forces and fears related to the danger in Ukraine severely impacted the workforce. Additionally, the full-scale war resulted in extensive shelling of critical infrastructure, presenting significant challenges for all types of capital, primarily in securing additional sources of energy. Consequently, businesses, in particular, were compelled to allocate funds to purchase generators to ensure business operations.

It is important to emphasize that the war has had diverse impacts on businesses, considering the geographic factor of the location of entities. While the crisis during the COVID-19 pandemic affected all Ukrainian regions uniformly, during the war, business representatives located in the Western regions of Ukraine continued their operations in an approximately similar manner. However, some businesses in the Eastern and Southern regions did not have the opportunity to sustain their operations due to objective reasons.

The overall impact of the war on the global world order also became a crucial determinant in the development of both foreign and Ukrainian companies. The slowdown of the global economy, halting investments, lack of financing, and the general shock amid the full-scale invasion led to difficulties in securing new orders for the IT sector in Ukraine due to foreign clients' concerns regarding the risks of their execution. One significant strategy that helped businesses enhance their competitiveness was geographic diversification. Businesses from a range of industries began to abandon the Russian market as early as 2014, and the full-scale invasion of 2022 significantly accelerated this process, adding Belarus to the list of banned countries. As a result, the business aims for new markets, primarily - for EU countries. This allows them to cover the costs associated with the consequences of the full-scale invasion.

Another substantial impact was felt on Ukrainian infrastructure, particularly the destruction of physical assets and the general decline of the economy. Consequently, a major and ongoing consequence of the full-scale invasion is the reduction in profitability and in rising costs.

Competition

One of the major challenges faced by businesses on the path to sustainable development is competition. The key point of analyzing Constructive Capital in Ukraine is the competition between Constructive Capital and other types of capital in Ukraine.

A prevailing feature of the businesses we surveyed is that they do not constantly face negative competitive interaction with other types of capital. It is important to note that in some sectors of Ukraine's economy (such as extraction, metallurgy, and energy), the predominant capitals are Ukrainian oligarchs, state-owned enterprises, etc.

The path of Constructive Capital in such sectors is quite complex, and representatives of Constructive Capital have not yet reached significant heights in them. For example, among the 30 largest companies in the Ukrainian metals & mining sector, according to our methodology, 82% of revenue is represented by oligarchic capital, 10% by foreign capital, 8% by capital that requires further research (first of all, in this segment there are companies with undisclosed shareholders and without a traceable source of capital). At the same time, there are no companies with state, municipal or confirmed Constructive Capital in this sectoral top30. Therefore, we did not prioritize representatives from these sectors in our research.

Additionally, an important feature of our study is the distinctiveness of the businesses we consider to be Constructive Ukrainian Capital. This distinctiveness lies in geographical reach - the surveyed businesses can operate both in global markets and exclusively within Ukraine. This characterizes the competitive conditions of these companies, as IT business representatives operating in global markets do not feel the influence of Corrosive Capital in Ukraine. The retail segment, in general, hardly encounters Corrosive Ukrainian Capital. Businesses in the financial sector can independently choose investment flows in areas that are minimally regulated by the state and where there is no oligarchic influence.

It is important to mention that unfair competition is prevalent in industries with widespread Corrosive Capital, which are often avoided by Constructive Capital, focusing on fair business conduct. This situation sets the groundwork for survivorship bias compared to other industries with high entry barriers, such as metallurgy, engineering, and energy. The surveyed business representatives mention limited overall impact of unfair competition from Ukrainian oligarchic, foreign (both corrosive and non-corrosive), and public capital.

Supportive trends in responsible business and investment

The overall trend towards sustainable and responsible business conduct is observed unanimously among all the business representatives we surveyed. Every business addresses the issues of Sustainable Development Goals (SDGs) and develops social responsibility initiatives. The founders of several surveyed businesses plant millions of trees in total and continue to implement various environmentally-oriented projects aimed at preserving water quality, among other objectives. Additionally, more environmentally friendly production means are employed in conducting the business.

Another representative has their own charitable foundation and, since the beginning of the full-scale invasion, has established several other charitable foundations outside of Ukraine to support the Ukrainian people. This company supports its employees in various ways, including relocation of staff, support for servicemen, humanitarian aid, and rehabilitation with a stable outlook for the future. Other companies focus on resource efficiency, the development of sustainable cities, manifested in the development of urban infrastructure, the introduction and promotion of cycling transport, and more.

