

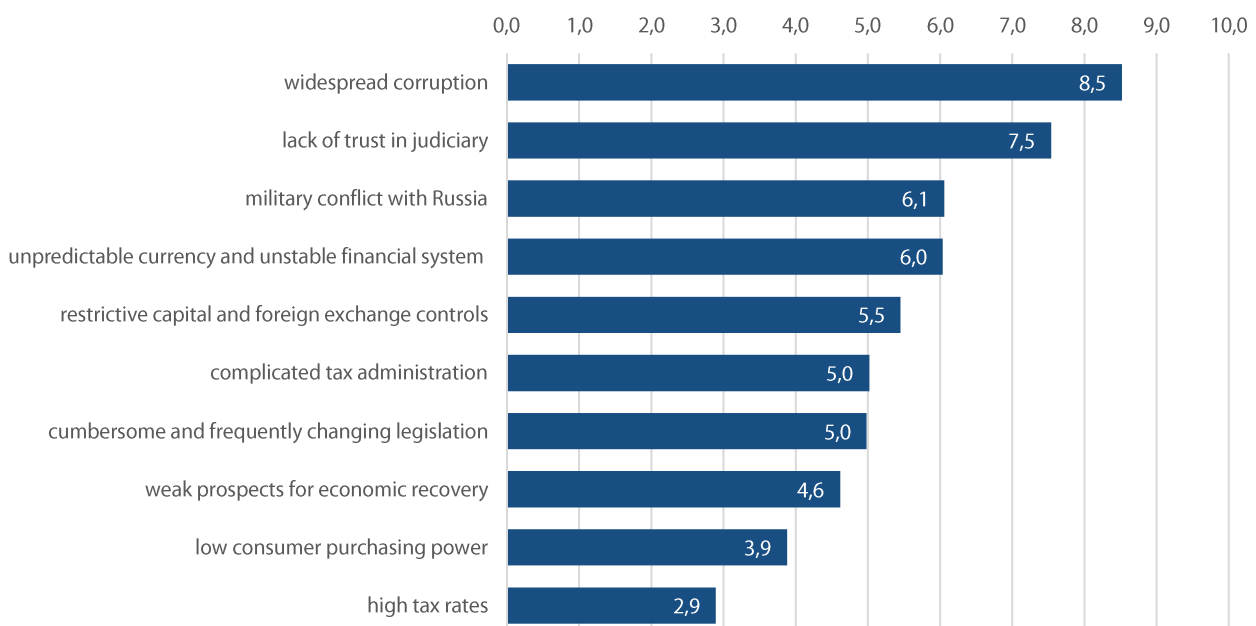
## Corruption and lack of trust in the judiciary are the largest obstacles for foreign investors in Ukraine

### Dragon Capital and European Business Association survey results

Foreign investors believe that the major barriers to investment in Ukraine are widespread corruption (average score – 8.5 points out of 10 possible) and lack of trust in the judiciary (7.5 points). The military conflict with Russia (6.1 points) and Ukraine’s unpredictable currency and unstable financial system (6.0 points) were the next most highly ranked obstacles.

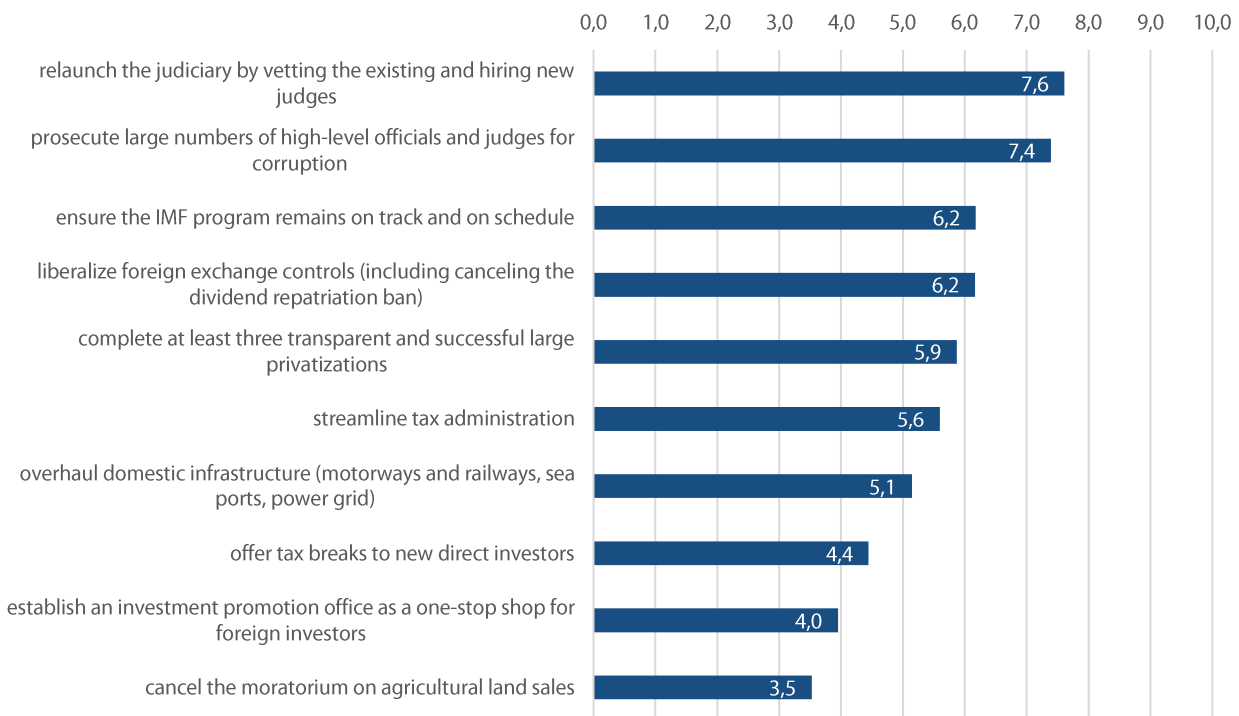
Widespread corruption and a lack of trust in the judiciary ranked first and second among all groups of investors – portfolio and direct, those who have already invested in Ukraine, and those who have not yet done so. Interestingly, the military conflict is one of the least significant obstacles for investors who are actively looking for business opportunities in Ukraine, who ranked it 7<sup>th</sup> (4.9 points) on their list of concerns. Of higher concern for this group, just behind corruption and the judiciary, is complicated tax administration (6.1 points). In general, investors worried less about tax rates than about complicated tax administration – with the high tax rates occupying last place among the listed obstacle.

Please rank the following obstacles to investment in Ukrainian assets according to your opinion of their importance (10 – most important)



Among the most urgent actions the authorities should take to attract foreign investment, businesspeople and investment funds mentioned relaunching the judiciary by vetting existing members and hiring new judges (average score – 7.6 points out of 10 possible), and the prosecution of large numbers of high-level officials and judges for corruption (7.4 points). At the same time, the next most highly ranked government actions are ensuring the IMF program remains on track and liberalizing foreign exchange controls (including canceling the dividend repatriation ban) – both received a score of 6.2 points. Offering tax breaks is less of an issue than simplification of administration.

Please rank the following possible actions of the Ukrainian government in terms of their positive impact on foreign investment (10 — most positive)



**Tomas Fiala**, CEO of Dragon Capital, commented: "Putting the Ukrainian economy back on a growth track and narrowing the gap with our western neighbors, which unfortunately has increased significantly since 2009, is not possible without foreign investment. The results of interviewing international companies that invest around the world show in which areas the Ukrainian investment climate is uncompetitive and where the government should aim its efforts first."

**Anna Derevyanko**, Executive Director of the European Business Association, said: "The study found that the main barriers to foreign investors in Ukraine are corruption at every level of power and a judiciary which is too weak. Despite the authorities' attempts to improve the situation by introducing an anti-corruption agency or, for example, a new system of public procurement, business has experienced no drastic and visible change. Unfortunately, there is also no significant progress in the judiciary since the process of reforming the judicial system is quite complex and involves multiple stages. As a result, confidence in the courts is collapsing and companies increasingly prefer pre-trial settlement of disputes. However, despite the negative factors, Ukraine remains a potentially interesting country for investment, and businesses plan to continue their activity."

The online survey was conducted jointly by investment bank Dragon Capital and the European Business Association (EBA), with analytical support from the Centre for Economic Strategy and technical assistance from GfK Ukraine, from August 25 to September 2, 2016. In total, the survey involved 102 respondents including portfolio and direct investors who either already have investments or plan to invest in Ukraine.

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