A significant contribution to the development of SDGs and ESG is considered social entrepreneurship, aimed at fostering democracy in Ukraine.

"Independent media is a contribution to ensuring that Ukraine is not on the border between authoritarianism and democracy"

Tomas Fiala.

The issue of responsibility in line with the SDGs is particularly relevant against the backdrop of the war. Since the war worsens both the social situation of the country and the environmental factor, it is very important that business supports and expands various SDGs and ESG initiatives.

The rule of law

In the context of the development of constructive business in Ukraine, an important issue for many businessmen and business representatives is the country's legal environment. Therefore, the rule of law is crucial. Previously, the rule of law conditions in Ukraine were unacceptable, but in recent years, the situation has noticeably improved. However, the business sector is not yet ready to speak of achieving comprehensive rule of law and highlights poor enforcement of generally sound laws. Business representatives, on the path to achieving the rule of law objectives, particularly emphasized the need for judicial reform and strengthening the anti-corruption framework, as well as improving practices in combating economic crimes.

Although not all the opinions of the businesses we interviewed were unanimous. The founder of one of the largest investment companies in Ukraine notes the practical absence of the rule of law, which affects minority shareholders, whose rights are consequently unprotected. In his opinion, for the rule of law to flourish, Ukraine should move towards EU and NATO integration, as well as the development of civil society and state structures.

Constructive Capital development potential in Ukraine

The Ukrainian Constructive Capital has encountered a range of challenges, obstacles, and limitations over many years of its activity, impacting its development. Representatives of the surveyed business sector emphasized the necessary changes for the continued active development of Constructive Capital in Ukraine. These steps encompass both the public sector and other sectors of the Ukrainian economy.

One of the key conditions for further development, as highlighted by the business community, is **deregulation**. According to their recommendations, the state should reduce its influence on business by decreasing its regulatory actions. This assertion may not be as pertinent to certain sectors, such as the IT sector, which is already minimally regulated in Ukraine. Currently, the IT industry operates within a favorable business environment, allowing businesses to develop quite stable despite crisis factors.

A contributing factor to this trend is the actions of the Ministry of Digital Transformation, which develops various mechanisms, including Diia.City, to alleviate tax burdens, create transparent business conditions, and facilitate the process of attracting foreign investments. Despite the positive environment for the IT industry, there is a deficit of skilled workforce in this sector, stemming from the imperfections in the Ukrainian education system. Representatives of the IT business emphasize the need for the development of Ukrainian education to attract a greater number of specialized professionals.

Additionally, according to business representatives, a critical role of the state in developing effective economic policies that will foster sustainable business growth is the establishment of **transparent business conduct rules** and the affirmation of market participants' equality as fundamental principles for the development of Constructive Capital in Ukraine. To build them, the enforcement of **the rule of law** is necessary, which, in the opinion of the business community, is achievable through improving the work of civil servants and implementing reasonable personnel policies. The primary determinant of Constructive Ukrainian Capital development is the establishment of a democratic environment based on the rule of law. This includes clear and equal business conduct rules for all, ensuring transparency of risks for both businesses and investors. According to business representatives, there is a problem with **law enforcement**.

The business sector believes that the state must ensure that reality corresponds to what is provided by law. In addition to the above, a consolidated judicial system is necessary to control compliance with the stipulated conditions, along with appropriate regulatory bodies and reformed law enforcement agencies.

"Capital must be safe and capital must have opportunities". Vitaly Sedler.

Another important aspect is comprehensive **privatization**, which can reduce the number of SOEs and will facilitate Constructive Capital development in Ukraine. This factor has previously demonstrated positive effects, as evidenced by the willingness of investors to enter the Ukrainian market, thus reducing the influence of oligarchs.

Among the **essential reforms** recommended by business representatives are the completion of judicial reform, anti-corruption reform, implementation of the tax on repatriated capital, tariff liberalization, property rights protection, and other economic policies, all of which are deemed essential for implementation in Ukraine. Another method of promoting business development was the proposal for co-financing certain IT-projects with the government. Furthermore, there was emphasized the need for the introduction of the "10-10-10" reform, which implies implementing a single 10% tax on profits, individual incomes, and value added tax.

6.3. POLICYMAKERS

Impact of different types of capital on business environment

The government representatives state that the influence of other forms of Corrosive Capital in Ukraine has significantly diminished, particularly due to anti-oligarchic policies. As for other types of Corrosive Capital, namely foreign, the share of Russian capital has also significantly decreased, as observed in the banking sector. Ukraine nationalized the last bank with the capital of Russian origin through the sanctioned appropriation of Russian assets with further privatization. This nationalization was aimed at replacing the Russian owner in future with another private owner without Corrosive Capital. This raises the next challenge - a large share of the state in the economy.

"The state needs to disengage from the maximum amount of economic regulation". Yaroslav Rushyshyn.

The government representatives emphasize the necessity of global privatization and note that the process has already been enhanced. The State Property Fund of Ukraine is already putting more state-owned companies up for sale; however, there is an issue of insufficient demand. Since the war has significantly impacted the economic condition of both the country as a whole and individual economic entities:

"The task and political will for privatization are present, but there is no queue of buyers for obvious reasons". Olexiy Sobolev.

The rule of law

Regarding the rule of law, positive trends in the development of the judicial system, which has become more independent, can be identified. Despite this, there still exist several objective problems. What is important

for businesses in the context of the rule of law development is the unification under a single business regulation entity, for instance, the Economic Security Bureau of Ukraine after its personnel reboot.

Transparency of Ukrainian businesses

As a cornerstone of Constructive Capital, accountable institutions that encompass integrity and transparency are one of the most critical features steering the Ukrainian economy in the right direction. However, there are questions and challenges. According to government representatives, the average business in Ukraine is not always transparent, from time to time exhibiting partial optimization of the tax burden, a consequence of an imbalanced tax system. Therefore, there is a need to minimize such tax optimization and similar manipulations through tax unification. This is crucial in the context of attracting foreign investments, which come with corporate standards.

“Transparency should be advantageous for Ukrainian companies”. Olexiy Sobolev.

One of the unconditional requirements for attracting foreign investments is transparency. Therefore, Ukrainian companies should strive for transparency, and investments should be accessible to transparent companies with a normal business structure. Digital tools that facilitate and reduce the cost of necessary operations can assist in this regard.

The difference between constructive and corrosive capital is morality. Yaroslav Rushyshyn

A critical element in creating a conducive environment for the formation and development of Constructive Capital in Ukraine is the moral and ethical aspect. This entails the cultivation of a shared value framework and the establishment of trustworthy vertical and horizontal connections. The integration of this component not only generates positive effects on its own but also serves as a catalyst for implementing other measures recommended within the business environment

ESG commitments (environmental, social, governance)

As mentioned earlier, foreign investments in Ukraine will carry corresponding corporate standards, including ESG commitments. This is a significant factor in Ukraine’s rebuilding and its economy, as it must consider necessary climate commitments. According to government representatives, the green transition is a great Ukrainian opportunity.

6.4. RECOMMENDATIONS

Based on the results of the interviews conducted with stakeholders, two main recommendations for implementation in Ukraine can be identified, unanimously agreed upon by all surveyed business representatives, business associations, and policymakers. Among these key recommendations are the establishment of uniform rules for all and deregulation.

Establishing **uniform rules** for all business representatives is essential to ensure a level playing field, enhance transparency, and promote fair competition within the business landscape. These rules create a standardized framework that governs how businesses operate, interact with stakeholders, and conduct transactions.

Deregulation is imperative to stimulate economic growth, foster entrepreneurship, attract investments, and improve overall competitiveness. By reducing bureaucratic hurdles and simplifying regulatory processes, deregulation can unleash the potential of businesses and promote a conducive environment for development.

In addition to these two substantial recommendations, there are other key aspects that require implementation, modification, or improvement. These include:

- Protection of property rights;
- Judicial reform;
- Comprehensive privatization;
- Customs reform;
- Predictable tax policy;
- Tariff liberalization;
- Anti-corruption reform;
- EU and NATO integration;
- Implementation of the tax on repatriated capital;
- Adjustment of the education system to labor market requirements.

In summarizing the assessment of the share of Constructive Ukrainian Capital and other types of capital, taking into account the conducted stakeholder interviews and the recommendations provided by them, it is also possible to identify **additional recommendations** for implementation in the development of Constructive Ukrainian Capital.

These recommendations include facilitating Constructive Capital's **access to bank financing** and streamlining the relevant processes for obtaining such a development instrument. In Ukraine, there already exists a tool that facilitates access to financing for small and medium-sized businesses. A state program known as “Affordable Loans 5-7-9%” is aimed at promoting entrepreneurship, business development, increased production, export and import substitution, energy efficiency, innovation, job creation. What is particularly significant is that this tool is highly effective for small businesses. To enhance Constructive Capital's access to financing, the 5-7-9% mechanism should be expanded and deepened.

The next important factor in increasing Constructive Capital in Ukraine is **military risk insurance**. As previously mentioned, security is a critical factor in the competitiveness of economic entities. Considering the fact that during a state of war in Ukraine, the complete safety of capital cannot be guaranteed, since physical capital can be destroyed by Russian missiles at any moment. A high level of risk affects the cost of investments, reducing Ukraine's investment attractiveness. Accordingly, the offer of military risk insurance via specialized agencies is crucial for Ukraine's sustainable economic recovery.

An essential factor in the development of Constructive Capital is **advocacy for improving the conditions of its growth** and disseminating its principles in the public sector. These factors will contribute to the creation of a positive environment where trust exists among various stakeholders who will collaborate to achieve common goals. This can strengthen democratic institutions and promote sustainable development.

It is also worth noting that all actions being implemented must have a stimulating rather than inhibitory or prohibitory nature.

7. APPENDICES

7.1. QUESTIONNAIRE FOR ENTREPRENEURS

History

- What motivated you to open the business?
- How much has the business environment on you market changed in your opinion since the beginning of your activity. How is it doing today?
- What economic policies in Ukraine made it easier/harder to do business and accumulate capital (for the entire time)?

“Black swans”

How the business environment, your business strategy, investments, and operations changed since (where applicable):

- The beginning of the global financial crisis in 2008?
- The beginning of the war and Crimea annexation in 2014?
- The beginning of COVID-19 pandemic in 2020?
- The beginning of the full-scale invasion in 2022?

Competition

How strong is the influence of the following types of capital on conducting your business (in terms of competition for consumers, for inputs, direct commercial relations etc.)?

- Ukrainian oligarchs,
- Corrosive foreign capital (Russian, Chinese),
- Other foreign capital,
- State-owned and municipal enterprises.

Constructive Capital principles

- Which of the SDG and ESG principles have become more relevant for you in the 21st century? Which of them have already been successfully implemented in your development strategies/certain goals have been achieved/some projects have been developed?
- Do you feel the adequacy and compliance with the principles of the rule of law in Ukraine now?

Future

- How do you see further rapid development of Constructive Capital in Ukraine?
- What, in your opinion, should be the future steps of the government sector in the development of Ukrainian Constructive Capital and its spread to all sectors of the economy?
- What are your expectations on pro-business and pro-market reforms during the wartime and after the victory?

7.2. QUESTIONNAIRE FOR POLICYMAKERS

Other types of capital

- Do you see an anti-oligarch policy as a priority in Ukraine? (Meaning domestic considerations, not only EU conditionality). How should it be done properly (after Venice commission treated current legislation as too person-oriented)?
- How do we protect ourselves from corrosive foreign capital? Does Ukraine still need FDI screening mechanisms like what developed countries have and what the government was going to introduce before the war?
- Recently the share of the state in the economy was rising (bank sector, other sectors were nationalizations happened). What are the prospects for these assets to be made private again? Are there any large objects to be privatized? What about shutting down unnecessary state- and municipal-owned enterprises and starting to procure various goods and services from private companies?

Constructive Capital

How do you assess current situation and the need of policy actions (and what exactly actions) in:

- The rule of law,
- Transparency of Ukrainian businesses,
- ESG commitments (environmental, social, governance).

Feedback for entrepreneur's propositions

- We have surveyed the business regarding the recommendations they can provide (as outlined in section 4.4.). Do you consider these propositions as reasonable?
- What, in your opinion, should be the future steps of the government sector in the development of Ukrainian Constructive Capital and its spread to all sectors of the economy?
- Various business representatives have emphasized the need of establishing uniform rules for all economic entities. How do you see the situation in Ukraine? What are the ways to implement it?
- Business asks for deregulation of the economy. Do you consider this need to be prioritized?